

Condensed consolidated interim financial statements of

# **Mandalay Resources Corporation**

June 30, 2013  
(Unaudited)

# Mandalay Resources Corporation

June 30, 2013

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# Mandalay Resources Corporation

## Condensed consolidated interim statements of income and comprehensive income three and six months ended June 30, 2013 and 2012

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>Revenue</b>	<b>35,903,497</b>	46,538,713	<b>77,528,185</b>	67,258,229
Cost of operations				
Cost of sales excluding depletion and depreciation (Note 12)	23,049,711	22,697,438	43,042,734	36,019,151
Depletion and depreciation	7,810,382	4,668,354	13,656,981	8,731,967
	<b>30,860,093</b>	27,365,792	<b>56,699,715</b>	44,751,118
Income from mine operations	<b>5,043,404</b>	19,172,921	<b>20,828,470</b>	22,507,111
Expenses				
Administration expense (Note 12)	1,531,167	2,275,262	3,175,891	3,547,057
Business development costs	332,870	-	481,729	-
Share-based compensation (Note 11 (c) and (d))	469,028	469,447	947,128	837,549
(Gain) loss on disposal of property, plant and equipment	(68,035)	-	88,363	-
Write-off of exploration and evaluation (Note 6)	548,585	-	548,585	-
	<b>2,813,615</b>	2,744,709	<b>5,241,696</b>	4,384,606
Income from operations	<b>2,229,789</b>	16,428,212	<b>15,586,774</b>	18,122,505
Other income (expenses)				
Gain (loss) on derivative financial instruments (Notes 14 (a), (b) and (c))	614,225	3,547,527	444,755	(7,310,107)
Finance costs (Notes 13)	(187,766)	(899,598)	(391,692)	(2,105,046)
Interest and other income	79,698	205,635	179,089	276,055
Foreign exchange gain	811,577	200,720	834,613	59,853
	<b>1,317,734</b>	3,054,284	<b>1,066,765</b>	(9,079,245)
Income before income taxes	<b>3,547,523</b>	19,482,496	<b>16,653,539</b>	9,043,260
Income taxes expense (recovery) (Note 16)				
Current	2,200,503	435,633	4,463,106	435,633
Deferred	(1,757,773)	(199,965)	(1,818,474)	(1,718,557)
	<b>442,730</b>	235,668	<b>2,644,632</b>	(1,282,924)
Net income for the period	<b>3,104,793</b>	19,246,828	<b>14,008,907</b>	10,326,184
Other comprehensive income				
Item that may subsequently be reclassified to income (loss)				
Foreign currency translation	(7,242,706)	(291,177)	(7,482,236)	(181,785)
<b>Comprehensive (loss) income for the period</b>	<b>(4,137,913)</b>	18,955,651	<b>6,526,671</b>	10,144,399
<b>Income per share (Note 17)</b>				
Basic	<b>0.01</b>	0.07	<b>0.04</b>	0.04
Diluted	<b>0.01</b>	0.05	<b>0.04</b>	0.03
<b>Weighted average number of common shares outstanding (Note 17)</b>				
Basic	<b>325,363,574</b>	281,218,285	<b>324,918,865</b>	275,691,357
Diluted	<b>342,319,557</b>	387,940,974	<b>344,384,413</b>	388,017,431

See accompanying notes to the condensed consolidated interim financial statements.

# Mandalay Resources Corporation

## Condensed consolidated interim statements of financial position as at June 30, 2013 and 2012

(Expressed in U.S. dollars)

(Unaudited)

	June 30, 2013	December 31, 2012
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	23,902,056	17,264,446
Trade and other receivables (Note 4)	15,995,150	29,175,603
Inventories (Note 5)	18,677,500	14,177,346
Prepaid expenses and other	1,037,468	585,639
	<b>59,612,174</b>	<b>61,203,034</b>
Reclamation and other deposits	2,222,333	2,666,249
Property, plant and equipment (Note 6)	110,287,693	108,945,171
Intangible asset (Note 7)	997,582	1,246,984
Deferred tax asset (Note 16)	11,729,298	11,229,246
	<b>125,236,906</b>	<b>124,087,650</b>
	<b>184,849,080</b>	<b>185,290,684</b>
<b>Liabilities</b>		
Current liabilities		
Trade and other payables (Note 8)	12,241,150	12,928,798
Current income tax liabilities	4,873,681	5,290,064
Provisions (Note 10)	2,341,166	2,284,229
Derivative financial instruments (Notes 14 (b) and (c))	413,441	2,219,707
	<b>19,869,438</b>	<b>22,722,798</b>
Reclamation and site closure costs	17,074,425	17,145,695
Provisions (Note 10)	2,867,062	2,343,293
	<b>19,941,487</b>	<b>19,488,988</b>
	<b>39,810,925</b>	<b>42,211,786</b>
<b>Equity</b>		
Share capital (Note 11)	90,128,132	88,634,701
Share option reserve (Note 11)	7,770,269	7,332,054
Warrants reserve (Note 11)	1,088,728	1,251,752
Foreign currency translation reserve	(5,314,551)	2,167,685
Retained earnings	51,365,577	43,692,706
	<b>145,038,155</b>	<b>143,078,898</b>
	<b>184,849,080</b>	<b>185,290,684</b>

Approved and authorized for issue by the Board on August 8, 2013.

\_\_\_\_\_  
Bradford A. Mills, Director

\_\_\_\_\_  
Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements.

# Mandalay Resources Corporation

## Condensed consolidated interim statements of changes in equity six months ended June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
		\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2012</b>	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 11 (b))	862,500	508,427	(277,969)	-	-	-	230,458
Share-based compensation (Note 11 (c) and (d))	-	-	913,540	-	-	-	913,540
Warrants exercised (Note 11 (e))	2,600,000	1,390,856	-	(163,024)	-	-	1,227,832
Normal course issuer bid (Note 11 (f)(i))	(1,378,600)	(405,852)	-	-	-	(703,688)	(1,109,540)
Amendment of stock option plan (Note 11 (b))	-	-	(197,356)	-	-	-	(197,356)
Dividends paid (Note 11 (g))	-	-	-	-	-	(5,632,348)	(5,632,348)
Total comprehensive income for the period	-	-	-	-	(7,482,236)	14,008,907	6,526,671
<b>Balance, June 30, 2013</b>	<b>324,271,053</b>	<b>90,128,132</b>	<b>7,770,269</b>	<b>1,088,728</b>	<b>(5,314,551)</b>	<b>51,365,577</b>	<b>145,038,155</b>

	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	482,000	286,873	(153,382)	-	-	-	133,491
Stock-based compensation	-	-	837,549	-	-	-	837,549
Warrants exercised	12,193,000	4,387,964	-	(326,735)	-	-	4,061,229
Warrants exchange offer	-	-	-	5,585,008	-	(5,805,908)	(220,900)
Normal course issuer bid	(630,500)	(185,616)	-	-	-	(234,050)	(419,666)
Total comprehensive (loss) income for the period	-	-	-	-	(181,785)	10,326,184	10,144,399
<b>Balance, June 30, 2012</b>	<b>282,221,575</b>	<b>84,155,059</b>	<b>7,480,415</b>	<b>9,801,480</b>	<b>1,492,630</b>	<b>10,577,484</b>	<b>113,507,068</b>

See accompanying notes to the condensed consolidated interim financial statements.

# Mandalay Resources Corporation

## Condensed consolidated interim statements of cash flows three and six months ended June 30, 2013 and 2012

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>Operating activities</b>				
Net income for the period	3,104,793	19,246,828	14,008,907	10,326,184
Adjustments to reconcile income to net cash used by operating activities				
Amortization of intangible assets	124,701	-	249,402	-
Depletion and depreciation	7,818,140	4,676,415	13,672,616	8,748,163
Share-based compensation	469,028	469,447	947,128	837,549
(Gain) loss on disposal of property, plant and equipment	(68,035)	-	88,363	-
Write-off of exploration and evaluation	548,585	-	548,585	-
(Gain) loss on derivative financial instruments	(614,225)	(3,547,527)	(444,755)	7,310,107
Finance costs	187,766	899,598	391,692	2,105,046
Interest and other income	(79,698)	(205,635)	(179,089)	(276,055)
Foreign exchange gain	(466,431)	(9,759)	(750,933)	(102,518)
Income tax expense (recovery)	442,730	235,668	2,644,632	(1,282,924)
Changes in non-cash operating working capital items				
Trade and other receivables	4,931,589	(11,557,262)	13,094,607	(8,789,692)
Inventories	(1,660,163)	1,416,008	(5,037,300)	(2,479,795)
Prepaid expenses and other	241,249	(437,225)	(456,707)	(721,275)
Trade and other payables	(426,743)	3,631,907	281,248	4,118,673
Provisions	662,002	242,837	915,428	889,682
	15,215,288	15,061,300	39,973,824	20,683,145
Tax paid	(4,879,489)	-	(4,879,489)	-
Interest paid	(57,269)	(427,053)	(97,902)	(711,048)
Interest and other income received	79,698	205,647	179,089	276,067
	10,358,228	14,839,894	35,175,522	20,248,164
<b>Investing activities</b>				
Expenditure for property, plant and equipment	(9,268,771)	(10,278,944)	(21,492,847)	(20,142,934)
(Recovery) payment for reclamation deposit and others	(27,907)	(358,872)	90,400	(730,945)
Proceeds on disposal of property, plant and equipment	99,389	-	99,389	-
Proceeds from derivative financial instruments	-	2,106,200	-	2,533,800
Payment for intangible assets	-	(1,414,082)	-	(1,414,082)
	(9,197,289)	(9,945,698)	(21,303,058)	(19,754,161)
<b>Financing activities</b>				
Payment for settlement of financing warrants	-	-	(1,339,340)	-
Issuance of common shares for cash	44,819	4,025,985	1,458,290	4,194,720
Exercise of stock options by cash election	(43,534)	-	(218,784)	-
Purchase of common shares for cancellation	(1,109,540)	(282,593)	(1,109,540)	(419,666)
Dividends paid	(2,435,070)	-	(5,632,348)	-
Proceeds from borrowings	-	5,000,000	-	7,998,300
Repayment of borrowings	-	(12,682,550)	-	(13,550,263)
	(3,543,325)	(3,939,158)	(6,841,722)	(1,776,909)
Effects of exchange rate changes on the balance of cash held in foreign currencies	(356,727)	(351,542)	(393,132)	(234,863)
(Decrease) increase in cash and cash equivalents	(2,739,113)	603,496	6,637,610	(1,517,769)
Cash and cash equivalents, beginning of period	26,641,169	10,620,189	17,264,446	12,741,454
<b>Cash and cash equivalents, end of period</b>	<b>23,902,056</b>	<b>11,223,685</b>	<b>23,902,056</b>	<b>11,223,685</b>
<b>Cash and cash equivalents are comprised of</b>				
Cash	13,653,949	6,305,017	13,653,949	6,305,017
Cash equivalents	10,248,107	4,918,668	10,248,107	4,918,668
	23,902,056	11,223,685	23,902,056	11,223,685
<b>Supplemental cash flow information</b>				
Non-cash financial and investing activities				
Purchase of plant and equipment with equipment loan	-	1,080,331	-	3,032,602
Purchase of land in exchange for other asset	-	-	27,369	-

See accompanying notes to the condensed consolidated interim financial statements.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Expressed in U.S. dollars)

(Unaudited)

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### 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 ("Mandalay Australia"), the Cerro Bayo silver and gold mine in Chile ("Cerro Bayo") 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 future periods if there view 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

June 30, 2013 and 2012

(Expressed in U.S. dollars)

(Unaudited)

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### 3. Summary of significant accounting policies (continued)

*New accounting pronouncement (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 mainly pertain to revised requirements for pension and other post-retirement benefits, termination benefits and other changes.
- *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

June 30, 2013 and 2012

(Expressed in U.S. dollars)

(Unaudited)

### 3. Summary of significant accounting policies (continued)

*New accounting pronouncement (continued)*

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

- Amended standard IAS 32 *Financial Instruments: Presentation*

The amendments to IAS 32 clarify the treatment of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

(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.

- New interpretation IFRIC 21 *Levies*

The interpretation provides guidance on recognition of a liability for a levy imposed by a government.

(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:

	June 30, 2013	December 31, 2012
	\$	\$
Trade receivables	12,644,634	25,834,771
VAT and other indirect tax receivables	2,744,313	2,856,547
Other receivables	606,203	484,285
	<b>15,995,150</b>	<b>29,175,603</b>

The allowance for doubtful accounts was \$Nil at June 30, 2013 and \$Nil for 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 marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. This marked-to-market adjustment is recorded as an adjustment to revenue and trade receivables.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Expressed in U.S. dollars)

(Unaudited)

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### 5. Inventories

	June 30, 2013	December 31, 2012
	\$	\$
Finished goods	7,607,438	6,370,235
Work-in-progress and stockpiled ore	2,749,396	808,842
Consumables	8,320,666	6,998,269
	<b>18,677,500</b>	<b>14,177,346</b>

The amount of inventories recognized in cost of sales for three and six months ended June 30, 2013 is \$30,860,093 and \$56,699,715 respectively (2012 - \$27,365,792 and \$44,751,118).

There were no inventory write-downs or reversals of write-downs during the three and six months ended June 30, 2013 or 2012.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(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	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>										
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)	-	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	(271,390)	(1,316,401)	-	(1,587,791)
Foreign exchange	115,481	-	-	289,715	-	3,688	114,986	-	217,815	741,685
<b>As at December 31, 2012</b>	<b>29,712,600</b>	<b>33,408,082</b>	<b>-</b>	<b>25,101,731</b>	<b>29,027,462</b>	<b>592,661</b>	<b>7,365,289</b>	<b>3,990,105</b>	<b>13,965,617</b>	<b>143,163,547</b>
Additions	5,154,680	4,913,437	-	2,529,126	4,661,982	-	2,638,119	1,419,969	640,655	21,957,968
Disposals	-	-	-	(749,199)	(846,554)	-	-	-	-	(1,595,753)
Reclassification to mining interest	4,980,116	-	-	-	-	-	(4,980,116)	-	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	(78,805)	(469,780)	-	(548,585)
Foreign exchange	(2,877,571)	-	-	(3,262,816)	-	(9,032)	(980,369)	-	(542,536)	(7,672,324)
<b>As at June 30, 2013</b>	<b>36,969,825</b>	<b>38,321,519</b>	<b>-</b>	<b>23,618,842</b>	<b>32,842,890</b>	<b>583,629</b>	<b>3,964,118</b>	<b>4,940,294</b>	<b>14,063,736</b>	<b>155,304,853</b>
<b>Accumulated depreciation</b>										
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
<b>As at December 31, 2012</b>	<b>8,046,258</b>	<b>8,353,290</b>	<b>-</b>	<b>5,731,166</b>	<b>11,988,650</b>	<b>99,012</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,218,376</b>
Expense	4,449,953	5,605,269	-	1,273,003	2,758,834	23,286	-	-	-	14,110,345
Disposals	-	-	-	(545,126)	(835,490)	-	-	-	-	(1,380,616)
Foreign exchange	(1,110,386)	-	-	(815,413)	-	(5,146)	-	-	-	(1,930,945)
<b>As at June 30, 2013</b>	<b>11,385,825</b>	<b>13,958,559</b>	<b>-</b>	<b>5,643,630</b>	<b>13,911,994</b>	<b>117,152</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,017,160</b>
<b>Carrying value</b>										
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
<b>As at June 30, 2013</b>	<b>25,584,000</b>	<b>24,362,960</b>	<b>-</b>	<b>17,975,212</b>	<b>18,930,896</b>	<b>466,477</b>	<b>3,964,118</b>	<b>4,940,294</b>	<b>14,063,736</b>	<b>110,287,693</b>

For three and six months ended June 30, 2013, Cerro Bayo's plant and equipment depreciation of \$237,572 and \$437,752 respectively were capitalized in mining interest (2012 - \$183,908 and \$344,115).

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 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 three-year union agreement. The carrying amount of the union payment as at June 30, 2013 is \$997,582 (December 31, 2012 - \$1,246,984). Amortization expense for the three and six months ended June 30, 2013 of \$124,701 and \$249,402 respectively (2012 - \$Nil) is recorded as part of cost of sales.

### 8. Trades and other payables

	June 30, 2013	December 31, 2012
	\$	\$
Trade payables	7,076,571	5,149,999
Accrued liabilities	4,233,680	7,108,259
Payroll and other taxes payable	930,899	670,540
	<b>12,241,150</b>	<b>12,928,798</b>

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. Borrowings

On June 28, 2013, the Company amended its secured revolving corporate loan facility (the "Corporate Facility") arranged by BMO Capital Markets originally entered into on May 30, 2012. Under the Amendment, the Corporate Facility's credit limit has been increased from \$20 million to \$30 million up to and including June 30, 2014 and will reduce to \$20 million thereafter. In addition, the maturity date of the Corporate Facility has been extended to June 30, 2015. The Corporate Facility is for general corporate purposes, including working capital, capital expenditures and certain acquisitions. It is subject to an interest rate of the lender's borrowing cost (LIBOR) plus a variable margin between 2.25% and 3.25%. Unused credit facility balances are subject to a standby fee at the rate of 0.75%. The Corporate Facility is secured by all the assets held by the Company. As at June 30, 2013, the Company had not drawn down any portion of the Corporate Facility (December 31, 2012 - \$Nil).

### 10. Provisions

	Employee benefit (i)	Severance payment (ii)	Total
	\$	\$	\$
Balance, December 31, 2012	2,425,168	2,202,354	4,627,522
Additions	1,381,787	826,889	2,208,676
Amounts paid	(1,096,236)	(163,088)	(1,259,324)
Foreign exchange	(208,560)	(160,086)	(368,646)
Balance, June 30, 2013	2,502,159	2,706,069	5,208,228
Less: current portion	2,341,166	-	2,341,166
Long-term portion	160,993	2,706,069	2,867,062

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

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

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 11. Share capital

At June 30, 2013, the Company had unlimited authorized common shares without par value and 324,271,053 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 and six months ended June 30, 2013, the Company issued its common shares upon exercise of share options and warrants by their holders (Note 10 (b) and (c)).

#### (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 the date of grant.

The Company has amended its stock option plan whereby option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's share at the date of exercise. The cash election option expires two days after the vesting date. 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. For the three and six months ended June 30, 2013, the remeasurement adjustment of \$191,866 and \$(58,035) is included in gain (loss) on derivative financial instruments (Note 13 (c)).

During the three and six months ended June 30, 2013, the Company paid \$43,534 and \$218,784 upon exercise of 100,000 and 425,000 stock options under the cash election option. As at June 30, 2013, 1,915,000 stock options with the 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	(862,500)	0.27
Exercised - cash election	(425,000)	0.56
<b>Balance, June 30, 2013</b>	<b>16,412,500</b>	<b>0.73</b>

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 11. Share capital (continued)

#### (b) Stock options (continued)

The following table summarizes information about the stock options outstanding at June 30, 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\$
1,550,000	1.44	0.26	1,550,000	0.26
1,110,000	2.16	0.26	1,110,000	0.26
50,000	2.19	0.31	50,000	0.31
300,000	2.27	0.33	300,000	0.33
100,000	2.21	0.34	100,000	0.34
150,000	0.14	0.50	150,000	0.50
3,502,500	2.70	0.56	3,502,500	0.56
370,000	2.78	0.58	370,000	0.58
490,000	3.42	0.70	-	0.70
450,000	3.01	0.76	-	0.76
4,052,500	3.69	0.83	-	0.83
4,287,500	4.72	1.13	-	1.13
<b>16,412,500</b>	<b>3.31</b>	<b>0.73</b>	<b>7,132,500</b>	<b>0.43</b>

#### (c) Share-based compensation

For the three and six months ended June 30, 2013, the Company recorded \$469,028 and \$947,128 (2012 - \$469,447 and \$837,549) 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 was C\$1.13 and C\$1.13 (2012 - C\$0.83 and C\$0.83) for the three and six months ended June 30, 2013 respectively, and was calculated using the following weighted average assumption. Expected stock price volatility is based on the Company's historical share price volatility.

No share options were granted during the three months ended June 30, 2013, and 2012.

	Six months ended June 30,	
	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%	91%
Expected annual forfeiture rate	5%	5%

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 11. Share capital (continued)

#### (d) Restricted Share Unit Awards

During the three months ended June 30, 2013, the Company adopted a Restricted Share Unit Plan (the "RSU Plan") and granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs will receive the Company's common shares at no cost at the end of vesting periods which are based on graded vesting over three years. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The RSU value is determined based on the fair value of the Company's share at the grant date and amortized over the vesting period, which is recorded in share-based compensation and share option reserve.

The number of RSUs as at June 30, 2013 is as follows:

	Number of RSU awards
Balance, December 31, 2012	-
Granted	300,000
<b>Outstanding at June 30, 2013</b>	<b>300,000</b>

For the three and six months ended June 30, 2013, the company recorded \$7,096 and \$7,096, respectively, (2012 - \$Nil) as share based compensation relating to RSUs.

#### (e) 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
<b>Balance, June 30, 2013</b>	<b>21,000,000</b>	<b>0.36</b>

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

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### 11. Share capital (continued)

#### (e) Share purchase warrants (continued)

The following table summarizes information about outstanding and exercisable share purchase warrants at June 30, 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	

#### (f) Normal Course Issuer Bid ("NCIB")

##### (i) 2012 NCIB

On October 15, 2012, the TSX approved the Company's notice of intention to make an NCIB (the "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 purchases.

Under the 2012NCIB, the Company repurchased 1,378,600 and 1,378,600 common shares at an average price of C\$0.83 and C\$0.83 at a cost of \$1,109,540 and \$1,109,540 (C\$1,145,024 and C\$1,145,024) during three and six months ended June 30, 2013 respectively. The excess of the purchase price over the average stated value of shares purchased for cancellation in the amount of \$703,688 and \$703,688 (C\$723,558 and C\$723,558), respectively, were 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.

##### (ii) 2011 NCIB

In October 2011, the Company entered into an NCIB (the "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.

Under the 2011 NCIB, the Company repurchased 424,500 and 630,500 common shares at an average price of C\$0.68 and C\$0.67 at a cost of C\$282,594 and C\$419,666 during three and six months ended June 30, 2012 respectively. The excess of the purchase price over the average stated value of shares purchased for cancellation in the amount of C\$157,624 and C\$234,050 respectively were charged to retained earnings. The Company ceased 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 occurred on a date shortly thereafter.



# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 11. Share capital (continued)

#### (g) Dividends

On February 20, 2013 and May 14, 2013, the Board of Directors declared dividends in the amount of C\$0.01 and C\$0.00769 per common share respectively, based on the Company's operating results for the three months period ended December 31, 2012 and March 31, 2013, respectively, payable to shareholders of record as of March 7, 2013 and May 24, 2013. Total payment of \$2,435,070 and \$5,632,348 was made during the three and six months ended June 30, 2013 (2012 - \$Nil).

### 12. Cost of sales

The cost of sales for the three and six months ended June 30, 2013 and 2012 consists of:

	Three months ended		Six months ended	
	2013	June 30, 2012	2013	June 30, 2012
	\$	\$	\$	\$
Raw materials and consumables	7,858,753	7,890,664	16,311,085	14,587,930
Salary and employee benefits	8,375,931	7,968,528	17,694,663	15,283,559
Contractors	1,082,774	365,396	1,918,359	1,053,498
Change in inventories	(522,703)	2,211,875	(3,177,758)	(1,903,785)
Royalty	214,196	221,401	433,725	370,617
Others	6,040,760	4,039,574	9,862,660	6,627,332
	<b>23,049,711</b>	<b>22,697,438</b>	<b>43,042,734</b>	<b>36,019,151</b>

During the three and six months 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 and six months ended June 30, 2012 and for the years ended December 31, 2012 and 2011.

	Three months ended		Six months ended		Year ended		Year ended	
	June 30, 2012		June 30, 2012		December 31, 2012		December 31, 2011	
	As previously presented	As adjusted	As previously presented	As adjusted	As previously presented	As adjusted	As previously presented	As adjusted
	\$	\$	\$	\$	\$	\$	\$	\$
Cost of operations	20,714,077	22,697,438	32,542,697	36,019,151	76,540,792	84,502,152	50,872,196	55,394,044
Administration expense	4,258,623	2,275,262	7,023,511	3,547,057	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.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 13. Finance costs

	Three months ended		Six months ended	
	2013	June 30, 2012	2013	June 30, 2012
	\$	\$	\$	\$
Interest on borrowings, including credit facility stand-by fees	89,816	890,943	175,616	1,443,874
Fair value adjustment on silver contract	-	(225,682)	-	194,847
Accretion of reclamation and site closure costs	97,950	234,337	216,076	466,325
	<b>187,766</b>	<b>899,598</b>	<b>391,692</b>	<b>2,105,046</b>

### 14. Derivative financial instruments

	June 30, 2013	December 31, 2012
	\$	\$
Finance warrants (b)	345,499	2,219,707
Cash election option (c)	67,942	-
	<b>413,441</b>	<b>2,219,707</b>

#### (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 gain (loss) of \$3,547,527 and (\$7,310,107) for the three and six months ended June 30, 2012.

As at June 30, 2013 and December 31, 2012, no silver or gold put options were outstanding. No gain or loss was recorded for the three and six months ended June 30, 2013.

#### (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 considerations 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 and six months ended June 30, 2013, Nil and 1,647,000 financing warrants were exercised with a cash settlement of \$Nil and \$1,339,340, respectively. As at June 30, 2013, 982,100 financing warrants valued at \$345,499 (2012 - \$2,219,707) are outstanding. The Company recorded a fair value measurement gain of \$422,359 and \$502,790 for the three and six months ended June 30, 2013 (2012 - \$Nil), which is reported in loss on derivative financial instruments.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

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### 14. Derivative financial instruments (continued)

#### (c) Cash election option (stock option)

The Company has amended its stock option plan whereby option holders resident in Australia became entitled for the cash election option in addition to the existing share purchase option (Note 11 (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 June 30, 2013, the liability is \$67,942. The Company recognized a fair value measurement gain/(loss) of \$191,866 and \$(58,035) for the three and six months ended June 30, 2013 (2012 - \$Nil).

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:

	Three months ended June 30, 2013	Six months ended June 30, 2013
Risk free interest rate	1.30%	1.30%
Expected dividends yield	3.64%	3.64%
Expected option life (years)	1.54	1.62
Expected stock price volatility	69.7%	69.1%
Expected forfeiture rate	5%	5%

### 15. Fair value measurement

The fair values of cash and cash equivalents, trade and other receivables (non-provisional pricing portion), reclamation and other deposits, and trade and other payables approximate their carrying value due to the nature of these items.

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 June 30, 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.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 16. 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.

During the three months ended June 30, 2013, the Company recognized \$1,757,773 as a deferred tax asset, which consists of \$401,014 and \$1,356,759 for Mandalay Australia and Cerro Bayo, respectively. During the six months ended June 30, 2013, Cerro Bayo recognized \$2,340,537 as a deferred tax asset, whereas Mandalay Australia utilized \$522,063 of the deferred tax assets.

### 17. Income per share

As at June 30, 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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Basic weighted average number of shares outstanding	<b>325,363,574</b>	281,218,285	<b>324,918,865</b>	275,691,357
Effect of dilutive securities				
Stock options	<b>4,112,163</b>	12,216,113	<b>5,333,167</b>	12,408,844
Warrants	<b>12,543,820</b>	94,506,576	<b>13,832,381</b>	99,917,230
RSU	<b>300,000</b>	-	<b>300,000</b>	-
Diluted weighted average number of shares outstanding	<b>342,319,557</b>	387,940,974	<b>344,384,413</b>	388,017,431

The daily weighted average market values of the common shares for the three and six month periods ended June 30, 2013 is C\$0.89 and C\$1.05 (three and six months ended June 30, 2012 - C\$0.65 and C\$0.69).

The following potential stock options are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purpose of diluted income per share calculation because their exercise price exceeded the daily weighted average market values of the common shares for the three and six months ended June 30, 2013 of C\$0.89 and C\$1.05 (three and six months ended June 30, 2012 - C\$0.65 and C\$0.69), respectively:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Stock options	<b>4,287,500</b>	5,032,500	<b>4,287,500</b>	5,032,500

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 18. Segmented information

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

	Three months ended June 30, 2013			
	Australia	Canada	Chile	Total
	\$	\$	\$	\$
Revenue	15,822,010	-	20,081,487	35,903,497
Depletion and depreciation (including corporate office depreciation)	(3,139,610)	(7,758)	(4,670,772)	(7,818,140)
Income (loss) from operations	711,315	(1,215,995)	2,734,469	2,229,789
Other income (expense), except for fair value adjustments on derivative financial instruments	(272,450)	1,229,216	(253,257)	703,509
<b>Income from underlying operations</b>	<b>438,865</b>	<b>13,221</b>	<b>2,481,212</b>	<b>2,933,298</b>
Income from underlying operations per share				
Basic				0.01
Diluted				0.01
Fair value adjustments				
Financing warrants (Note 14 (b))	-	422,359	-	422,359
Cash election option (Note 14 (c))	-	191,866	-	191,866
<b>Total fair value adjustments</b>	<b>-</b>	<b>614,225</b>	<b>-</b>	<b>614,225</b>
Net income before income tax	438,865	627,446	2,481,212	3,547,523
Current tax expense	-	-	(2,200,503)	(2,200,503)
Deferred tax recovery	401,014	-	1,356,759	1,757,773
<b>Net income</b>	<b>839,879</b>	<b>627,446</b>	<b>1,637,468</b>	<b>3,104,793</b>
Income per share				
Basic				0.01
Diluted				0.01
Cash expenditures for property, plant and equipment	4,915,844	-	4,352,927	9,268,771
<b>Total non-current assets as at June 30, 2013</b>	<b>57,334,837</b>	<b>9,562,286</b>	<b>58,339,783</b>	<b>125,236,906</b>
<b>Total assets as at June 30, 2013</b>	<b>68,709,405</b>	<b>14,002,704</b>	<b>102,136,971</b>	<b>184,849,080</b>
<b>Total liabilities as at June 30, 2013</b>	<b>10,325,740</b>	<b>1,523,760</b>	<b>27,961,425</b>	<b>39,810,925</b>

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 18. Segmented information (continued)

	Six months ended June 30, 2013			
	Australia	Canada	Chile	Total
	\$	\$	\$	\$
Revenue	33,191,503	-	44,336,682	77,528,185
Depletion and depreciation (including corporate office depreciation)	(5,722,978)	(15,635)	(7,934,003)	(13,672,616)
Income (loss) from operations	4,829,157	(2,362,341)	13,119,958	15,586,774
Other income (expense), except for fair value adjustments on derivative financial instruments	(2,164,064)	6,000,929	(3,214,855)	622,010
Income from underlying operations	2,665,093	3,638,588	9,905,103	16,208,784
Income from underlying operations per share				
Basic				0.05
Diluted				0.05
Fair value adjustments				
Financing warrants (Note 14 (b))	-	502,790	-	502,790
Cash election option (Note 14 (c))	-	(58,035)	-	(58,035)
Total fair value adjustments	-	444,755	-	444,755
Net income before income tax	2,665,093	4,083,343	9,905,103	16,653,539
Current tax expense	-	-	(4,463,106)	(4,463,106)
Deferred tax (expense) recovery	(522,063)	-	2,340,537	1,818,474
Net income	2,143,030	4,083,343	7,782,534	14,008,907
Income per share				
Basic				0.04
Diluted				0.04
Cash expenditures for property, plant and equipment	10,294,554	-	11,198,293	21,492,847
Total non-current assets as at June 30, 2013	57,334,837	9,562,286	58,339,783	125,236,906
Total assets as at June 30, 2013	68,709,405	14,002,704	102,136,971	184,849,080
Total liabilities as at June 30, 2013	10,325,740	1,523,760	27,961,425	39,810,925

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 18. Segmented information (continued)

	Three months ended June 30, 2012			
	Australia	Canada	Chile	Total
	\$	\$	\$	\$
Revenue	14,124,851	-	32,413,862	46,538,713
Depletion and depreciation (including corporate office depreciation)	(1,379,693)	(8,061)	(3,288,661)	(4,676,415)
Income (loss) from operations	3,770,281	(1,881,204)	14,539,135	16,428,212
Other income (expense), except for fair value adjustments on Silver Contract and derivative financial instruments	75,663	(592,389)	(202,199)	(718,925)
<b>Income (loss) for underlying operations</b>	<b>3,845,944</b>	<b>(2,473,593)</b>	<b>14,336,936</b>	<b>15,709,287</b>
Income for underlying operations per share				
Basic				0.06
Diluted				0.04
Fair value adjustments				
Gain on derivative financial instruments (Note 14 (a))	44,738	-	3,502,789	3,547,527
Fair value adjustment on Silver Contract (Note 13)	-	-	225,682	225,682
<b>Total fair value adjustment</b>	<b>44,738</b>	<b>-</b>	<b>3,728,471</b>	<b>3,773,209</b>
Net income (loss) before income tax	3,890,682	(2,473,593)	18,065,407	19,482,496
Current tax expense	-	-	(435,633)	(435,633)
Deferred tax recovery (expense)	3,264,788	-	(3,064,823)	199,965
<b>Net income (loss)</b>	<b>7,155,470</b>	<b>(2,473,593)</b>	<b>14,564,951</b>	<b>19,246,828</b>
Income per share				
Basic				0.07
Diluted				0.05
Cash expenditures for property, plant and equipment	4,714,185	33,082	5,531,677	10,278,944
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

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

June 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

### 18. Segmented information (continued)

	Six months ended June 30, 2012			
	Australia	Canada	Chile	Total
	\$	\$	\$	\$
Revenue	25,407,739	-	41,850,490	67,258,229
Depletion and depreciation (including corporate office depreciation)	(2,659,283)	(16,196)	(6,072,684)	(8,748,163)
Income (loss) from operations	4,931,528	(3,130,045)	16,321,022	18,122,505
Other income (expense), except for fair value adjustments on Silver Contract and derivative financial instruments	(216,390)	(766,369)	(591,532)	(1,574,291)
<b>Income (loss) for underlying operations</b>	<b>4,715,138</b>	<b>(3,896,414)</b>	<b>15,729,490</b>	<b>16,548,214</b>
Income for underlying operations per share				
Basic				0.06
Diluted				0.04
Fair value adjustments				
Gain on derivative financial instruments (Note 14 (a))	(377,448)	-	(6,932,659)	(7,310,107)
Fair value adjustment on Silver Contract (Note 13)	-	-	(194,847)	(194,847)
<b>Total fair value adjustment</b>	<b>(377,448)</b>	<b>-</b>	<b>(7,127,506)</b>	<b>(7,504,954)</b>
Net income (loss) before income tax	4,337,690	(3,896,414)	8,601,984	9,043,260
Current tax	-	-	(435,633)	(435,633)
Deferred tax	3,264,788	-	(1,546,231)	1,718,557
<b>Net income (loss)</b>	<b>7,602,478</b>	<b>(3,896,414)</b>	<b>6,620,120</b>	<b>10,326,184</b>
Income per share				
Basic				0.04
Diluted				0.03
Cash expenditures for property, plant and equipment	8,466,721	72,409	11,603,804	20,142,934
<b>Total non-current assets as at December 31, 2012</b>	<b>60,498,104</b>	<b>10,124,343</b>	<b>53,465,203</b>	<b>124,087,650</b>
<b>Total assets as at December 31, 2012</b>	<b>67,775,143</b>	<b>14,855,980</b>	<b>102,659,561</b>	<b>185,290,684</b>
<b>Total liabilities as at December 31, 2012</b>	<b>8,684,116</b>	<b>3,787,557</b>	<b>29,740,113</b>	<b>42,211,786</b>

For the three months ended June 30, 2013, the Company had three customers from which it earned more than 10% of its total revenue (2012 – four). Revenue from these customers amounted to \$14,213,693, \$4,471,953, and \$13,666,255 (2012 - \$14,124,851, \$14,402,306, \$7,393,512 and \$10,615,400).

For the six months ended June 30, 2013, the Company had three customers, from which it earned more than 10% of its total revenue (2012 - four). Revenue from these customers amounted to \$30,783,693, \$20,534,879 and \$18,214,042 (2012 - \$25,407,738, \$21,386,273, \$9,846,174 and \$10,615,400).

### 19. Subsequent event

On August 8, 2013, the Board of Directors declared a dividend in the amount of \$0.0066 per share (C\$0.0069 per share), payable on August 26, 2013 to shareholders of record as of August 19, 2013.