Condensed consolidated interim financial statements of

Mandalay Resources Corporation

March 31, 2014
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, “Continuous Disclosure Obligations”, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

Mandalay Resources Corporation

March 31, 2014

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Mandalay Resources Corporation

Condensed consolidated interim statements of income and comprehensive income
three months ended March 31, 2014 and 2013

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended March 31, 2014	2013
	$	$
Revenues	**38,091,844**	41,624,688
Cost of operations		
Cost of sales excluding depletion and depreciation (Note 13)	**20,375,530**	19,993,023
Depletion and depreciation	**7,284,181**	5,846,599
	27,659,711	25,839,622
Income from mine operations	**10,432,133**	15,785,066
Expenses		
Administration expense	**1,415,813**	1,644,724
Business development costs	**273,835**	148,859
Share-based compensation (Note 12 (b),(c) and (d))	**356,835**	478,100
Loss (gain) on disposal of property, plant and equipment	**5,566**	156,398
Write-off of exploration and evaluation	**294,362**	-
	2,346,411	2,428,081
Income from operations	**8,085,722**	13,356,985
Other income (expenses)		
Finance costs (Note 14)	**(234,635)**	(203,926)
(Loss) gain on derivative financial instruments (Note 15)	**104,743**	(169,470)
Interest and other income	**34,831**	99,391
Foreign exchange gain (loss)	**(52,143)**	23,036
	(147,204)	(250,969)
Income (loss) before income taxes	**7,938,518**	13,106,016
Income tax expense (recovery) (Note 17)		
Current	**642,127**	2,262,603
Deferred	**1,552,318**	(60,701)
	2,194,445	2,201,902
Net income (loss) for the period	**5,744,073**	10,904,114
Other comprehensive income (loss)		
Item that may subsequently be reclassified to income (loss)		
Foreign currency translation	**1,574,376**	(239,531)
Comprehensive income for the period	**7,318,449**	10,664,583
Income (loss) per share (Note 18)		
Basic	**0.02**	0.03
Diluted	**0.02**	0.03
Weighted average number of common shares outstanding (Note 18)		
Basic	**331,685,704**	324,575,292
Diluted	**346,305,569**	359,900,847

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position
as at March 31, 2014 and December 31, 2013

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

	March 31, 2014	December 31, 2013
	$	$
Assets		
Current assets		
Cash and cash equivalents	**19,995,046**	33,465,116
Trade and other receivables (Note 5)	**28,052,807**	20,971,866
Inventories (Note 6)	**18,904,809**	16,986,876
Prepaid expenses and other	**1,590,396**	636,953
	68,543,058	72,060,811
Non-current assets		
Reclamation and other deposits	**2,339,877**	2,252,579
Other receivables (Note 5)	**363,006**	359,383
Property, plant and equipment (Note 7)	**134,098,765**	113,757,705
Intangible assets (Note 8)	**623,479**	748,180
Deferred tax asset (Note 17)	**8,661,072**	9,985,278
	146,086,199	127,103,125
	214,629,257	199,163,936
Liabilities		
Current liabilities		
Trade and other payables (Note 9)	**12,389,146**	14,140,662
Current income tax liabilities	**7,990,470**	7,348,343
Provisions (Note 11)	**2,432,838**	2,570,770
Derivative financial instruments (Note 15)	**539,072**	794,112
	23,351,526	24,853,887
Non-current liabilities		
Reclamation and site closure costs	**17,580,066**	17,421,231
Provisions (Note 11)	**3,412,128**	3,307,487
	20,992,194	20,728,718
	44,343,720	45,582,605
Equity		
Share Capital (Note12)	**101,578,464**	89,779,961
Share option reserve (Note12)	**8,667,595**	8,438,580
Warrants reserve (Note12)	**804,418**	1,088,728
Foreign currency translation reserve	**(5,011,111)**	(6,585,487)
Retained earnings	**64,246,171**	60,859,549
	170,285,537	153,581,331
	214,629,257	199,163,936

Approved and authorized for issue by the Board on May 6, 2014.

(Signed) Bradford A. Mills
Bradford A. Mills, Director

(Signed) Robert Doyle
Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity
three months ended March 31, 2014 and 2013
(Expressed in U.S. dollars)
(Unaudited)

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
Balance, December 31, 2013	322,779,853	89,779,961	8,438,580	1,088,728	(6,585,487)	60,859,549	153,581,331
Stock options exercised (Note 12 (b))	299,000	197,318	(82,129)	-	-	-	115,189
Share-based compensation (Note 12 (c))	-	-	311,144	-	-	-	311,144
Warrants exercised (Note 12 (e))	5,100,000	2,422,033	-	(284,310)	-	-	2,137,723
Normal course issuer bid (Note 12(f))	(30,600)	(9,008)	-	-	-	(13,439)	(22,447)
Dividends paid (Note 12 (g))	-	-	-	-	-	(2,344,012)	(2,344,012)
Challacollo acquisition (Note 4)	12,000,000	9,188,160	-	-	-	-	9,188,160
Total comprehensive (loss) income for the period	-	-	-	-	1,574,376	5,744,073	7,318,449
Balance, March 31, 2014	**340,148,253**	**101,578,464**	**8,667,595**	**804,418**	**(5,011,111)**	**64,246,171**	**170,285,537**

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
		$	$	$	$	$	$
Balance, December 31, 2012	322,187,153	88,634,701	7,332,054	1,251,752	2,167,685	43,692,706	143,078,897
Stock options exercised (Note 12 (b))	682,500	370,430	(184,791)	-	-	-	**185,639**
Share-based compensation (Note 12 (c))	-	-	504,139	-	-	-	**504,139**
Warrants exercised (Note 12 (e))	2,600,000	1,390,856	-	(163,024)	-	-	**1,227,832**
Amendment of stock option plan (Note 12 (b))	-	-	(197,356)	-	-	-	**(197,356)**
Dividends paid (Note 12 (g))	-	-	-	-	-	(3,197,278)	**(3,197,278)**
Total comprehensive (loss) income for the period	-	-	-	-	(239,531)	10,904,114	**10,664,583**
Balance, March 31, 2013	325,469,653	90,395,987	7,454,046	1,088,728	1,928,154	51,399,542	**152,266,457**

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows
three months ended March 31, 2014 and 2013
(Expressed in U.S. dollars)
(Unaudited)

	Three months ended	
		March 31,
	2014	2013
	$	$
Operating activities		
Net income (loss) for the period	**5,744,073**	10,904,114
Adjustments to reconcile (income) loss to net cash generated by operating activities		
Amortization of intangible assets	**124,701**	124,701
Depletion and depreciation	**7,291,376**	5,854,476
Share-based compensation	**356,836**	478,100
Loss (gain) on disposal of property, plant and equipment	**5,566**	156,398
Write-off of exploration and evaluation	**294,362**	-
Finance cost	**234,635**	203,926
Loss (gain) on derivative financial instruments	**(240,622)**	169,470
Interest and other income	**(34,831)**	(99,391)
Foreign exchange (gain) loss	**106,692**	(284,502)
Income tax expense (recovery)	**2,194,445**	(60,701)
Change in non-cash operating working capital items		
Trade and other receivables	**(10,646,566)**	8,163,018
Inventories	**(1,650,592)**	(3,377,137)
Prepaid expenses and other	**(956,873)**	(697,956)
Trade and other payables	**2,156,589**	2,795,344
Provisions	**369,879**	253,426
Reclamation and site closure costs	**-**	-
Cash generated from (used in) operations	**5,349,670**	24,583,286
Income taxes paid	**-**	-
Interest and other income received	**34,831**	99,391
Interest paid	**(36,393)**	(40,633)
Net cash flows from operating activities	**5,348,108**	24,642,044
Investing activities		
Payment/(recovery) for reclamation deposit and others	**(29,107)**	118,307
Expenditure for property, plant and equipment	**(10,422,087)**	(12,224,076)
Acquisition of Challacollo	**(7,501,000)**	-
Net cash flows from investing activities	**(17,952,194)**	(12,105,769)
Financing activities		
Issuance of common shares for cash	**2,252,913**	1,413,471
Purchase of common shares for cancellation	**(22,446)**	-
Payment for settlement of financing warrants	**-**	(1,339,340)
Dividends paid	**(2,344,013)**	(3,197,278)
Net cash flows from financing activities	**(113,546)**	(3,123,147)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**(752,438)**	(36,405)
Increase (decrease) in cash and cash equivalents	**(13,470,070)**	9,376,723
Cash and cash equivalents, beginning of period	**33,465,116**	17,264,446
Cash and cash equivalents, end of period	**19,995,046**	26,641,169
Cash and cash equivalents are comprised of		
Cash	**19,995,046**	12,184,169
Cash equivalents	**-**	14,457,000
	19,995,046	26,641,169

See accompanying notes to the condensed consolidated interim financial statements.

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, 2013.

3. Summary of significant accounting policies

These consolidated financial statements, including comparatives, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective for the quarter ended March 31, 2014. 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, 2013.

New accounting pronouncement

(a) *IFRS effective for annual periods beginning on or after January 1, 2014*

Effective January 1, 2014, 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.

3. Summary of significant accounting policies (continued)

New accounting pronouncement (continued)

(a) IFRS effective for annual periods beginning on or after January 1, 2014 (continued)

- 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.

(i) 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. Acquisition of Minera Silver Standard Chile S.A.

On February 6, 2014, the Company closed its acquisition of 100% of Minera Silver Standard Chile S.A (“MSSC”) from Silver Standard Resources Inc. (SSR). MSSC owns a silver exploration property in Challacollo, Chile. The Company acquired MSSC in exchange for the following consideration:

- US$7.5 million in cash;
- 12 million common shares of the Company;
- 5 million common shares of the Company to be issued to SSR at the end of the quarter in which commercial production commences at the Challacollo project (the “Deferred Payment Share”);
- an aggregate cash payment equal to the equivalent of 240,000 ounces of silver, payable in eight quarterly installments based on the average silver price for such quarter (i.e., cash payment equal to the equivalent of 30,000 ounces of silver for each quarter), beginning with the quarter immediately following the quarter in which commencement of commercial production occurs (the “Silver Delivery Consideration”); and
- a 2% Net Smelter Returns royalty on silver sold from the Project in excess of 36 million ounces, with a cap/buyout of US$5 million.

The Company has pledged the shares of MSSC and all of the present and future assets of MSSC are provided to SSR as security for its remaining payment obligations in respect of the transaction.

The Company determined that MSSC was not a business in accordance with IFRS 3, Business combinations, and therefore the Company accounted for the acquisition as an asset acquisition rather than a business combination. The Deferred Payment Share and the Silver Delivery Consideration are considered to be contingent liabilities. These contingent liabilities have not been included in the purchase consideration, and shall only be recognized if and when the contingency in question is satisfied.

(Expressed in U.S. dollars)

4. Acquisition of Minera Silver Standard Chile S.A. (continued)

The following table summarizes the fair value of the consideration transferred to SSR and the fair value of MSSC's net assets acquired:

Particulars	Amount $
Initial cash payout	7,501,000
Initial shares issued (12 million)	9,188,160
Purchase consideration	**16,689,160**
Net assets acquired	594,513
Property, plant and equipment including goodwill	16,094,647
Net identifiable assets	**16,689,160**

5. Trade and other receivables

Trade and other receivables are comprised of the following:

	March 31, 2014	December 31, 2013
	$	$
Trade receivables	**23,065,450**	16,706,381
Mark to market adjustment	**65,303**	-
VAT and other indirect tax receivables	**4,930,867**	4,323,283
Other receivables	**354,193**	301,585
	28,415,813	21,331,249
Less: non current portion	**363,006**	359,383
Current portion	**28,052,807**	**20,971,866**

The allowance for doubtful accounts was $Nil at March 31, 2014 and $Nil for December 31, 2013.

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.

(Expressed in U.S. dollars)

6. Inventories

	March 31, 2014	December 31, 2013
	$	$
Finished goods	**8,134,880**	6,260,439
Work-in-progress and stockpiled ore	**1,662,959**	1,371,018
Consumables	**9,106,970**	9,355,419
	18,904,809	16,986,876

The amount of inventories recognized in cost of sales for three months ended March 31, 2014 is $27,659,711 (2013 - $25,839,622).

There were no inventory write-downs or reversals of write-downs during the three months ended March 31, 2014 or 2013.

(Expressed in U.S. dollars)

7. Property, plant and equipment

Property, plant and equipment consist of the following:

	Mining interests			Plant and equipment			Exploration and evaluation			Total
	Costerfield	Cerro Bayo	Others	Costerfield	Cerro Bayo	Others	Costerfield	Cerro Bayo	Others	
	$	$	$	$	$	$	$	$	$	$
Cost										
As at January 1, 2013	29,712,600	33,408,082	-	25,101,731	29,027,462	592,661	7,365,289	3,990,105	13,965,617	143,163,547
Additions	10,150,474	10,585,047	-	7,608,309	6,291,208	4,255	4,764,873	2,517,634	1,046,766	42,968,566
Disposals	-	-	-	(2,244,777)	(846,554)	-	-	-	-	(3,091,331)
Reclassification to mining interest	5,664,095	-	-	-	-	-	(5,664,095)	-	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	(78,805)	(719,535)	-	(798,340)
Foreign exchange	(3,658,175)	-	-	(4,017,568)	-	(10,795)	(1,222,814)	-	(648,446)	(9,557,798)
As at December 31, 2013	41,868,994	43,993,129	-	26,447,695	34,472,116	586,121	5,164,448	5,788,204	14,363,937	172,684,644
Acquisition of Challacollo	-	-	-	-	-	-	-	-	16,094,647	16,094,647
Additions	5,243,672	1,670,968	-	12,656	1,775,214	39,649	1,065,716	723,860	506,223	11,037,958
Disposals	-	-	-	(24,696)	-	(379,443)	-	-	-	(404,139)
Reclassification to mining interest	2,128,778	2,034,149	-		-	-	(2,128,778)	(2,034,149)	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	(294,362)	-	-	(294,362)
Foreign exchange	1,269,423	-	-	1,061,611	-	(5,905)	348,545	-	(354,696)	2,318,978
As at March 31, 2014	**50,510,867**	**47,698,246**	**-**	**27,497,266**	**36,247,330**	**240,422**	**4,155,569**	**4,477,915**	**30,610,111**	**201,437,726**
Accumulated depreciation										
As at January 1, 2013	8,046,258	8,353,290	-	5,731,166	11,988,649	99,012	-	-	-	34,218,375
Expense	10,434,881	10,701,249	-	2,832,383	5,774,426	46,265	-	-	-	29,789,204
Disposals	-	-	-	(1,736,774)	(835,490)	-	-	-	-	(2,572,264)
Foreign exchange	(1,515,847)	-	-	(986,022)	-	(6,507)	-	-	-	(2,508,376)
As at December 31, 2013	16,965,292	19,054,539	-	5,840,753	16,927,585	138,770	-	-	-	58,926,939
Acquisition of Challacollo	-	-	-	-	-	-	-	-	-	-
Expense	3,471,289	2,569,739	-	(86,254)	1,562,130	10,896	-	-	-	7,527,800
Disposals	-	-	-	(19,129)	-	-	-	-	-	(19,129)
Foreign exchange	654,541	-	-	252,951	-	(4,141)	-	-	-	903,351
As at March 31, 2014	**21,091,122**	**21,624,278**	**-**	**5,988,321**	**18,489,715**	**145,525**	**-**	**-**	**-**	**67,338,961**
Carrying value										
As at December 31, 2013	24,903,702	24,938,590	-	20,606,942	17,544,531	447,351	5,164,448	5,788,204	14,363,937	113,757,705
As at March 31, 2014	**29,419,745**	**26,073,968**	**-**	**21,508,945**	**17,757,615**	**94,897**	**4,155,569**	**4,477,915**	**30,610,111**	**134,098,765**

For three months ended March 31, 2014, Cerro Bayo’s plant and equipment depreciation of $188,447 and at Costerfield $47,983 were capitalized in mining interest (2013 –at Cerro Bayo $200,180).

(Expressed in U.S. dollars)

8. Intangible asset

In September 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 March 31, 2014 is $623,479 (December 31, 2013 - $748,180). Amortization expense for the three months ended March 31, 2014 of $124,701 (2013 - $124,701) is recorded as part of cost of sales.

9. Trades and other payables

	March 31, 2014	December 31, 2013
	$	$
Trade payables	**5,543,922**	4,311,337
Accrued liabilities	**4,831,525**	4,608,408
Cash election option liability	**129,807**	86,658
Mark to market adjustment	**1,319,291**	4,544,083
Payroll and other taxes payable	**564,601**	590,176
	12,389,146	14,140,662

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.

10. 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 March 31, 2014, the Company had not drawn down any portion of the Corporate Facility (December 31, 2013 - $Nil).

11. Provisions

	Employee benefit (i)	Severence payment (ii)	Total
	$	$	$
Balance, December 31, 2013	2,884,132	2,994,125	5,878,257
Additions	558,574	239,603	798,177
Amounts paid	(628,339)	(74,320)	(702,659)
Foreign exchange	13,533	(142,342)	(128,809)
Balance, March 31, 2014	2,827,900	3,017,066	5,844,966
Less: current portion	2,432,838	-	2,432,838
Long-term portion	395,062	3,017,066	3,412,128

(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.

12. Share capital

At March 31, 2014, the Company had unlimited authorized common shares without par value and 340,148,253 common shares outstanding (December 31, 2013 - 322,779,853 common shares). All outstanding shares are fully paid.

(a) Shares issued

For the three months ended March 31, 2014, the Company issued its common shares upon exercise of share options and warrants by their holders (Note 12 (b) and (e)). In addition 12 million common shares of the company were issued on acquisition of MSSC (Note 4).

(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 in 2013. Subsequently, the liability is re-measured at fair value. As at March 31, 2014, the liability is $129,807 (2013-$86,658). The Company recognized a fair value measurement gain/(loss) of $3,064 for the three months ended March 31, 2014 (2013 - $249,901) which is included in share-based compensation.

During the three months ended March 31, 2014, the Company paid $Nil upon exercise of Nil stock options under the cash election option. As at March 31, 2014, 2,530,000 stock options with the cash election option are outstanding.

(Expressed in U.S. dollars)

12. Share capital (continued)

(b) Stock options (continued)

	Number of options	Weighted average exercise price
		C$
Balance, January 1, 2013	13,630,000	0.57
Granted	4,287,500	1.13
Forfeited	(297,500)	0.54
Expired	(100,000)	0.50
Exercised - equity issuance	(1,022,500)	0.32
Exercised - cash election	(425,000)	0.56
Balance, December 31, 2013	16,072,500	0.73
Granted	4,435,000	0.98
Forfeited	(325,000)	1.03
Exercised - equity issuance	(299,000)	0.43
Balance, March 31, 2014	**19,883,500**	**0.79**

The following table summarizes information about the stock options outstanding at March 31, 2014:

Options outstanding			Options exercisable	
Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
		C$		C$
450,000	2.26	0.76	450,000	0.76
370,000	2.03	0.58	370,000	0.58
3,250,000	1.95	0.56	3,250,000	0.56
300,000	1.52	0.33	300,000	0.33
50,000	1.44	0.31	50,000	0.31
1,053,500	1.41	0.26	1,053,500	0.26
1,550,000	0.69	0.26	1,550,000	0.26
490,000	2.67	0.70	490,000	0.70
3,797,500	2.94	0.83	-	0.83
4,137,500	3.97	1.13	-	1.13
4,435,000	4.98	0.98	-	0.98
19,883,500	3.13	0.79	7,513,500	0.47

(Expressed in U.S. dollars)

12. Share capital (continued)

(c) Share-based compensation

For the three months ended March 31, 2014, the Company recorded $356,836 (2013 - $478,100) 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$0.98 (2013 - C$1.13) for the three ended March 31, 2014, and was calculated using the following weighted average assumption. Expected stock price volatility is based on the Company's historical share price volatility.

	Three months ended March 31,	
	2014	2013
Risk free interest rate	**1.06%**	1.13%
Expected dividend yield	**3.43%**	3.64%
Expected option life (years)	**5.00**	5.00
Expected stock price volatility	**63%**	81%
Expected annual forfeiture rate	**5%**	5%

(d) Restricted Share Unit Awards

During the year ended December 31, 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 March 31, 2014 is as follows:

	Number of RSU awards
Balance, December 31, 2013	306,560
Granted	2,570
Outstanding at March 31, 2014	309,130

For the three months ended March 31, 2014, the company recorded $47,783 (2013 - $Nil) as share based compensation relating to RSUs.

(Expressed in U.S. dollars)

12. Share capital (continued)

(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, 2013	23,600,000	0.37
Exercised	(2,600,000)	0.47
Balance, December 31, 2013	21,000,000	0.36
Exercised	(5,100,000)	0.47
Balance, March 31, 2014	**15,900,000**	**0.32**

The following table summarizes information about outstanding and exercisable share purchase warrants at March 31, 2014:

Number of warrants	Exercise price	Expiry date
	C$	
1,250,000	0.47	November 30, 2014
14,650,000	0.31	November 30, 2014
15,900,000	**0.32**	

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

The following table summarizes the NCIB transactions during three months ended March 31, 2014 and year ended December 31, 2013. Purchases will be made at the discretion of the Company and the shares acquired under the NCIB will be cancelled upon purchase.

	Number of shares repurchased	Average price of repurchase	Cost of repurchase
		C$	C$
2014			
2013 NCIB	30,600	C$ 0.77	23,868
	30,600		23,868
2013			
2013 NCIB	694,700	C$0.78	545,664
2012 NCIB	2,335,100	C$ 0.81	1,906,512
	3,029,800		2,452,176

(Expressed in U.S. dollars)

12. Share capital (continued)

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

	Life of plan From	Life of plan To	Maximum number of securities to be purchased over life of plan	Maximum number of securities to be pruchased on a daily basis
2013 NCIB	October 17, 2013	October 16, 2014	16,185,328 common shares	44,990 common shares
2012 NCIB	October 17, 2012	October 16, 2013	15,856,786 common shares	57,089 common shares
2011 NCIB	October 17, 2011	October 16, 2012	13,501,078 common shares 1,970,965 warrants	53,433 common shares 6,084 warrants

(g) Dividends

On February 18, 2014, the Board of Directors declared a dividend in the amount of C$0.0077 per common share, based on the Company's operating results for the three month period ended December 31, 2013, payable to shareholders of record as of February 28, 2014, Total payment of $2,344,012 was made during the three months ended March 31, 2014 (2013 - $3,197,278).

13. Cost of sales

The cost of sales for the three months ended March 31, 2014 and 2013 consists of:

	Three months ended March 31, 2014	2013
	$	$
Raw materials and consumables	**8,031,721**	8,449,143
Salary and employee benefits	**8,988,085**	9,153,162
Contractors	**834,337**	835,586
Change in inventories	**(2,451,757)**	(2,655,055)
Royalty	**446,224**	219,529
Others	**4,526,920**	3,990,658
	20,375,530	19,993,023

14. Finance costs

	Three months ended March 31, 2014	2013
	$	$
Interest on borrowings, including credit facility stand-by fees	**123,534**	85,800
Accretion of reclamation and site closure costs	**111,101**	118,126
	234,635	203,926

15. Derivative financial instruments

(a) 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 months ended March 31, 2014, no financing warrants (2013 -1,647,000) were exercised with a cash settlement of $Nil (2013 - $1,339,340). As at March 31, 2014, 982,100 financing warrants (December 31, 2013 - 982,100) valued at $524,218 (December 31, 2013 - $433,985) are outstanding. The Company recorded a fair value measurement gain (loss) of ($106,832) for the three months ended March 31, 2014 (2013 - $80,431), which is reported in gain (loss) on derivative financial instruments.

(b) Currency option

On July 25, 2013 the Company's Australian subsidiary entered into 50% participating forward contracts for A$33 million (A$3 million per month) starting August 2013 and ending June 2014. These contracts allow the Company to buy, monthly for 11 months starting August 2013, A$3 million at US$1=A$1.07526 (the "contract rate"), if the Australian dollar is stronger than the contract rate, or A$1.5 million at the contract rate and A$1.5 million at the spot rate if the Australian dollar is weaker than the contract rate. The derivative financial instruments are stated at fair value with any resulting gain or loss recognized in profit or loss. The Company recorded a fair value measurement gain of $211,575 for three months ended March 31, 2014 (2013 - $Nil).

The fair value of a currency option is determined by using the option pricing model based on an exchange spot rate and expected volatility which are considered to be level 1 or level 2 inputs.

16. 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 March 31, 2014, provisional pricing feature of trade receivables, financing warrants and cash election option are measured on a recurring basis and based on Level 2 inputs.

(Expressed in U.S. dollars)

17. 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 carry forward 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 March 31, 2014, the Company recognized $1,552,318 as a deferred tax asset, which consists of $1,077,370 and $474,948 for Mandalay Australia and Cerro Bayo, respectively.

18. Income per share

As at March 31, 2014, 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 March31,	
	2014	2013
Basic weighted average number of shares outstanding	**331,685,704**	324,575,292
Effect of dilutive securities		
Stock options	**4,072,921**	7,022,991
Warrants	**10,239,184**	14,338,823
RSU	**307,759**	-
Diluted weighted average number of shares outstanding	**346,305,569**	345,937,106

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 ended March 31, 2014 of C$0.90 (three months ended March 31, 2013 - C$1.13), respectively:

	Three months ended March 31,	
	2014	2013
Stock options	**8,323,500**	-

(Expressed in U.S. dollars)

19. Segmented information

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

	Three months ended on March 31, 2014			
	Australia	Canada	Chile	Total
	$	$	$	$
Revenue	15,967,005	-	22,124,839	38,091,844
Depletion and depreciation				
(including corporate offfice depreciation)	(3,337,052)	-	(3,947,129)	(7,284,181)
Income (loss) from operations	2,784,120	(773,627)	6,075,229	8,085,722
Other income (expense), except for fair value				
adjustment on derivatve financial warrants	(202,936)	97,574	(146,585)	(251,947)
Income (loss) for underlying operations	2,581,184	(676,053)	5,928,644	7,833,775
Income for underlying operations per share				
Basic				0.02
Diluted				0.02
Fair value adjustments gain (loss)				
Currency Hedge Contract (Note 15 (b))	211,575	-	-	211,575
Financing warrants (Note 15 (a))	-	(106,832)		(106,832)
Total fair value adjustment	211,575	(106,832)	-	104,743
Net income (loss) before income tax	2,792,759	(782,885)	5,928,644	7,938,518
Current tax expense	-	-	(642,127)	(642,127)
Deferred tax recovery (expense)	(1,077,370)	-	(474,948)	(1,552,318)
Net income (loss)	1,715,389	(782,885)	4,811,569	5,744,073
Income (loss) per share				
Basic				0.02
Diluted				0.02
Cash expenditures for property, plant and equipment	6,274,061	-	4,148,026	10,422,087
Total non-current assets as at March 31,2014	62,093,112	9,901,552	74,091,535	146,086,199
Total assets as at March 31,2014	76,291,771	18,815,233	119,522,254	214,629,258
Total liabilities as at March 31,2014	9,711,515	2,421,503	32,210,702	44,343,720

(Expressed in U.S. dollars)

19. Segmented information (continued)

	Three months ended on March 31, 2013			
	Australia	Canada	Chile	Total
	$	$	$	$
Revenue	17,369,493	-	24,255,195	41,624,688
Depletion and depreciation				
(including corporate offfice depreciation)	(2,583,368)	(7,877)	(3,263,231)	(5,854,476)
Income (loss) from operations	4,117,842	(1,146,346)	10,385,489	13,356,985
Other income (expense), except for fair value				
adjustment on derivatve financial warrants	(361,468)	503,106	(223,137)	(81,499)
Income (loss) for underlying operations	3,756,374	(643,240)	10,162,352	13,275,486
Income for underlying operations per share				
Basic				0.04
Diluted				0.04
Fair value adjustments gain (loss)				
Financing warrants (Note 15 (a))	-	80,431		80,431
Cash election option (Note 12 (b))		(249,901)		(249,901)
Total fair value adjustment	-	(169,470)	-	(169,470)
Net income (loss) before income taxes	3,756,374	(812,710)	10,162,352	13,106,016
Current tax expense	-	-	(2,262,603)	(2,262,603)
Deferred tax recovery (expense)	(923,077)	-	983,778	60,701
Net income (loss)	2,833,297	(812,710)	8,883,527	10,904,114
Income (loss) per share				
Basic				0.03
Diluted				0.03
Cash expenditures for property, plant and equipment	5,378,710	-	6,845,366	12,224,076
Total non-current assets as at December 31,2013	58,413,564	10,297,546	58,392,015	127,103,125
Total assets as at December 31,2013	71,503,300	12,136,588	115,524,048	199,163,936
Total liabilities as at December 31,2013	8,241,464	2,575,077	34,766,064	45,582,605

(Expressed in U.S. dollars)

19. Segmented information (continued)

For the three months ended March 31, 2014, the Company had four customers from which it earned more than 10% of its total revenue (2013 - three). Revenue from these customers is summarized as follows:

	March 31, 2014	March 31, 2013
	$	$
Costerfield (gold and antimony)		
Customer 1	**10,111,846**	16,570,000
Customer 2	**5,855,159**	-
	15,967,005	16,570,000
Cerro bayo (silver and gold)		
Customer 1	**14,553,034**	4,547,787
Customer 2	**4,499,640**	16,062,926
	19,052,674	20,610,713
Total	**35,019,679**	37,180,713

20. Subsequent event

From April 1, 2014 to May 5, 2014

a. On April 29, 2014 the Company announced US$50 million debt financing from Gold Exchangeable Limited, an unaffiliated special purpose vehicle incorporated in Jersey (the "Issuer"). The Company intends to use the net proceeds from the financing for general corporate purposes. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited (the "Borrower"), intends to borrow the proceeds of a US$50 million bond offering from the Issuer under the terms of a loan agreement and related funding agreement (together, the "Loan Agreements") which together mirror the terms of the bonds.

   The bonds, which will have a maturity date of five years from the issue date, will be issued at par and carry a coupon of 5.875% per annum payable quarterly in arrears. The bonds will be exchangeable into ordinary shares of the NYSE Arca listed SPDR GOLD exchange tradable fund (the "GLD Shares") at an initial exchange price of US$149.99 which is a premium of 20% above the VWAP of GLD Shares on April 29, 2014 (equivalent to a gold price of approximately $1,556 per oz).

b. On May 5, 2014, the Board of Directors declared a dividend in the amount of $0.0067 per share (C$0.0074 per share), payable on May 26, 2014 to shareholders of record as of May 16, 2014.