

MANDALAY RESOURCES

DELIVERING GROWTH
DISCOVERING VALUE

ANNUAL
REPORT

2012



107,941

GOLD EQUIVALENT OUNCES
PRODUCED, 2012

RECORD PRODUCTION RESULTS IN 2012

MANDALAY RESOURCES CORPORATION IS A CANADIAN-LISTED (TSX: MND) BASE AND PRECIOUS METALS COMPANY WITH PRODUCING ASSETS IN CHILE AND AUSTRALIA AND A DEVELOPMENT PROJECT IN CHILE. THE COMPANY GENERATES VALUE FOR SHAREHOLDERS BY IDENTIFYING, ACQUIRING, AND DEVELOPING ASSETS IN FAVOURABLE OPERATING ENVIRONMENTS. WE FOCUS ON PROJECTS WITH AN ATTRACTIVE ENTRY PRICE, EXCELLENT EXPLORATION UPSIDE AND NEAR-TERM CASH FLOW TO FUND EXPLORATION AND THE RESULTING ORGANIC GROWTH.

ONCE WE ACQUIRE AN ASSET, WE APPLY OUR CORE SKILLS OF: IDENTIFYING AND TESTING MEANINGFUL EXPLORATION POTENTIAL; DEVELOPING AND IMPLEMENTING FULLY OPTIMIZED AND ENGINEERED MINE PLANS ON TIME AND BUDGET; AND MAINTAINING EXCELLENT RELATIONSHIPS WITH KEY STAKEHOLDERS. MANDALAY OPERATES SAFELY AND IN AN ENVIRONMENTALLY RESPONSIBLE MANNER, WHILE DEVELOPING A HIGH LEVEL OF EMPLOYEE AND COMMUNITY ENGAGEMENT.

WE RIGOROUSLY MANAGE OUR OPERATIONS TO PRODUCE HIGH EBITDA MARGINS AT MID-CYCLE PRICING AND ATTRACTIVE RETURNS ON EACH CAPITAL INVESTMENT THROUGH THE PRICE CYCLE. THE RESULTING STRONG CASH FLOWS ARE RETURNED TO SHAREHOLDERS THROUGH DIVIDENDS AND SHARE BUYBACKS, REINVESTED IN COMPELLING ORGANIC GROWTH PROJECTS, AND RETAINED TO FUND THE NEXT ACQUISITION. WE ARE CURRENTLY DEBT-FREE AND DO NOT ANTICIPATE NEEDING TO RAISE EQUITY TO FUND OUR PORTFOLIO OF ORGANIC GROWTH PROJECTS.

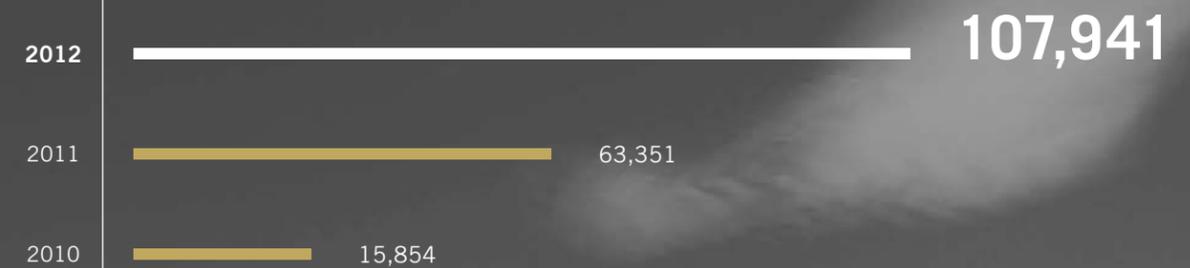
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FORWARD-LOOKING STATEMENTS

This document contains forward-looking information. The reader is cautioned to refer to the "Forward-Looking Statements" found on page 32 of the Company's MD&A for the year ended December 31, 2012, found on the Company's website www.mandalayresources.com and under its profile at www.sedar.com. All figures are in U.S. dollars unless otherwise indicated.

PRODUCTION GOLD EQUIVALENT OUNCES



REVENUE US \$ MILLIONS



EBITDA US \$ MILLIONS



STRATEGY

ENTRY STRATEGY

Acquire high quality assets at a low cost relative to the ultimate value the Company believes can be demonstrated to the market in two to three years

Perform thorough due diligence in support of each acquisition, resulting in a post-acquisition plan that manages identified risks and unambiguously tests the Company's value-creation hypotheses

Apply management's extensive operational and exploration expertise to turn around, grow and/or develop acquired assets

OPERATIONAL STRATEGY

Focus on high margin projects where the Company believes it can achieve rapid production ramp-ups from restarts, turnaround situations, or completion of feasibility studies and early construction

Generate early cash flow to fund exploration, growth, and operational improvements

Build critical mass through acquisitions

CAPITAL STRATEGY

Deliver cash returns to shareholders — Discretionary dividend policy, currently C\$0.01 per share per quarter

Reduce dilution — Repurchase shares under NCIB: Up to 5% of the Company's outstanding shares from organic cash flow over one year

Prudent use of leverage — Currently debt-free

SINCE 2011, MANDALAY RESOURCES' SHARE PERFORMANCE HAS BEEN CONSISTENTLY STRONG WITH AN AVERAGE ANNUAL TOTAL RETURN OF 59%, AND TOTAL RETURN OF 152% OVER THE PERIOD.



SCORECARD

	2012 TARGET	2012 RESULTS	2013 E TARGET
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OPERATIONAL PERFORMANCE

Gold production (ounces)	26,000 – 34,000	35,125	36,000 – 42,000
Silver production (ounces)	2,700,000 – 3,000,000	2,911,595	2,800,000 – 3,100,000
Antimony production (tonnes)	1,800 – 2,200	2,481	2,800 – 3,000
Increase gold reserves (ounces)	—	Gold reserves grew 33% to 214,000	—
Increase silver reserves (ounces)	—	Silver reserves grew 14% to 18,250,000	—

FINANCIAL PERFORMANCE

Revenue (million \$)	—	171.8	—
EBITDA (million \$)	—	79.9	—

COMMITMENT TO SHAREHOLDER VALUE CREATION

BRADFORD A. MILLS
CHIEF EXECUTIVE OFFICER AND DIRECTOR
MANDALAY RESOURCES



2012 was a successful year for Mandalay. Our total shareholder return performance for the year, 76%, made up of share price appreciation plus dividends, far outpaced the market in general and the mining sector in particular. This strong shareholder return was based on record production and sales of silver, gold, and antimony, which continued our strong track record of delivering on stated performance objectives. We are proud that over the last three years, Mandalay has become a value-generating mining company for all stakeholders, employing more local mining professionals, buying more local goods and services, improving safety and reducing environmental impact, with exceptional growth of silver, gold, and antimony production. The Company is also generating significant cash and is returning cash to shareholders by paying a dividend and repurchasing common shares and warrants. We continue to look at new opportunities to build our portfolio with high quality producing assets.

OPERATIONAL EXCELLENCE

In 2012, the Company produced a total of 2,911,595 ounces of silver, 35,125 ounces of gold, and 2,481 tonnes of antimony for 107,941 ounces of gold equivalent, at the high end of the Company's stated guidance of 93,500 to 110,500 ounces of gold equivalent. Production at Costerfield (Australia) reached 18,036 ounces of gold and 2,481 tonnes of antimony, significantly greater volumes of both metals compared to 2011 as mine output and plant throughput exceeded design levels and the impact of lower dilution from the new blast hole stoping method with cemented rock fill improved plant head grade. Cerro Bayo production reached 17,089 ounces of gold and 2,911,595 ounces of silver, substantially greater than in 2011 due to the completion of the ramp-up plan.

In 2013, we expect Company-wide production to rise to 112,000 to 123,000 ounces of gold equivalent, comprising 2.8 to 3.1 million ounces of silver, 36,000 to 42,000 ounces of gold, and 2,800 to 3,000 tonnes of antimony. We expect to achieve further organic growth by expanding Cerro Bayo to a mining rate of 1,400 tonnes per day by the first quarter of 2014 and expanding Costerfield to 500 tonnes per day (up from the current rate of 340 tonnes per day) by the end of 2014.

Mandalay's strategy of reinvesting operational cash flow in exploration was successful once again in 2012 and increased our Mineral Reserves and Resources. Contained gold in Mineral Reserves grew by 33%, contained silver by 14%, and contained antimony by 38%, all net of mine depletion, as at year-end 2012. In the Measured plus Indicated Mineral Resources category, contained gold ounces increased by 28%, silver ounces increased by 70%, and antimony tonnes increased by 15%. For the first time, we included significant copper in our Indicated Resources (at La Quebrada). Cerro Bayo, initially acquired in 2010 and restarted with a mine life of three years based on Proven and Probable Reserves at the time, now has a nominal life of approximately six years after two years of production. Costerfield significantly increased its Proven and Probable Reserves, maintaining its nominal two-year life despite a significant and sustainable increase in production in the second half of 2012. We expect to increase the mine life further at Costerfield with the full development of the Cuffley Lode and N Lodes. Our exploration success and our ability to self-fund these mine life extensions demonstrate the substantial value created by our strategy.

We plan to continue the intensity of our exploration programs for our two producing properties in 2013. At Cerro Bayo, we have replaced our drilling contractor with owned rigs, reflecting our long-term commitment to exploration. We expect to complete approximately 60,000 metres of exploration drilling at Cerro Bayo in 2013. At Costerfield, our wide-spaced drilling program will focus on increasing Cuffley Lode Resources in the first half of 2013. We expect a development decision for the Cuffley Lode by the middle of 2013, which will tie in with our plan to increase production to 500 tonnes per day.

RECORD FINANCIAL RESULTS

Higher production and higher sales volumes at both operations translated into strong financial performance in 2012. Reaching design production and attaining reduced costs at each mine resulted in record revenue, EBITDA, and earnings per share, which increased approximately 86% to \$171.8 million, 148% to \$79.9 million, and 100% to \$0.14, respectively, year-over-year. We used our significant cash flow to accelerate the repayment of existing loans and become debt-free by the end of 2012. Mandalay's working capital of \$38 million at the end of 2012, together with cash flow from operations should support the Company's normal operating requirements through 2013.

In June 2012, we secured a revolving credit facility for \$20 million at LIBOR + 3.25%. This is expected to lower our future financing costs considerably and give us greater flexibility with respect to working capital management and acquisitions.

REDUCE DILUTION AND RETURN CASH TO SHAREHOLDERS

The Company's excellent financial results allowed us to adopt a dividend policy that provides for a quarterly discretionary cash dividend based on financial results and future cash requirements. So far we have made two quarterly dividends of CDN \$0.01 per share (one in the fourth quarter of 2012 and one in the first quarter of 2013), representing a competitive yield of approximately 4% that differentiates us from our peer group.

Mandalay's share price performed strongly in 2012. Year-over-year share price appreciation was \$0.49, or 74.2%. Share price value reached the \$1.00 milestone by early-November and traded at or above this level for the rest of the year. The Company's rapid share price appreciation was achieved in a relatively weak underlying commodities market as silver and gold price appreciation was only 2.2% for silver and 4.5% for gold. Mandalay's liquidity on the TSX greatly improved over the year as well; average daily volume reached 324,910, approximately double as compared to 2011. This was due to the Company's July, 2012, substantial issuer bid ("SIB"), under which approximately 72% of the outstanding warrants were tendered to the SIB and exchanged for an aggregate of 35,795,052 common shares. The SIB resulted in an 8% reduction of Mandalay's fully diluted share count. The Company currently has 21 million warrants outstanding, approximately 6% of the total shares outstanding. In addition, the Company used \$1.7 million to repurchase 2,185,660 common shares in 2012 under our normal course issuer bid program.

POSITIVE DEVELOPMENT OF OUR MANAGEMENT TEAM

Subsequent to year-end, Mark Sander was promoted from Chief Operating Officer to President and Dominic Duffy, formerly General Manager of Cerro Bayo Operations was promoted to Chief Operating Officer. Kalenci Flores, previously Mine Superintendent at Cerro Bayo, has been appointed to General Manager, Cerro Bayo Operations. These management changes are part of an ongoing effort to develop and strengthen the leadership team for the next phase of the Company's growth.

SUSTAINABILITY STRATEGY

We are building a values-based and value-focused organization that is founded on safe, efficient, and environmentally benign work practices, continuous improvement, and effective community relationships, all inside the discipline of fiscal responsibility. The three-year labour agreement reached with the workforce at the Cerro Bayo mine in 2012 reflects the significant trust that has been established between the management and the workforce. Spending on safety and health tripled in the last two years which in turn resulted in reduced consolidated lost time injury frequency rate, improved return to work performance, and high levels of attendance at mine sites. Employment and local payrolls have increased at both operations as they have grown production. Spending on environmental and community projects has also increased by 20% in 2012 as compared to 2011.

THANK YOU FOR YOUR DEDICATION AND SUPPORT

I wish to thank Mandalay's dedicated management team and employees for helping us deliver on our promises in 2012 and building a highly profitable, dividend-paying, growing mining company. I also wish to extend my appreciation to our Board of Directors for their valued guidance and support. I look forward to our new achievements in 2013 and in the very exciting years ahead.

For more information on the Company's progress in 2012, and its plans for 2013, I invite everyone to read our entire 2012 online Annual Report, available at www.mandalayresources.com



BRADFORD A. MILLS
CHIEF EXECUTIVE OFFICER AND DIRECTOR
MANDALAY RESOURCES

MANDALAY RESOURCES REVENUE BREAKDOWN

33%

\$ 56,536,000



50%

\$ 85,303,000



17%

\$ 29,967,000



During 2012, Mandalay Resources generated a consolidated \$56.5 million of revenue from gold from both the Costerfield and Cerro Bayo projects, which accounted for 33% of total revenue. Silver was responsible for half of all revenue generated with \$85.3 million. While antimony brought in 17% of the total with \$29.9 million. From January 1, 2012, to December 31, 2012, the Company's average realized price for gold, antimony, and silver were \$1,675/oz, \$12,513/t, and \$31/oz, respectively.

COSTERFIELD
VICTORIA, AUSTRALIA

Au + Sb

37,075

GOLD EQUIVALENT OUNCES PRODUCED AT COSTERFIELD – 2012





COSTERFIELD

The Costerfield operation is located in Costerfield, Victoria, Australia. It includes the Augusta mine and Brunswick processing plant. On December 1, 2009, the Company purchased 100% of the Costerfield gold-antimony mine through its wholly owned subsidiary, Costerfield Operations. Capital redevelopment was commenced by the Company immediately. Production grew quickly to approximately 250 tonnes per day in 2010, and has further grown to approximately 340 tonnes per day by the end of 2012.

During 2012, the Costerfield mine produced 96,297 tonnes of ore. The Company's decision in late 2011 to change the mining method at Costerfield to long-hole open stoping with cemented rock fill has resulted in steadily increasing quarterly ore production volumes and a subsequent decrease in mining cost per tonne to approximately \$250 per tonne. This change in mining method also resulted in maintaining the average mining grade despite the increasing production rate.

In 2012, the Costerfield plant processed 94,187 tonnes of ore, producing 18,036 ounces of saleable gold and 2,481 tonnes of saleable antimony, both record annual production volumes. The Costerfield plant operated at increasing quarterly throughput rates through the year while maintaining high head grades and recoveries. The high head grade was made possible by the consistently high grade of ore produced by the mine. The high recoveries were due to the introduction of a mobile crusher to replace the permanent jaw crusher, which produced a finer-sized ore feed to the mills. Despite the increased incremental cost of the fine crushing, total cost per tonne ore processed was controlled at \$67 per tonne due to spreading the fixed costs over greatly increased volumes.

COSTERFIELD

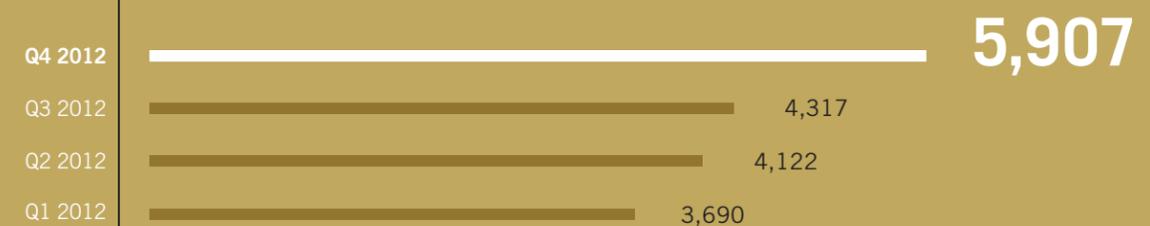
2012

2013 E

Saleable gold production (ounces)	18,036	18,000 – 21,000
Saleable antimony production (tonnes)	2,481	2,800 – 3,000

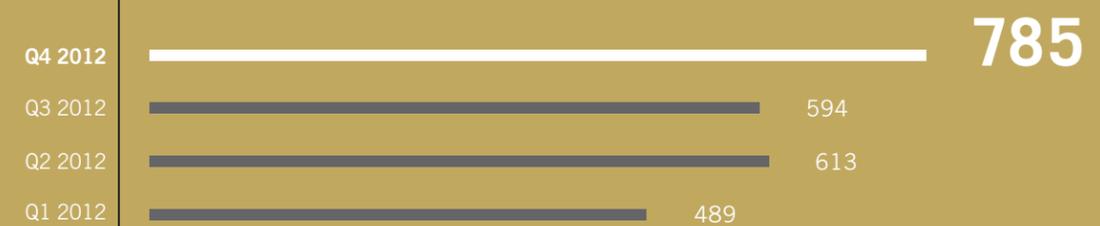
GOLD PRODUCTION AT COSTERFIELD

OUNCES



ANTIMONY PRODUCTION AT COSTERFIELD

TONNES



CERRO BAYO
SOUTHERN CHILE

Ag+Au

70,865

GOLD EQUIVALENT OUNCES PRODUCED AT CERRO BAYO - 2012





CERRO BAYO

Mandalay Resources purchased 100% of the Cerro Bayo silver-gold mine in August 2010. The mine is located in Southern Chile, approximately 130 kilometres south of Coyhaique, the Capital of Region XI. Mining was restarted in September 2010, processing was recommenced in January 2011, and the first gold-silver concentrate was shipped in February 2011.

The ramp-up of Cerro Bayo ore production to 1,200 tonnes per day continued on plan through to completion in the fourth quarter of 2012. Mining cost and processing costs per tonne of ore were controlled throughout the year at an average of approximately \$57 per tonne and \$26 per tonne, respectively. Continued cost control is expected in 2013. Metallurgical recoveries rose consistently through the year, averaging approximately 90% for silver and 88% for gold. A 2% increase in recoveries is expected after the first quarter of 2013 when commissioning of the flotation automation project in the plant is completed.

The Company will be developing a second haulage access to the Delia NW mine, one of the three underground mines on the property, in 2013. This will allow the rate of ore production to increase to 1,400 tonnes per day by the first quarter of 2014.

CERRO BAYO

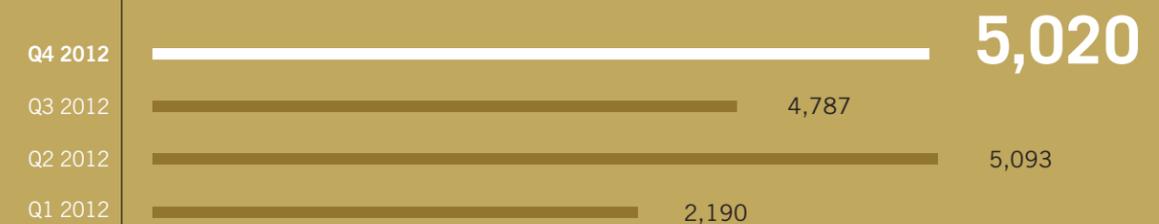
2012

2013 E

Saleable gold production (ounces)	17,089	18,000 – 21,000
Saleable silver production (ounces)	2,911,595	2,800,000 – 3,100,000

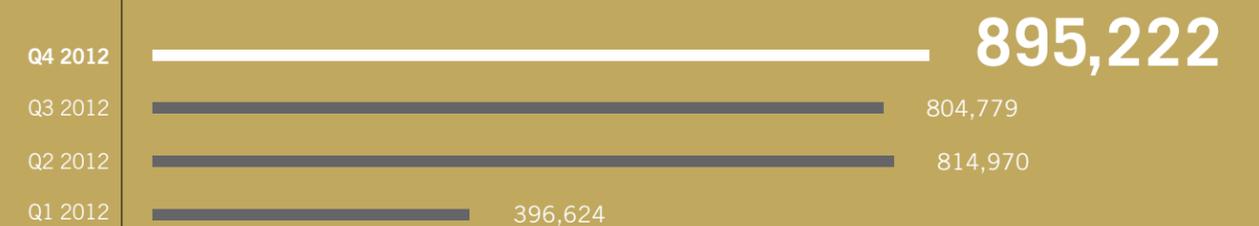
GOLD PRODUCTION AT CERRO BAYO

OUNCES



SILVER PRODUCTION AT CERRO BAYO

OUNCES



MANDALAY CONTINUED TO ACHIEVE SIGNIFICANT EXPLORATION SUCCESS AT COSTERFIELD AND CERRO BAYO IN 2012.

COSTERFIELD

During 2012, Mandalay drilled approximately 20,000 metres of diamond core at a cost of US\$5.2 million. Virtually all of the drilling extended or infilled Mineral Resources in W, E, N, and Cuffley Lodes. In addition, the Company completed 5,319 metres of operating development and mine sampling in the Augusta mine, 4,169 metres of which were in mineralized material. This work formed the basis for the 2012 Mineral Resource estimate:

YEAR-END 2012 MINERAL RESOURCES AT COSTERFIELD, INCLUSIVE OF MINERAL RESERVES

Category	Tonnes (t)	Au Grade (g/t)	Sb Grade (%)	Au (cont. oz)	Sb (cont. t)
MEASURED	167,000	8.1	4.9	43,000	8,200
INDICATED	367,000	10.0	3.5	118,000	12,900
MEASURED AND INDICATED	534,000	9.4	4.0	161,000	21,100
INFERRED	610,000	7.2	3.2	140,000	19,500

(1) CIM definitions were followed for Mineral Resources. (2) The Independent Qualified Person for the Costerfield Mineral Resource estimates is Dr Andrew Fowler, MAIG, MAusIMM, employee of AMC Consultants Pty Ltd, who is a qualified person as defined by NI 43-101. The complete NI 43-101 compliant report documenting the estimate was filed in the Company's profile on www.sedar.com on March 28, 2013. (3) Mineral Resources are estimated at a cut-off grade of 4.7 g/t AuEq (gold equivalent) using the formula $AuEq = Au + (Sb\% \times 2.02)$. (4) Veins are diluted to 1.8 m minimum width with material of zero grade. (5) Bulk density of mineralized veins was calculated from grade using the stoichiometry of stibnite and waste bulk density was set at 2.65 t/m³ was used. (6) Mineral Resources are inclusive of Mineral Reserves. (7) Numbers may not add due to rounding.

From the Mineral Resource, a mine plan was designed based only on Measured and Indicated Resource blocks using predominantly the cemented rock fill blast hole stoping method. A cut-off grade of 4.7 g/t AuEq and minimum mining widths of 1.8 metres were used, with planned and unplanned dilution at zero grade. Financial viability of Proven and Probable Mineral Reserves was demonstrated at metal prices of US\$1,675/oz Au and US\$12,513/t Sb prices, closer to current metal prices than at Cerro Bayo due to the short mine life.

YEAR-END 2012 MINERAL RESERVES AT COSTERFIELD

Category	Tonnes (t)	Grade (g/t)	Grade (%)	Au (oz)	Sb (t)
PROVEN	48,000	11.0	6.5	17,000	3,100
PROBABLE	130,000	8.1	3.2	34,000	4,100
PROVEN AND PROBABLE	178,000	8.9	4.1	51,000	7,200

(1) CIM definitions were followed for Mineral Reserves. (2) The Independent Qualified Person for the Costerfield Mineral Reserve estimate is Ms Anne-Marie Ebbels, MAusIMM (CP), an employee of SRK Consulting (Australasia) Pty Ltd, who is a qualified person as defined by NI 43-101. The complete NI 43-101 compliant report documenting the estimate was filed in the Company's profile on www.sedar.com on March 28, 2013. (3) Mineral Reserves are estimated at a cut-off grade of 4.7 g/t AuEq (gold equivalent) using the formula $AuEq = Au + (Sb\% \times 2.02)$. (4) Minimum mining width of 1.8 m for drives and 1.2 m for stopes used, with planned and unplanned dilution of 20-25% at zero grade. Mining recovery of 80-100% was used depending on mining method. (5) Bulk density of mineralized veins was calculated from grade using the stoichiometry of stibnite and waste bulk density was set at 2.65 t/m³ was used. (6) Mineral Resources are inclusive of Mineral Reserves. (7) Numbers may not add due to rounding.

The net addition of 40,000 ounces of gold equivalent to Proven and Probable Reserves in 2012 consists of a total of 77,000 ounces of gold equivalent added to Reserves less 37,000 ounces of production. The 2012 exploration cost divided by a total of 77,000 ounces of gold equivalent added represents US\$68/oz gold equivalent added to Proven and Probable Reserves.

CERRO BAYO

During 2012, Mandalay drilled approximately 70,000 metres of diamond core at a cost of US\$9.2 million. Slightly more than 40% of the drilling was focused on infilling and extending existing Resources, with the balance focused on testing for new targets. As well, mapping and closely spaced sampling along 9,280 metres of vein drive advance in the Bianca, Dagny, Fabiola, Yasna, and Delia NW veins, 7,149 metres of which were in mineralized material, formed the basis on which to upgrade previously Indicated and Inferred Mineral Resources to Measured Mineral Resources, and subsequently Proven Mineral Reserves.

YEAR-END 2012 MINERAL RESOURCES AT CERRO BAYO INCLUSIVE OF MINERAL RESERVES

Category	Tonnes (t)	Au Grade (g/t)	Ag Grade (g/t)	Au (cont. oz)	Ag (cont. t)
MEASURED	327,000	3.2	525	33,000	5,521,000
INDICATED	1,562,000	3.2	334	160,000	16,754,000
MEASURED AND INDICATED	1,889,000	3.2	367	194,000	22,276,000
INFERRED	452,000	2.4	201	35,000	2,922,000

(1) CIM standards were followed for estimating Mineral Resources. (2) The Independent Qualified Person for the Cerro Bayo Mineral Resource estimate is Luke Evans, M.Sc., P. Eng., Roscoe Postle Associates Inc. The complete NI 43-101 compliant report documenting the estimate was filed in the Company's profile on www.sedar.com on March 28, 2013. (3) Mineral Resources are estimated at a cut-off grade of 148 g/t AgEq. AgEq is calculated using the formula $AgEq = Ag + (Au \times 57.65)$ where Ag and Au are in grams per tonne. (4) Wireframe vein models were used to constrain the Cerro Bayo Resources. (5) A minimum vein width of 1.2 m was used. (6) A bulk density of 2.63 t/m³ was used. (7) Mineral Resources are inclusive of Mineral Reserves. (8) Numbers may not add due to rounding.

From this Mineral Resource estimate, a mine plan was designed based only on Measured and Indicated Resources using the same blast hole open stoping method as employed in the current operation. A cut-off grade of 176 g/t Ag equivalent and a minimum mining width of 2.4 metres were used, with planned and unplanned dilution at variable grade depending on the vein.

The net addition of 2.3 million ounces of silver to Proven and Probable Reserves in 2012 consists of a total of 5.2 million ounces of silver added to Reserves less 2.9 million ounces of production. The 2012 exploration cost divided by the 5.2 million ounces of silver added to Reserves represents US\$1.77/oz silver added to Proven and Probable Reserves.

YEAR-END 2012 MINERAL RESERVES AT CERRO BAYO

Category	Tonnes (t)	Au Grade (g/t)	Ag Grade (g/t)	Au (cont. oz)	Ag (cont. oz)
PROVEN	420,000	2.2	356	30,000	4,803,000
PROBABLE	1,934,000	2.1	216	133,000	13,447,000
PROVEN AND PROBABLE	2,354,000	2.2	241	163,000	18,250,000

(1) CIM standards were followed for estimating Mineral Reserves. (2) The Independent Qualified Person for the Cerro Bayo Mineral Reserves estimates is Normand Lecuyer, P. Eng., Roscoe Postle Associates Inc. The complete NI 43-101 compliant report documenting the estimate was filed in the Company's profile on www.sedar.com on March 28, 2013. (3) Mineral Reserves are estimated at a cut-off grade of 176 g/t AgEq (silver equivalent). AgEq is calculated using the formula $AgEq = Ag + (Au \times 57.65)$ where Ag and Au are in grams per tonne. Metal prices for determining cutoff grades were US\$1,300/oz Au and \$23/oz Ag. (4) Profitability of Mineral Reserves were estimated using a long-term gold price of US\$1300 per ounce, a long-term silver price of US\$23 per ounce. (5) Veins are diluted to 2.4 m minimum mining width. (6) A bulk density of 2.63 t/m³ was used. (7) Dilution grades vary by vein. (8) Mineral Resources are inclusive of Mineral Reserves. (9) Numbers may not add due to rounding.

LA QUEBRADA

Mandalay drilled 26 holes for a total of 4,498 metres. Assays from this program were combined with drill results from Mandalay's 2011 drilling and with results from drilling by previous owners into a single database and used to estimate an initial Mineral Resource for the property:

INITIAL RESOURCE ESTIMATE AT LA QUEBRADA, EFFECTIVE JUNE 30, 2012

Category	Million tonnes (Mt)	Cu (%)	Ag (g/t)	Cu (cont. lbs) (000,000)	Ag (cont. oz) (000,000)
INDICATED	34.8	0.6	10	459	11.2
INFERRED	1	0.6	11	13	0.4

(1) CIM definitions were followed for Mineral Resources. (2) The La Quebrada Mineral Resource estimate was prepared under the supervision of Ronald Luethe, an Idaho registered Professional Geologist and an AIPG Certified Professional Geologist and a Qualified Person under Canadian NI 43-101; it was reviewed and verified by Michael Easdon, an Oregon Registered Professional Geologist (No. 243), an AIPG Member (CPG-07646), and an Independent Qualified Person under Canadian NI 43-101. The complete NI 43-101 report was filed August 16, 2012 in the Company's profile on www.sedar.com. (3) Mineral Resources are estimated using Inverse Distance Cubed interpolation into 25m*25m*manto thickness blocks, with grade estimates for each manto based only on composites from the same manto. (4) Inferred resource is defined by a minimum of one drill hole within a search radius of 300 m in the same manto. (5) Indicated resource is defined by at least two drill holes within a search radius of 300 m in the same manto. (6) Mineral Resources are reported at a cut-off grade and thickness of 0.3% Cu over 3 metres. (7) A bulk density of 2.71 t/m³ was used. (8) Numbers may not add due to rounding.

Mandalay Resources believes strong corporate governance practices and duty of care to shareholders are integral to the long-term success of the Company. The Mandalay Board of Directors supports evolving practices in the field of governance, and demonstrated its commitment to continuous improvement by implementing recommendations from self-evaluation surveys completed 2011.

Mandalay Resources acts in accordance with applicable legislation, regulatory requirements and policies of the Canadian Securities Administrators and the laws of the jurisdictions in which it operates.

All the policies, charters, and position descriptions that have been established by Mandalay Resources are updated annually and can be accessed on the Company's website at www.mandalayresources.com

BOARD OF DIRECTORS

The Board of Directors is committed to fulfilling its statutory mandate to supervise the management of the business and affairs of the Company with the highest standards of ethical conduct and in the best interests of the Company and its shareholders. The Company has established the following standing committees that are accountable to the Board:

- i. Audit Committee
- ii. Compensation, Corporate Governance and Nominating Committee
- iii. Safety, Health, Environmental and Community Committee

The members of the Board are identified on page 23.

AUDIT COMMITTEE

The primary responsibilities of the Audit Committee ("AC") are to ensure that the Company has in place an effective system of internal financial controls for reviewing and reporting on the Company's financial statements, to monitor the independence and performance of the Company's external auditor, to oversee the quality and integrity of the Company's financial statements, to monitor Management's compliance with legal and regulatory requirements in respect of financial disclosure, and to report on the Committee's activities on a regular and timely basis to the Board of Directors.

The members of the AC are Robert Doyle (Chairman), Abraham Jonker and Anthony Griffin.

COMPENSATION, CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The purpose of the Compensation, Corporate Governance and Nominating Committee ("CCGNC") is to assist the Board with compensation, corporate governance and nominating matters with respect to recruitment, development, evaluation, compensation and retention of senior management, Board Members and directors. Under the supervision of the Chair of the CCGNC, the directors conduct a formal evaluation of the performance and effectiveness of the Board and the committees through an annual self-assessment survey coordinated by the Corporate Secretary.

The members of the CCGNC are Peter Jones (Chairman) and Anthony Griffin.

SAFETY, HEALTH, ENVIRONMENTAL AND COMMUNITY COMMITTEE

The Safety, Health, Environmental and Community Committee ("SHECC") is appointed by the Board to assist with environmental, health and safety legislation, rules and regulations in the jurisdictions in which the Company operates. In addition, the SHECC is responsible for developing the Company's policies, programs, measures and systems relating to employees, safety, health, environment, and community.

The members of the SHECC are Anthony Griffin (Chairman) and Peter Jones

2012 CORPORATE GOVERNANCE INITIATIVES

- Abraham Jonker was appointed as the Chairman of the Board at the 2012 AGM.
- Established formal continuing education program to ensure that the directors are informed about issues affecting Mandalay Resources' business, the industry and governance and other related issues. The program includes:
 - i. Presentations by senior management on matters such as safety, operations, exploration and business development
 - ii. Presentations by external advisors and experts on matters such as corporate governance developments
 - iii. Site visits every one to two years
- Developing an orientation program for the Company's new directors which will include:
 - i. Written information about duties and responsibilities of directors in the form of a Board charter
 - ii. Latest presentations on business and operations of the Company
 - iii. Documents from recent Board meetings
 - iv. Recent filings and financial information
 - v. Governance documents including policies and charters
 - vi. Opportunities for meetings and discussion with senior management and other directors.
- Established Special Committee of the Board that consisted of independent directors of the Company in order to consider and approve the warrant exchange offer and review the formal valuation prepared by Haywood Securities.
- Continued the practice of annual evaluation of the performance and effectiveness of the Board and the Committees with a self-evaluation.
- Initiated a comprehensive review and update, as part of the annual review process, of Mandalay Resources' policies, charters and position descriptions.
- The Board and the CCGNC are considering the implementation of a director's skills matrix.

MANDALAY RESOURCES' GOAL IS TO BUILD A LONG-LIVED, VALUES-BASED AND VALUE-CREATING ORGANIZATION THAT IS FOUNDED ON:

- Safe, efficient, and environmentally acceptable work practices.
- Technical excellence.
- Continuous improvement.
- Effective business, government, and community relationships.
- Fiscal responsibility.

All of which are locally managed at the point of impact and coordinated across the Company for maximum effect.

WE ARE SUCCESSFUL WHEN:

OUR EMPLOYEES

live and work safely and experience the personal satisfaction that comes with high performance and recognition.

OUR SHAREHOLDERS

realize a superior total return on their investment and support our corporate values.

THE COMMUNITIES

in which we operate value our presence.

OUR ENVIRONMENTAL

impact is minimized and causes no permanent harm.

WE ARE MEETING OUR COMMITMENTS TO ALL OUR BUSINESS PARTNERS:

governments, suppliers, contractors, customers, and communities.

During 2013, the Company will be developing a set of measurements and feedback surveys that will make transparent the degree to which these success factors are in place and working for us.

BOARD OF DIRECTORS

ABRAHAM JONKER – Chairman and Director

Mr. Jonker was appointed as the President and CEO of Canada Coal Inc. on February 23, 2012. Previously, Mr. Jonker was the Chief Financial Officer of Western Coal Corp. until its acquisition by Walter Energy on April 1, 2011. He is a director of Canada Coal Inc., Firestone Diamonds Limited and EastCoal Inc. Mr. Jonker is a Chartered Accountant (South Africa, England and Wales) and holds a Masters Degree in South African and International Tax from the Rand Afrikaans University. Mr. Jonker has over 17 years of extensive accounting and corporate finance experience, mostly in the mining industry.

BRADFORD A. MILLS – Director and Chief Executive Officer

Mr. Mills has over 30 years of experience in the resource industry and currently holds a directorship with West African Minerals, an iron ore exploration company focused on Africa. He formerly held the position of CEO of Lonmin Plc, the world's number three platinum and PGM producer. Prior to that, Mr. Mills served as president of the BHP Billiton's copper group.

SANJAY SWARUP – Director and Chief Financial Officer

Mr. Swarup is a Chartered Accountant from the UK and India. He holds a Masters of Business Administration from Cranfield School of Management (Bedfordshire, UK) and has over 20 years of experience in finance and accounting, with 10 of those years in the resource industry. Mr. Swarup has worked with a range of businesses that include multinationals such as BP plc and Lonmin plc.

ROBERT DOYLE – Director

Mr. Doyle has over 30 years of experience in all facets of international resource exploration, development and production. Mr. Doyle is a director of Detour Gold Corporation, Golden Star Resources Ltd., NXA Inc. and Gran Colombia Gold. He was Chief Executive Officer of Medoro Resources Limited until October, 2009, and was Executive Vice President prior to that. From 2005 to 2007, Mr. Doyle was the Executive Vice President of Pacific Stratus Energy Corp. Previously, Mr. Doyle was Chief Financial Officer of a number of companies including Pacific Stratus, Coalcorp Mining Inc., Bolivar Gold Corp. and HMZ Metals Inc. In addition, he has held a number of financial and executive positions with Falconbridge Limited and LAC Minerals. He is a designated Chartered Accountant and Chartered Director.

ANTHONY GRIFFIN – Director

Mr. Griffin is a Partner at West Face Capital Inc., a Toronto-based investment manager. Prior to joining West Face Capital Inc., Mr. Griffin was a Managing Director of Amaranth Advisors Canada (ULC). Mr. Griffin holds a Bachelor of Commerce from the University of British Columbia.

PETER R. JONES – Director

Mr. Jones is a mining executive and Professional Engineer with 40 years of experience in senior operational and project positions at coal, gold, base metal and potash mines. He has also consulted in many countries. In August, 2011, Mr. Jones was appointed as the Chairman and interim CEO of Augyva Mining Resources. Previously, he was CEO of Hudson Bay Mining and Smelting Co., Limited (HBMS) for Anglo American, President and CEO of HudBay Minerals and Chairman and CEO of Adanac Molybdenum. He is a past Chairman of the Mining Association of Canada and in 2006 was named Prairie Region Entrepreneur of the Year by Ernst & Young. Mr. Jones is an advocate of corporate governance and graduated from the Camborne School of Mines, UK., and the Banff School of Advanced Management.

MANAGEMENT

BRADFORD A. MILLS – Chief Executive Officer and Director

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SANJAY SWARUP – Chief Financial Officer and Director

See page 23

MARK SANDER – President

Dr. Sander holds a PhD in Ore Deposits and Exploration from Stanford University (USA) and has been active in the mineral resource industry for 25 years in operations, strategy and exploration, with a focus on copper, gold and platinum projects. Prior to joining Mandalay Resources, Dr. Sander's industry experience included serving as Vice President of Strategy and Planning for BHP Billiton's copper group.

DOMINIC DUFFY – Chief Operating Officer

Mr. Duffy holds a BEng in Mining Engineering from the University of New South Wales (Sydney, Australia). He has extensive technical and operational management experience, having worked at numerous operations throughout Australia and Latin America. Prior to joining Mandalay Resources, Mr. Duffy most recently worked for Coeur d'Alene Mines and Hecla Mining Company in South America.

BELINDA LABATTE – Corporate Secretary

Belinda Labatte holds a Masters of Business Administration degree from the Rotman School of Management, University of Toronto and has a Chartered Financial Analyst designation. Ms. Labatte has over 10 years of experience in capital markets and is a former investment banker. She has worked with a diverse range of resource and non-resource based companies on investor relations and business development initiatives.

**CORPORATE
INFORMATION**

BOARD OF DIRECTORS

ABRAHAM JONKER ⁽¹⁾
Chairman

BRADFORD A. MILLS
Chief Executive Officer and Director

SANJAY SWARUP
Chief Financial Officer and Director

ROBERT DOYLE ⁽¹⁾
Director

PETER R. JONES ⁽²⁾
Director

ANTHONY GRIFFIN ⁽¹⁾⁽²⁾
Director

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Compensation, Corporate Governance and Nominating Committee and Safety, Health, Environmental and Community Committee

OFFICERS AND MANAGEMENT

BRADFORD A. MILLS
Chief Executive Officer and Director

MARK SANDER
President

SANJAY SWARUP
Chief Financial Officer and Director

DOMINIC DUFFY
Chief Operating Officer

BELINDA LABATTE
Corporate Secretary

JOHN HETRICK
VP, Human Resources

TONI STRECYNSKI
VP, Processing and Metallurgy

ANDRE BOOYZEN
GM, Costerfield

KALENCI FLORES
GM, Cerro Bayo

RON LUETHE
Country Manager, Chile

CHRIS GREGORY
GM, Corporate Development and Exploration, Australia

STOCK EXCHANGE LISTING AND SYMBOLS

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol MND.

SHAREHOLDERS MEETING

The Annual General and Special Meeting of Shareholders will be held at 11:00 am on Wednesday, May 15, 2013 in the Library Room, The Fairmont Royal York Hotel, Toronto ON, Canada.

INVESTOR RELATIONS

Institutional or individual investors seeking information about the Company are invited to contact:

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Deloitte LLP

TRANSFER AGENT

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MANDALAY RESOURCES

DELIVERING GROWTH
DISCOVERING VALUE

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