

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

March 31, 2013
(Unaudited)

Mandalay Resources Corporation

March 31, 2013

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Mandalay Resources Corporation

Condensed consolidated interim statements of income (loss) and comprehensive income (loss) three months ended March 31, 2013

(Expressed in U.S. dollars)

(Unaudited)

	2013	2012
	\$	\$
Revenues	41,624,688	20,719,516
Cost of operations		
Cost of sales excluding depletion and depreciation (Note 11)	19,993,023	13,321,713
Depletion and depreciation	5,846,599	4,063,613
Loss on disposal of property, plant and equipment	156,398	-
	25,996,020	17,385,326
Income from mine operations	15,628,668	3,334,190
Expenses		
Administration expense	1,644,724	1,271,795
Business development costs	148,859	-
Share-based compensation (Note 10 (c))	478,100	368,102
	2,271,683	1,639,897
Income from operations	13,356,985	1,694,293
Other income (expenses)		
Loss on derivative financial instruments (Notes 13 (b) and (c))	(169,470)	(10,857,634)
Finance costs (Notes 12)	(203,926)	(1,205,448)
Interest and other income	99,391	70,420
Foreign exchange gain (loss)	23,036	(140,867)
	(250,969)	(12,133,529)
Income (loss) before income taxes	13,106,016	(10,439,236)
Income taxes expense (recovery) (Note 15)		
Current	2,262,603	-
Deferred	(60,701)	(1,518,592)
	2,201,902	(1,518,592)
Net income (loss) for the period	10,904,114	(8,920,644)
Other comprehensive (loss) income		
Item that may subsequently be reclassified to income (loss)		
Foreign currency translation	(239,531)	109,392
Comprehensive income (loss) for the period	10,664,583	(8,811,252)
Income (loss) per share (Note 16)		
Basic	0.03	(0.03)
Diluted	0.03	(0.03)
Weighted average number of common shares outstanding (Note 16)		
Basic	324,575,292	270,221,988
Diluted	345,937,106	270,221,988

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position as at March 31, 2013

(Expressed in U.S. dollars)
(Unaudited)

	March 31, 2013	December 31, 2012
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	26,641,169	17,264,446
Trade and other receivables (Note 4)	21,035,101	29,175,603
Inventories (Note 5)	17,567,289	14,177,346
Prepaid expenses and other	1,281,596	585,639
	66,525,155	61,203,034
Non-current assets		
Reclamation and other deposits	2,527,549	2,666,249
Property, plant and equipment (Note 6)	115,090,202	108,945,171
Intangible asset (Note 7)	1,122,283	1,246,984
Deferred tax asset (Note 15)	11,325,443	11,229,246
	130,065,477	124,087,650
	196,590,632	185,290,684
Liabilities		
Current liabilities		
Trade and other payables (Note 8)	21,108,346	18,218,862
Provisions (Note 9)	2,161,864	2,284,229
Derivative financial instruments (Notes 13 (b) and (c))	1,029,718	2,219,707
	24,299,928	22,722,798
Non-current liabilities		
Reclamation and site closure costs	17,241,353	17,145,695
Provisions (Note 9)	2,782,894	2,343,293
	20,024,247	19,488,988
	44,324,175	42,211,786
Equity		
Share capital (Note 10)	90,395,987	88,634,701
Share option reserve (Note 10)	7,454,046	7,332,054
Warrants reserve (Note 10)	1,088,728	1,251,752
Foreign currency translation reserve	1,928,154	2,167,685
Retained earnings	51,399,542	43,692,706
	152,266,457	143,078,898
	196,590,632	185,290,684

Approved and authorized for issue by the Board on May 14, 2013.

(Signed) Bradford A. Mills

Bradford A. Mills, Director

(Signed) Robert Doyle

Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity

three months ended March 31, 2013

(Expressed in U.S. dollars)

(Unaudited)

	Number of shares issued	Share capital \$	Share option reserve \$	Warrants reserve \$	Foreign currency translation reserve \$	Retained earnings \$	Total equity \$
Balance, December 31, 2012	322,187,153	88,634,701	7,332,054	1,251,752	2,167,685	43,692,706	143,078,898
Stock options exercised (Note 10 (b))	682,500	370,430	(184,791)	-	-	-	185,639
Share-based compensation (Note 10 (c))	-	-	504,139	-	-	-	504,139
Amendment of stock option plan (Note 10 (b))	-	-	(197,356)	-	-	-	(197,356)
Warrants exercised (Note 10 (d)(i))	2,600,000	1,390,856	-	(163,024)	-	-	1,227,832
Dividends paid (Note 10 (f))	-	-	-	-	-	(3,197,278)	(3,197,278)
Total comprehensive income for the period	-	-	-	-	(239,531)	10,904,114	10,664,583
Balance, March 31, 2013	325,469,653	90,395,987	7,454,046	1,088,728	1,928,154	51,399,542	152,266,457

	Number of shares issued	Share capital \$	Share option reserve \$	Warrants reserve \$	Foreign currency translation reserve \$	Deficit \$	Total equity \$
Balance, December 31, 2011	270,177,075	79,665,838	6,796,248	4,543,207	1,674,415	6,291,258	98,970,966
Stock options exercised (Note 10 (b))	394,500	226,174	(125,453)	-	-	-	100,721
Stock-based compensation (Note 10 (c))	-	-	368,102	-	-	-	368,102
Warrants exercised (Note 10 (d))	145,000	72,878	-	(4,863)	-	-	68,015
Normal course issuer bid (Note 10 (e))	(206,000)	(60,645)	-	-	-	(76,427)	(137,072)
Total comprehensive (loss) income for the period	-	-	-	-	109,392	(8,920,644)	(8,811,252)
Balance, March 31, 2012	270,510,575	79,904,245	7,038,897	4,538,344	1,783,807	(2,705,813)	90,559,480

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows three months ended March 31, 2013

(Expressed in U.S. dollars)

(Unaudited)

	2013	2012
	\$	\$
Operating activities		
Net income (loss) for the period	10,904,114	(8,920,644)
Adjustments to reconcile income (loss) to net cash used by operating activities		
Depletion and depreciation	5,854,476	4,071,748
Amortization of intangible assets	124,701	-
Loss on disposal of property, plant and equipment	156,398	-
Share-based compensation	478,100	368,102
Foreign exchange (gain) loss	(284,502)	(92,759)
Finance costs	203,926	1,205,448
Interest and other income	(99,391)	(70,420)
Loss on derivative financial instruments	169,470	10,857,634
Deferred tax	(60,701)	(1,518,592)
Change in non-cash operating working capital items		
Trade and other receivables	8,163,018	2,767,570
Inventories	(3,377,137)	(3,895,803)
Prepaid expenses and other	(697,956)	(284,050)
Trade and other payables	2,795,344	486,766
Provisions	253,426	646,845
Cash generated from operations	24,583,286	5,621,845
Interest paid	(40,633)	(283,995)
Interest received	99,391	70,420
	24,642,044	5,408,270
Investing activities		
Expenditure for property, plant and equipment	(12,224,076)	(9,863,990)
Payment (refund) on reclamation and other deposits	118,307	(372,073)
Proceeds from derivative financial instrument	-	427,600
	(12,105,769)	(9,808,463)
Financing activities		
Proceeds from borrowings	-	2,998,300
Repayment of borrowings	-	(867,715)
Payment for financing warrants	(1,339,340)	-
Purchase of common shares for cancellation	-	(137,072)
Warrants and stock options exercised	1,413,471	168,736
Dividends paid	(3,197,278)	-
	(3,123,147)	2,162,249
Effects of exchange rate changes on the balance of cash held in foreign currencies	(36,405)	116,679
Increase (decrease) in cash and cash equivalents	9,376,723	(2,121,265)
Cash and cash equivalents, beginning of period	17,264,446	12,741,454
Cash and cash equivalents, end of period	26,641,169	10,620,189
Cash and cash equivalents are comprised of		
Cash	12,184,169	7,261,552
Cash equivalents	14,457,000	3,358,637
	26,641,169	10,620,189

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

(Expressed in U.S. dollars)

(Unaudited)

1. Description of business and nature of operations

Mandalay Resources Corporation ("Mandalay" or the "Company") and its wholly-owned subsidiaries is a gold, silver and antimony producer engaged in mining and related activities including acquisition, exploration, extraction, processing and reclamation. Mandalay's assets are comprised of the Costerfield gold and antimony mine in Australia, the Cerro Bayo silver and gold mine in Chile as well as other exploration projects in Chile.

Mandalay is incorporated in British Columbia, Canada. The Company's shares are listed on the Toronto Stock Exchange ("TSX"). The head office and principal address of the Company is 76 Richmond Street East, Suite 330, Toronto, Canada, M5C 1P1. The Company's registered office is located at 1900 - 355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of International Financial Reporting Standards ("IFRS") that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in Note 2 (s), of the Company's audited consolidated financial statements for the year ended December 31, 2012.

3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2012. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2012.

New accounting pronouncement

(a) IFRS effective for annual periods beginning on or after January 1, 2013

Effective January 1, 2013, the Company adopted new and revised International Financial Reporting Standards that were issued by the International Accounting Standards Board ("IASB"). The application of the following IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

(Expressed in U.S. dollars)

(Unaudited)

3. Summary of significant accounting policies (continued)

(a) IFRS effective for annual periods beginning on or after January 1, 2013 (continued)

- **Amended standard IFRS 7 *Financial Instruments: Disclosures***

The amendment to IFRS 7 enhances the disclosure required when offsetting financial assets and liabilities.
- **New standard IFRS 10 *Consolidated Financial Statements***

IFRS 10 outlines the principles for the presentation and preparation of consolidated financial statements.
- **New standard IFRS 11 *Joint Arrangements***

IFRS 11 defines the two types of joint arrangements (joint operations and joint ventures) and outlines how to determine the type of joint arrangement entered into and the principles for accounting for each type of joint arrangement.
- **New standard IFRS 12 *Disclosure of Interests in Other Entities***

IFRS 12 outlines the disclosures required in order to provide users of financial statements with the information necessary to evaluate an entity's interest in other entities, the corresponding risks related to those interests and the effects of those interests on the entity's financial position, financial performance and cash flows.
- **New standard IFRS 13 *Fair Value Measurement***

IFRS 13 defines fair value, summarizes the methods of determining fair value and outlines the required fair value disclosures. IFRS 13 is utilized when another IFRS standard requires or allows fair value measurements or disclosures about fair value measurements.
- **New interpretation IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine***

IFRIC Interpretation 20 summarizes the method of accounting for waste removal costs incurred as a result of surface mining activity during the production phase of a mine.
- **Amended standard IAS 19 *Employee Benefits***

IAS 19 outlines the accounting treatment and required disclosures for employee benefits. The amendments applicable to the Company consist of modification of the accounting treatment for termination benefits and the clarification of miscellaneous issues including the classification of employee benefits.
- **Amended standard IAS 27 *Separate Financial Statements***

IAS 27 outlines the accounting principles to be applied with regards to investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate, non-consolidated, financial statements. The previous standard was titled IAS 27 Consolidated and Separate Financial Statements.
- **Amended standard IAS 28 *Investments in Associates and Joint Ventures***

IAS 28 outlines the accounting treatment and corresponding application of the equity method of accounting in investments in associates and joint ventures. The previous standard was titled IAS 28 Investments in Associates.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

(Expressed in U.S. dollars)
(Unaudited)

3. Summary of significant accounting policies (continued)

(b) *Accounting standards issued but not yet effective*

The Company has not early adopted these new and amended standards. No material impact is expected as a result of the adoptions of these new and amended standards.

(i) Effective for annual periods beginning on or after January 1, 2014

- Amended standard IAS 32 *Financial Instruments: Presentation*

The amendments to IAS 32 pertained to the application guidance on the offsetting of financial assets and financial liabilities.

(ii) Effective for annual periods beginning on or after January 1, 2015

- Amended standard IFRS 7 *Financial Instruments: Disclosures*

The amendments to IFRS 7 outlines the disclosures required when initially applying IFRS 9 Financial Instruments.

- New standard IFRS 9 *Financial Instruments*

Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement

4. Trade and other receivables

Trade and other receivables are comprised of the following:

	March 31, 2013	December 31, 2012
	\$	\$
Trade receivables	17,556,849	25,834,771
VAT and other indirect tax receivables	2,896,330	2,856,547
Other receivables	581,922	484,285
	21,035,101	29,175,603

The allowance for doubtful accounts was \$Nil both at March 31, 2013 and December 31, 2012.

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are market to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. This mark to mark adjustment is recorded as an adjustment to revenue and trade receivables.

5. Inventories

	March 31, 2013	December 31, 2012
	\$	\$
Finished goods	8,822,454	6,370,235
Work-in-progress and stockpiled ore	1,011,677	808,842
Consumables	7,733,158	6,998,269
	17,567,289	14,177,346

The amount of inventories recognized in cost of sales for three months ended March 31, 2013 is \$25,839,622 (2012 - \$17,385,326).

There were no write-downs or reversals of write-downs during the three months ended March 31, 2013 or 2012.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

(Expressed in U.S. dollars)

(Unaudited)

6. Property, plant and equipment

Property, plant and equipment consist of the following:

	Mining interests			Plant and equipment			Exploration and evaluation			Total
	Costerfield	Cerro Bayo	Others	Costerfield	Cerro Bayo	Others	Costerfield	Cerro Bayo	Others	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost										
As at January 1, 2012	20,158,993	28,383,871	-	17,219,396	13,605,205	183,775	3,862,685	513,401	11,449,635	95,376,961
Additions	7,964,203	5,024,211	-	7,870,833	17,516,472	408,072	5,132,931	4,793,105	2,298,167	51,007,994
Disposals	-	-	-	(278,213)	(2,094,215)	(2,874)	-	-	-	(2,375,302)
Reclassification to mining interest	1,473,923	-	-	-	-	-	(1,473,923)	-	-	-
Impairment	-	-	-	-	-	-	(271,390)	(1,316,401)	-	(1,587,791)
Foreign exchange	115,481	-	-	289,715	-	3,688	114,986	-	217,815	741,685
As at December 31, 2012	29,712,600	33,408,082	-	25,101,731	29,027,462	592,661	7,365,289	3,990,105	13,965,617	143,163,547
Additions	2,202,385	2,181,039	-	1,979,625	3,627,746	-	1,224,071	794,608	442,152	12,451,626
Disposals	-	-	-	(638,574)	-	-	-	-	-	(638,574)
Reclassification to mining interest	4,167,159	-	-	-	-	-	(4,167,159)	-	-	-
Foreign exchange	72,999	-	-	90,160	-	(3,460)	26,347	-	(207,823)	(21,777)
As at March 31, 2013	36,155,143	35,589,121	-	26,532,942	32,655,208	589,201	4,448,548	4,784,713	14,199,946	154,954,822
Accumulated depreciation										
As at January 1, 2012	4,676,500	4,381,186	-	3,064,873	4,097,277	57,674	-	-	-	16,277,510
Expense	3,307,814	3,972,104	-	2,736,291	9,978,718	41,256	-	-	-	20,036,183
Disposals	-	-	-	(120,323)	(2,087,345)	(1,232)	-	-	-	(2,208,900)
Foreign exchange	61,944	-	-	50,325	-	1,314	-	-	-	113,583
As at December 31, 2012	8,046,258	8,353,290	-	5,731,166	11,988,650	99,012	-	-	-	34,218,376
Expense	1,921,638	2,140,800	-	661,728	1,318,785	11,702	-	-	-	6,054,653
Disposals	-	-	-	(454,814)	-	-	-	-	-	(454,814)
Foreign exchange	26,688	-	-	21,544	-	(1,827)	-	-	-	46,405
As at March 31, 2013	9,994,584	10,494,090	-	5,959,624	13,307,435	108,887	-	-	-	39,864,620
Carrying value										
As at December 31, 2012	21,666,342	25,054,792	-	19,370,565	17,038,812	493,649	7,365,289	3,990,105	13,965,617	108,945,171
As at March 31, 2013	26,160,559	25,095,031	-	20,573,318	19,347,773	480,314	4,448,548	4,784,713	14,199,946	115,090,202

For three months ended March 31, 2013, Cerro Bayo's plant and equipment depreciation of \$200,180 is capitalized in mining interest (2012 - \$160,378).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

(Expressed in U.S. dollars)
(Unaudited)

7. Intangible asset

In June 2012, the Company reached an agreement with its union workers in Chile and paid a lump-sum cash payment of \$1,414,082 to secure the contract. This payment is recorded as an intangible asset and amortized over the contractual life of the union agreement being three years. The carrying amount of the union payment as at March 31, 2013 is \$1,122,283 (December 31, 2012 - \$1,246,984). Amortization expense of \$124,701 (2012 - \$Nil) is recorded as part of cost of sales.

8. Trades and other payables

	March 31, 2013	December 31, 2012
	\$	\$
Trade payables	7,696,125	5,149,999
Accrued liabilities	5,352,847	7,108,259
Income, payroll and other taxes payable	8,059,374	5,960,604
	21,108,346	18,218,862

The average credit period of purchases is one month. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

9. Provisions

	Employee benefit (i)	Severance payment (ii)	Total
	\$	\$	\$
Balance, December 31, 2012	2,425,168	2,202,354	4,627,522
Additions	573,405	523,695	1,097,100
Amounts paid	(692,412)	(119,878)	(812,290)
Foreign exchange	17,956	14,470	32,426
Balance, March 31, 2013	2,324,117	2,620,641	4,944,758
Less: current portion	2,161,864	-	2,161,864
Long-term portion	162,253	2,620,641	2,782,894

(i) Costerfield and Cerro Bayo provide for vacation provision for their current employees in accordance with statutory requirements.

(ii) Cerro Bayo provides for certain severance payments in accordance with statutory requirements.

10. Share capital

At March 31, 2013, the Company had unlimited authorized common shares without par value and 325,469,653 common shares outstanding (December 31, 2012 – 322,187,153 common shares). All outstanding shares are fully paid.

(a) Shares issued for cash

For the three months period ended March 31, 2013, the Company issued its common shares upon exercise of share options and warrants by their holders.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

(Expressed in U.S. dollars)

(Unaudited)

10. Share capital (continued)

(b) Stock options

The Company has established a "rolling" stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Options generally vest over two to three years and have a maximum term of seven years from date of grant.

The Company has amended its stock option plan whereby option holders resident in Australia are entitled for a cash election option in addition to the existing share purchase option. The cash election option expires 2 days after the specific options vest. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. As a result of this stock option plan amendment, the Company reclassified \$197,356 from share option reserve to derivative financial instruments. Subsequently, the liability is remeasured at fair value. The remeasurement adjustment is included in gain (loss) on derivative financial instruments (Note 13 (c)).

During the three month period ended March 31, 2013, the Company settled \$175,250 upon exercise of 325,000 stock options with a cash election option. As at March 31, 2013, 2,015,000 stock options with a cash election option are outstanding.

	Number of options	Weighted average exercise price C\$
Balance, January 1, 2012	13,710,966	0.40
Granted	4,092,500	0.83
Forfeited	(130,000)	0.55
Expired	(114,380)	0.50
Exercised	(3,929,086)	0.26
Balance, December 31, 2012	13,630,000	0.57
Granted	4,287,500	1.13
Forfeited	(217,500)	0.43
Exercised - equity issuance	(682,500)	0.28
Exercised - cash election	(325,000)	0.56
Balance, March 31, 2013	16,692,500	0.72

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

(Expressed in U.S. dollars)

(Unaudited)

10. Share capital (continued)

(b) Stock options (continued)

The following table summarizes information about the stock options outstanding at March 31, 2013:

Number of stock options outstanding	Options outstanding		Options exercisable	
	Weighted average remaining contractual life (years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price C\$
1,110,000	2.41	0.26	1,097,500	0.26
1,730,000	1.69	0.26	1,730,000	0.26
50,000	2.44	0.31	37,500	0.31
300,000	2.52	0.33	225,000	0.33
100,000	2.46	0.34	75,000	0.34
150,000	0.39	0.50	150,000	0.50
3,502,500	2.95	0.56	3,502,500	0.56
470,000	3.03	0.58	-	0.58
490,000	3.67	0.70	-	0.70
450,000	3.26	0.76	-	0.76
4,052,500	3.94	0.83	-	0.83
4,287,500	4.97	1.13	-	1.13
16,692,500	3.54	0.72	6,817,500	0.42

(c) Share-based compensation

For the three month period ended March 31, 2013, the Company recorded \$478,100 (2012 - \$368,102) as share-based compensation expense and recorded this amount in share option reserve. The value was determined using the Black-Scholes option pricing model. A weighted average grant-date fair value of C\$1.13 (2012 - C\$0.83) was calculated using the following weighted average assumption. Expected stock price volatility is based on the Company's historical share price volatility.

	Three months ended March 31,	
	2013	2012
Risk free interest rate	1.13%	1.49%
Expected dividend yield	3.64%	Nil
Expected option life (years)	5.00	5.00
Expected stock price volatility	81.15%	106.96%
Expected annual forfeiture rate	5%	5%

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

(Expressed in U.S. dollars)
(Unaudited)

10. Share capital (continued)

(d) Share purchase warrants

A summary of the changes in share purchase warrants is presented below:

	Number of warrants	Weighted average exercise price C\$
Balance, January 1, 2012	105,379,312	0.38
Exercised	(14,471,600)	0.34
Exchanged for common shares	(67,297,777)	0.39
Expired	(9,935)	0.33
Balance, December 31, 2012	23,600,000	0.37
Exercised	(2,600,000)	0.47
Balance, March 31, 2013	21,000,000	0.36

The following table summarizes information about outstanding and exercisable share purchase warrants at March 31, 2013:

Number of warrants	Exercise price C\$	Expiry date
6,350,000	0.47	November 30, 2014
14,650,000	0.31	November 30, 2014
21,000,000	0.36	

(e) Normal Course Issuer Bid ("NCIB")

In October 2011, the Company entered into an NCIB ("2011 NCIB"). The 2011 NCIB covered the period of October 17, 2011 to October 16, 2012. Pursuant to the 2011 NCIB, the Company was authorized by the TSX to purchase up to 13,501,078 common shares and 1,970,965 common share purchase warrants. Purchases were made at the discretion of the Company at prevailing market prices, commencing October 17, 2011 and ending October 16, 2012. Pursuant to TSX policies, daily purchases made by the Company did not exceed 53,433 common shares and 6,084 common share purchase warrants. The shares acquired under the NCIB will be cancelled upon their purchases. The funding for any purchase pursuant to the NCIB will be financed out of working capital of the Company.

On October 15, 2012, the TSX approved the Company's notice of intention to make an NCIB ("2012 NCIB"). Pursuant to the 2012 NCIB, the Company may purchase up to 15,856,786 common shares, issued and outstanding as of October 3, 2012. Purchases will be made, at the discretion of the Company at prevailing market prices, commencing October 17, 2012 and ending October 16, 2013. Pursuant to TSX policies, daily purchases made by the Company will not exceed 57,089 common shares. The shares acquired under the NCIB will be cancelled upon their purchase. The funding for any purchase pursuant to the NCIB will be financed out of the working capital of the Company.

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10. Share capital (continued)

(e) Normal Course Issuer Bid ("NCIB") (continued)

During the three month period ended March 31, 2013, the Company did not repurchase any common shares of the Company. Under the 2011 NCIB, the Company repurchased 206,000 common shares at an average price of C\$0.67 at a cost of C\$137,072 during three months ended March 31, 2012. The excess of the purchase price over the average stated value of shares purchased for cancellation of \$76,428 was charged to retained earnings. The Company ceases to consider shares outstanding on the date of the Company's purchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a date shortly thereafter.

(f) Dividends

On February 20, 2013, the Board of Directors declared a dividend in the amount of C\$0.01 per common share, based on the Company's operating results for the three month period ended December 31, 2012, payable to shareholders of record as of March 7, 2013. Total payment of \$3,197,278 was made during the three months period ended March 31, 2013 (2012 - \$Nil).

11. Cost of sales

The cost of sales for the periods ended March 31, 2013 and 2012 consists of:

	Three months ended March 31,	
	2013	2012
	\$	\$
Raw materials and consumables	8,449,143	6,570,609
Salary and employee benefits	9,153,162	7,216,455
Contractors	835,586	675,934
Change in inventories	(2,655,055)	(4,115,660)
Royalty	219,529	149,216
Others	3,990,658	2,825,159
	19,993,023	13,321,713

During the three month period ended March 31, 2013, the Company determined that an adjustment was required to the amounts previously presented as administration expense for its two operating mines. As such, certain items previously presented as administration expense are now presented within cost of operations. The Company has made these adjustments retrospectively and the table below shows the impact of these adjustments for the comparative three month period ended March 31, 2012 and for the years ended December 31, 2012 and 2011.

	Three months ended		Year ended		Year ended	
	March 31, 2012		December 31, 2012		December 31, 2011	
	As previously presented	As adjusted	As previously presented	As adjusted	As previously presented	As adjusted
	\$	\$	\$	\$	\$	\$
Cost of operations	11,828,620	13,321,713	76,540,792	84,502,152	50,872,196	55,394,044
Administration expense	2,764,888	1,271,795	15,329,765	7,368,405	9,278,068	4,756,200

The adjustment had no impact on the previously reported net income, basic and diluted income per share, consolidated statements of financial position, changes in equity, or cash flows.

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12. Finance costs

	Three months ended March 31,	
	2013	2012
	\$	\$
Interest on borrowings	85,800	552,931
Fair value adjustment on silver contract	-	420,529
Accretion of reclamation and site closure costs	118,126	231,988
	203,926	1,205,448

13. Derivative financial instruments

(a) Silver and gold put options

During the year ended December 31, 2011, the Company entered into certain silver put options and gold put options to hedge commodity price risks. The Company recorded a fair value measurement loss of \$10,857,634 for the three months ended March 31, 2012.

As at March 31, 2013 and December 31, 2012, no silver or gold put options were outstanding.

(b) Financing warrants

During the year ended December 31, 2012, the Company reached an agreement to issue 3,050,000 warrants to specific service providers as consideration for financing and other services the Company received in prior years ("financing warrants").

These financing warrants have an exercise price of \$0.31 and expire on November 30, 2014. The service providers have the ability to require the Company to settle in cash, based on the Company's share price at the date of settlement.

These financing warrants are accounted for as a liability and are marked to market at each period end until they are exercised or expire.

During the three months period ended March 31, 2013, 1,647,000 financing warrants were exercised with a cash settlement of \$1,339,340, which is included in administration expense. As at March 31, 2013, 982,100 financing warrants valued at \$783,012 (2012 - \$2,219,707) are outstanding. The Company recorded a fair value measurement gain of \$80,431 (which include realized gain of \$51,195 and unrealized gain of \$29,236) for the three months period ended March 31, 2013 (2012 - \$Nil), which is reported in loss on derivative financial instruments.

(c) Cash election option (stock option)

The Company has amended its stock option plan whereby option holders resident in Australia became entitled for a cash election option in addition to the existing share purchase option (Note 10 (b)).

As a result of this stock option plan amendment, the Company reclassified \$197,356 for share option reserve to derivative financial instruments. Subsequently, the liability is remeasured at fair value.

As at March 31, 2013, the liability is \$246,706. The Company recognized a fair value measurement loss of \$249,901 for the period ended March 31, 2013.

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Notes to the condensed consolidated interim financial statements

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(Unaudited)

13. Derivative financial instruments (continued)

(c) Cash election option (stock option) (continued)

The fair value of a cash election option is determined by using the Black-Scholes option pricing model using the following weighted average assumption. The fair value is determined based on Level 1 and 2 inputs as follows:

	March 31, 2013
Risk free interest rate	1.30%
Expected dividends yield	3.64%
Expected option life (years)	1.69
Expected stock price volatility	61.25%
Expected forfeiture rate	5%

14. Fair value measurement

The Company has certain financial assets and liabilities that are measured at fair value. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As at March 31, 2013, provisional pricing feature of trade receivables, financing warrants and cash election option are measured on a recurring basis and based on Level 2 inputs.

15. Income tax

The Company uses the liability method of accounting for income taxes. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and on the carryforward of tax losses and tax credits. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

As at March 31, 2013, the Company recognized deferred tax assets of \$11,325,443 (December 31, 2012 - \$11,229,246). During the three months ended March 31, 2013, the Company utilized \$923,077 of the deferred tax assets that had been recognized as of December 31, 2012, which related to Costerfield. In addition, during the three months ended March 31, 2013, the Company recognized \$983,778 with respect to a deferred tax asset at Cerro Bayo.

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16. Income per share

As at March 31, 2013, the weighted average number of common shares for the purpose of diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended March 31,	
	2013	2012
Basic weighted average number of shares outstanding	324,575,292	270,221,988
Effect of dilutive securities		
Stock options	7,022,991	-
Warrants	14,338,823	-
Diluted weighted average number of shares outstanding	345,937,106	270,221,988

The daily weighted average market values of the common shares for the three month period ended March 31, 2013 is C\$1.13 (2012 – C\$0.76). There are no outstanding stock options and warrants as at March 31, 2013, which are anti-dilutive.

For the three months ended March 31, 2012, all outstanding stock options and warrants are anti-dilutive and excluded from the computation of diluted income per share.

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(Unaudited)

17. Segmented information

The Company manages its operations by geographical location. These reportable operating segments are summarized in the table below:

	Three months ended March 31, 2013			
	Australia	Canada	Chile	Total
	\$	\$	\$	\$
Revenue	17,369,493	-	24,255,195	41,624,688
Depletion and depreciation (including corporate office depreciation)	(2,583,368)	(7,877)	(3,263,231)	(5,854,476)
Income (loss) from operations	4,117,842	(1,146,346)	10,385,489	13,356,985
Other income (expense), except for fair value adjustment on derivative financial instruments	(1,891,614)	4,771,713	(2,961,598)	(81,499)
Income from underlying operations	2,226,228	3,625,367	7,423,891	13,275,486
Income from underlying operations per share				
Basic				0.04
Diluted				0.04
Fair value adjustments				
Financing warrants (Note 13 (b))	-	80,431	-	80,431
Cash election option (Note 13 (c))	-	(249,901)	-	(249,901)
Total fair value adjustments	-	(169,470)	-	(169,470)
Net income before income tax	2,226,228	3,455,897	7,423,891	13,106,016
Current tax expense	-	-	(2,262,603)	(2,262,603)
Deferred tax (expense) recovery	(923,077)	-	983,778	60,701
Net income	1,303,151	3,455,897	6,145,066	10,904,114
Income per share				
Basic				0.03
Diluted				0.03
Expenditures for property, plant and equipment	5,378,710	-	6,845,366	12,224,076
Total non-current assets as at March 31, 2013	62,252,050	9,907,012	57,906,415	130,065,477
Total assets as at March 31, 2013	72,322,938	15,464,178	108,803,516	196,590,632
Total liabilities as at March 31, 2013	8,850,704	2,846,602	32,626,869	44,324,175

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Notes to the condensed consolidated interim financial statements

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17. Segmented information (continued)

	Three months ended March 31, 2012			
	Australia	Canada	Chile	Total
	\$	\$	\$	\$
Revenue	11,282,887	-	9,436,629	20,719,516
Depletion and depreciation (including corporate office depreciation)	(1,279,590)	(8,135)	(2,784,023)	(4,071,748)
Income (loss) from operations	1,161,247	(1,248,841)	1,781,887	1,694,293
Other income (expense), except for fair value adjustment derivative financial instruments and silver contract	(292,053)	(173,980)	(389,333)	(855,366)
Income (loss) from underlying operations	869,194	(1,422,821)	1,392,554	838,927
Income from underlying operations per share				
Basic				-
Diluted				-
Fair value adjustments				
Gain/(loss) on derivative financial instruments (Note 12 (a))	(422,186)	-	(10,435,448)	(10,857,634)
Fair value adjustment on silver contract (Note 11)	-	-	(420,529)	(420,529)
	(422,186)	-	(10,855,977)	(11,278,163)
Net income (loss) before income tax	447,008	(1,422,821)	(9,463,423)	(10,439,236)
Deferred tax recovery	-	-	1,518,592	1,518,592
Net income (loss)	447,008	(1,422,821)	(7,944,831)	(8,920,644)
Income (loss) per share				
Basic				(0.03)
Diluted				(0.03)
Expenditures for property, plant and equipment	3,752,536	39,326	6,072,128	9,863,990
Total non-current assets as at December 31, 2012	60,498,104	10,124,343	53,465,203	124,087,650
Total assets as at December 31, 2012	67,775,143	14,855,980	102,659,561	185,290,684
Total liabilities as at December 31, 2012	8,684,116	3,787,557	29,740,113	42,211,786

For the three months ended March 31, 2013, the Company had three customers, from which it earned more than 10% of its total revenue (2012 - three). Revenue from these customers amounted to \$16,570,000, \$16,062,926 and \$4,547,787 (2012 - \$11,282,887, \$6,983,967 and \$2,452,662).

18. Subsequent event

From April 1, 2013 to May 14, 2013:

On April 18, 2013, the Company repurchased 57,000 common shares of an average price of C\$0.81 at a cost of C\$45,970 under the 2012 NCIB (Note 10 (e)).

On May 14, 2013, the Board of Directors declared a dividend in the amount of C\$0.00769 per share, payable on May 31, 2013 to shareholders of record as of May 24, 2013.