MANDALAY RESOURCES

Management's Discussion & Analysis

For the quarter ended March 31, 2013

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and notes to the condensed consolidated interim financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended March 31, 2013, and the Company's annual information form dated March 27, 2013 (the "AIF"), as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com. The Company's reporting currency is the United States dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

This MD&A contains forward-looking statements. Please refer to "Cautionary Statement Regarding Forward Looking Statements" at the end of this MD&A for a discussion of some of the risks and uncertainties associated with forward-looking statements.

FIRST QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

In the first quarter of 2013, the Company generated revenue of $41,624,688, income from mining operations before depletion and depreciation and excluding loss on disposal of property, plant and equipment of $21,631,665 and net income of $10,904,114 ($0.03 per share). Net income is inclusive of non-cash, non-operating expense of $169,470 related to mark-to-market adjustments of financing warrants and cash election options and deferred tax recovery of $60,701. Excluding non-cash and non-operating expense of $169,470 and deferred tax recovery of $60,701, income after tax from underlying operations for the first quarter was $11,012,883 ($0.03 per share).

For comparison, in the first quarter of 2012, the Company generated revenue of $20,719,516, income from mining operations before depletion and depreciation of $7,397,803 and net loss of $8,920,644 (loss of $0.03 per share) inclusive of non-cash, non-operating expense of $11,278,163 related to mark-to-market adjustment of silver and gold put options, a silver note payable to Coeur d'Alene Mines Corporation (the "Silver Note") and deferred tax recovery of $1,518,592. Excluding the non-cash items of fair value adjustment $11,278,163 and deferred tax recovery of $1,518,592, the income from underlying operations in the first quarter of 2012 was $838,927 ($0.00 per share).

In 2012, Mandalay adopted a dividend policy that provides for a quarterly discretionary cash dividend based on financial results and the future cash requirements of the Company. On March 14, 2013, Mandalay paid its second quarterly dividend pursuant to this policy of CDN$0.01 per share ($3,197,278).

As of March 31, 2013, cash and cash equivalents of the Company were $26,641,169.

2. Operating Highlights

a. Consolidated Production and Sales Results

In the first quarter of 2013, Mandalay produced 10,635 ounces ("ozs") of gold ("Au"), 766 tonnes ("t") of antimony ("Sb") and 611,441 ozs of silver ("Ag"), representing 27,128 gold equivalent ounces ("Au Eq. ozs").

The Company sold 9,996 ozs of Au, 631,736 ozs of Ag and 755 t of Sb in the first quarter of 2013 or 26,786 Au. Eq. ozs.

Quarterly Saleable Production

Metal	Source	3 months to 31 March 2013	3 months to 31 March 2012
Gold (oz)	Costerfield	6,203	3,690
	Cerro Bayo	4,432	2,190
	Total	**10,635**	**5,880**
Antimony (t)	Costerfield	**766**	**489**
Silver (oz)	Cerro Bayo	**611,441**	**396,624**
Average quarterly prices:			
Gold US$/oz		1,630	1,694
Antimony US$/tonne		11,128	12,692
Silver US$/oz		30.03	31.78
Au Eq. (oz)[1]	Costerfield	11,432	7,356
	Cerro Bayo	15,696	9,631
	Total	**27,128**	**16,987**

[1] *Au Eq. oz produced is calculated by multiplying the saleable quantities of Au, Ag, and Sb in the quarter by the respective a verage market prices of the commodities in the quarter, adding the three amounts to get "total contained value based on market price", and then dividing that total contained value by the average market price of Au in the quarter. Average Au pr ice in the quarter is calculated as the average of the daily LME PM fixes in the quarter, with price on weekend days and holi days taken from the last business day; average Sb price in the quarter is calculated as the average of the daily average of t he high and low Rotterdam warehouse prices for all days in the quarter, with price on weekend days and holidays taken fro m the last business day; average Ag price in the quarter is calculated as the average of the daily London Broker's silver spot price for all days in the quarter, with price on weekend days and holidays taken from the last businessday.The source for al l prices is www.metalbulletin.com.*

Quarterly Sales

Metal	**Source**	**3 months to 31 March 2013**	**3 months to 31 March 2012**
Gold (oz)	Costerfield	5,881	3,384
	Cerro Bayo	4,115	1,284
	Total	**9,996**	**4,668**
Antimony (t)	Costerfield	**755**	**450**
Silver (oz)	Cerro Bayo	**631,736**	**218,060**
Average quarterly prices:			
Gold US$/oz		1,630	1,694
Antimony US$/tonne		11,128	12,692
Silver US$/oz		30.03	31.78
Au Eq. (oz)[2]	Costerfield	11,033	6,754
	Cerro Bayo	15,753	5,374
	Total	**26,786**	**12,128**

[2] Au Eq. oz sold is calculated by multiplying the sold quantities of Au, Ag, and Sb in the quarter by the respective average market prices of the commodities in the quarter, adding the three amounts to get a "total contained value based on market price", and then dividing that total contained value by the average market price of Au in the quarter. Au Eq. values for 2012 have been re-calculated according to the above reporting policy. The source for all prices is www.metalbulletin.com.

b. Costerfield Gold-Antimony mine, Victoria, Australia

i. *Production* — Saleable gold production for the first quarter of 2013 was 6,203 ozs versus 5,907 ozs in the previous quarter and 3,690 ozs in the first quarter of 2012. Saleable antimony production for the first quarter of 2013 was 766 t versus 785 t in the previous quarter and 489 t in the first quarter of 2012. The operational improvements in the mine and plant initiated in the fourth quarter of 2011, and further refined since then, have helped Costerfield achieve greater tonnages and plant throughput in the current quarter versus the comparable quarter in the prior year. Higher mine and mill grades achieved and gold produced in gravity concentrate has further contributed to strong production for the quarter.

ii. *Operating Costs* — Cash cost per oz of gold equivalent produced in the first quarter of 2013 was $967 versus $966 in the previous quarter and $1,301 in the first quarter of 2012. Cash cost per oz in the first quarter of 2013 was lower than in same quarter of previous year, principally due to the greater tonnes of high grade ore mined and processed and the consequent increase in metal volumes produced.

c. Cerro Bayo Silver-Gold mine, Aysen, Chile

i. *Production* — In the first quarter of 2013, Cerro Bayo produced 611,441 ozs of saleable silver and 4,432 ozs of saleable gold versus 895,222 ozs of silver and 5,020 ozs of gold in the previous quarter and 396,624 ozs of silver and 2,190 ozs of gold in the first quarter of 2012. Cerro Bayo achieved greater production in the first quarter of 2013 relative to the comparable quarter of 2012 as a result of the successful completion of the mine tonnage ramp-up plan in the fourth quarter of 2012. As expected, Cerro Bayo delivered lower production in the current quarter than in the prior quarter because plant operating time was restricted due to the installation and commissioning of flotation automation equipment that is designed to improve recoveries of both gold and silver. As a part of the commissioning program for this new equipment, lower grade ore was fed through the plant which resulted in lower production. The Company expects ore grades to improve, along with recoveries, in the next three quarters.

ii. *Operating Costs* —Cash cost per saleable ounce of silver produced in concentrate net of gold credits was $8.96/oz in the first quarter of 2013 versus $5.17/oz in the previous quarter and $11.45/oz in the first quarter of 2012. Cash cost per oz was higher compared to prior quarter due to the combined impacts of higher processing costs, lower metal produced for reasons mentioned above and reduced gold credits arising from lower gold price. Cost per oz in the first quarter of 2013 was significantly lower than in the same quarter of 2012 as a result of successful ramp-up of production completed in 2012.

3. Exploration

a. **Cerro Bayo**

Mandalay continued drilling at Cerro Bayo with five diamond core rigs, completing 6,834 m in the first quarter of 2013. At Cerro Bayo, the Company has expanded mineral resources in the Coyita vein and converted them to mineral reserves, adding a planned sixth mine to the current three producing and two planned mines on the property. On March 6, 2013 the Company announced its increased mineral reserves and resource estimates for year ended 2012 (see press release dated March 6, 2013) and filed the supporting Independent Technical Report on www.sedar.com on March 28, 2013.

b. **Costerfield**

Mandalay continued drilling at Costerfield with three to four diamond core rigs, completing 4,833 m in the first quarter of 2013. At Costerfield, the Company significantly expanded mineral resources on the N-lode and Cuffley lode during 2012, with further expansion anticipated in 2013. The wide-spaced drilling program has shifted from focusing on increasing N-lode resources in the second half of 2012 to focusing on increasing Cuffley lode resources in the first half of 2013. On March 6, 2013 the Company announced its increased mineral reserves and resource estimates for year ended 2012 (see press release dated March 6, 2013) and filed the supporting Independent Technical Report on www.sedar.com on March 28, 2013.

c. **La Quebrada, Chile**

Preliminary engineering studies continued at La Quebrada.

1.0 DATE

This MD&A is dated as of May 14, 2013.

1.1 SUBSEQUENT EVENTS

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

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

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

The Company is a Toronto-based mining company whose business is to discover, develop and produce mineral commodities. Its current emphasis is on gold, silver, antimony and copper in Australia and Chile. The Company's business plan is to identify and acquire undervalued mineral assets at all stages of the value chain from exploration through to production. The Company uses its strong technical expertise and understanding of value creation to systematically increase the value of its assets through a disciplined approach of exploration, mining and processing optimization and operational efficiency. The Company's current producing assets are its Costerfield gold-antimony mine in Victoria, Australia and its Cerro Bayo silver-gold mine in Patagonia, Chile. Its exploration assets include the La Quebrada copper–silver exploration project near La Serena, Chile and district targets surrounding the Costerfield and Cerro Bayo mines.

Costerfield

Costerfield is a 100%-owned gold–antimony mine located in the state of Victoria, Australia that was purchased by the Company in 2009. In the first quarter of 2013 the mine delivered 25,865 of ore with record mined grades of 9.08g/t gold and 4.80% antimony. Capital development rates were somewhat impacted by difficult ground conditions associated to mining through King Cobra fault zone.

Cerro Bayo

Cerro Bayo is a 100%-owned silver–gold mine located in the Aysen Province of southern Chile, purchased by the Company in 2010. Mining operations were restarted in the fall of 2010 and milling operations were restarted in the first quarter of 2011. The mine completed its planned ramp-up in the fourth quarter of 2012, while processing throughput was curtailed modestly in the first quarter due to the planned installation of flotation automation equipment.

1.3 SELECTED QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended March 31, 2013, and March 31, 2012:

	Three months ended March 31, 2013 $	Three months ended March 31, 2012 $
Revenue	41,624,688	20,719,516
Cost of sales	19,993,023	13,321,713
Income from mine operations before depreciation and depletion and loss on disposal of property, plant and equipment	21,631,665	7,397,803
Depreciation and depletion	5,846,599	4,063,613
(Gain) Loss on disposal of property, plant and equipment	156,398	-
Income from mine operations	15,628,668	3,334,190
Administration	1,644,724	1,271,795
Business development costs	148,859	-
EBITDA	19,838,082	6,126,008
Finance costs, fx and others/(income)*	729,069	12,501,631
Income/(loss) before tax	13,106,016	(10,439,236)
Current tax expense	2,262,603	-
Deferred tax expense (recovery)	(60,701)	(1,518,592)
Net Income/(loss) after tax	10,904,114	(8,920,644)
Total assets	196,590,632	136,631,567
Total liabilities	44,324,175	46,072,087
Income per share	0.03	(0.03)

*Others include such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation and share based compensation.

During the three month period ended March 31, 2013, the Company determined that an adjustment was required to the amounts recorded as administrative expenses for its two operating mines. As such, certain items previously recorded as administrative expenses are now recorded within cost of operations. 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.

Dividend

On November 7, 2012, the Board of Directors declared an initial quarterly dividend of CDN $0.01 per share to shareholders of record as of November 20, 2012, payable on December 5, 2012. Total payment of $3,200,544 was made during the three months period ended December 31, 2012.

On February 20, 2013, the Board of Directors declared a quarterly dividend in the amount of CDN $0.01 per share payable to shareholders of record as of March 7, 2013 payable on March 14, 2013. Total payment of $3,197,278 was made during the three months period ended March 31, 2013.

Normal Course Issuer Bid ("NCIB")

In October 2011, the Company entered into an NCIB ("2011 NCIB"). The 2011 NCIB covered the period of October 17, 2011 to October 16, 2012. Pursuant to the 2011 NCIB, the Company was authorized by the TSX to purchase up to 13,501,078 common shares and 1,970,965 common share purchase warrants. Purchases were made at the discretion of the Company at prevailing market prices, commencing October 17, 2011 and ending October 16, 2012. The shares acquired under the NCIB will be cancelled upon their purchases. The funding for any purchase pursuant to the NCIB will be financed out of working capital of the Company.

On October 15, 2012, the TSX approved the Company's notice of intention to make an NCIB ("2012 NCIB"). Pursuant to the 2012 NCIB, the Company may purchase up to 15,856,786 common shares, issued and outstanding as of October 3, 2012. Purchases will be made, at the discretion of the Company at prevailing market prices, commencing October 17, 2012 and ending October 16, 2013. The shares acquired under the NCIB will be cancelled upon their purchase. The funding for any purchase pursuant to the NCIB will be financed out of the working capital of the Company.

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

The following table summarizes the NCIB activity-

Details	Average price C$	Shares	Warrants
2011 NCIB (Oct 17, 2011 to Oct 16, 2012)			
Permitted to acquire		13,501,078	1,970,965
Acquired in 2011 (17 Oct to 31 Dec)	0.69	(449,500)	-
Acquired in 2012 (1 Jan to 16 Oct)	0.78	(2,185,660)	-
2012 NCIB (Oct 17, 2012 to Oct 16, 2013)			
Permitted to acquire		15,856,786	-
Acquired as of March 31, 2013	-	-	-
Balance, March 31, 2013		15,856,786	-

EBITDA Reconciliation to Net Income

The Company defines EBITDA as earnings before interest, taxes and non-cash charges/ (income). EBITDA is presented here because the Company believes it is a useful indicator of relative operating performance. EBITDA does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other issuers. EBITDA should not be considered by an investor as an alternative to net income or cash flow as determined in accordance with IFRS. The table below reconciles EBITDA to reported net income for three months ended March 31, 2013, and March 31, 2012.

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	$	$	$	$
Net Income/(loss)		10,904,114		(8,920,644)
Add: Non-cash and finance costs				
Depletion and depreciation	5,846,599		4,063,613	
(Gain) Loss on disposal of property, plant and equipment	156,398		-	
Share based compensation	478,100		368,102	
Interest and finance charges	203,926		784,919	
Fair value adjustments	169,470		11,278,163	
Current tax	2,262,603		-	
Deferred tax	(60,701)		(1,518,592)	
Foreign exchange (gain)/loss	(23,036)	9,033,359	140,867	15,117,072
		19,937,473		6,196,428
Add/(Less): Interest & (other income)/expenses	(99,391)	(99,391)	(70,420)	(70,420)
EBITDA		19,838,082		6,126,008

Fair-value adjustments

As at March 31, 2013, the following items on the statement of financial position were subject to fair-value adjustments in accordance with IAS 39:

Financing warrants–During the year ended December 31, 2012, the Company issued 3,050,000 'financing' warrants to specific service providers as consideration for financing and other services that the Company received in prior years. Each financing warrant entitles the holder to receive from the Company a cash payment equal to the difference between the exercise price of the warrant and the market price of the Company's common shares at the time of exercise. No common shares are issuable upon the exercise of the warrants. These financing warrants are accounted as a liability and are marked to market at the end of each period until they are exercised or expire. During the three months ended March 31, 2013, 1,647,000 financing warrants were exercised with cash settlement of $1,339,340. The Company recorded a fair value measurement gain of $80,431 for three months ended March 31, 2013. There were 982,100 financing warrants outstanding as on March 31, 2013.

Cash election options – In August 2012, the Company amended its stock option plan whereby option holders resident in Australia became entitled for a cash election option in addition to the existing share purchase option. As a result of the 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. During the three month period ended March 31, 2013, the Company paid $175,250 in settlement of the exercised cash election of 325,000 options. The Company recorded a fair value measurement loss of $249,901 for three months ended March 31, 2013. There were 2,015,000 cash election options outstanding as on March 31, 2013.

The above items are non-operating in nature, and the following tables summarize the impact of these changes.

Fair value and deferred tax adjustments impact on items in the statement of financial position

	Before fair value and deferred tax adjustments	Note	Fair value and deferred tax adjustments	As of March 31, 2013	As of December 31, 2012
			Q1 2013		
	$		$	$	$
Assets					
Deferred tax	11,264,742	(a)	60,701	11,325,443	11,229,246
Liabilities					
Derivative financial instrument (financing warrants)	860,248	(b)	169,470	1,029,718	2,219,707
Shareholders' equity					
Surplus/(deficit)	51,508,311		(108,769)	51,399,542	43,692,706

(a) The Company recorded a deferred tax recovery of $60,701 for three months ended March 31, 2013.

(b) The Company recorded a fair value measurement gain relating to financing warrants of $80,431 and loss related to cash election options of $249,901 for three months ended March 31, 2013.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended March 31, 2013, and March 31, 2012

	March 31, 2013				March 31, 2012
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	13,356,985			13,356,985	1,694,293
Other items					
Interest and other income	99,391			99,391	70,420
Finance (costs)/income	(203,926)	(a)	(169,470)	(373,396)	(12,063,082)
Foreign exchange gain (loss)	23,036			23,036	(140,867)
Net income/(loss) before tax	13,275,486		(169,470)	13,106,016	(10,439,236)
Current tax	(2,262,603)			(2,262,603)	-
Deferred tax		(b)	60,701	60,701	1,518,592
Net income/(loss)	11,012,883		(108,769)	10,904,114	(8,920,644)
Income (loss) per share					
Basic	0.03			0.03	(0.03)
Diluted	0.03			0.03	(0.03)

(a) The Company recorded a fair value measurement gain related to financing warrants of $80,431 and loss related to cash election options of $249,901 for three months ended March 31, 2013.

(b) The Company recorded a deferred tax recovery of $60,701 for three months ended March 31, 2013.

1.4 RESULTS OF OPERATIONS

Three Months Ended March 31, 2013, compared to Three Months Ended March 31, 2012

During the three months ended March 31, 2013, the Company recorded net income of $10,904,114 (net of fair value measurement expense of $169,470 and deferred tax recovery of $60,701) compared to net loss of $8,920,644 during the three months ended March 31, 2012. Mandalay achieved EBITDA of $19,838,082 for the quarter ended March 31, 2013, compared to $6,126,008 in the quarter ended

March 31, 2012. The higher EBITDA was mainly due to greater metal volumes produced and shipped from both operations with lower than proportional increase in cost of sales.

Administrative expenses for the quarter ended March 31, 2013 were $1,644,724 compared to $1,271,795 during the quarter ended March 31, 2012. The administration expenses of $962,280 at Corporate included $369,978 in management fees, $139,290 in audit and internal review fees, $111,162 in travel expense, $85,837 in legal and accounting fees, $224,434 in investor relations and transfer agent and filing fees and $29,769 in consulting fees.

Capital expenditure in the first quarter of 2013, including capitalized depreciation and exploration, was $12,451,626. Of this, $6,603,393 was spent at Cerro Bayo, $5,406,081 was spent at Costerfield and $442,152 was spent at La Quebrada. By comparison, capital expenditure in the first quarter of 2012 was $11,976,471. The increase in capital expenditure in the first quarter of 2013 relative to 2012 is the result of increase in spending for plant and equipment largely due to expenditure for the flotation automation project at Cerro Bayo.

Operating net income/ (loss) after tax

Operating net income/ (loss) after tax is a non-IFRS performance measure. The Company defines Operating net income / (loss) after tax as net income after tax before non operating items such as intercompany interest expenses and all intercompany transfer pricing Corporate recharge costs. Operating net income is presented here because the Company believes it is a useful indicator of operating performance of each operation units. Operating net income does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other issuers. Operating net income should not be considered by an investor as an alternative to net income or cash flow as determined in accordance with IFRS. Refer to page 13 and 16 for a reconciliation of Operating net income to reported net income for three months ended March 31, 2013, and March 31, 2012.

Costerfield Results, Production, Sales and Costs for the Three Months Ended March 31, 2013

Costerfield generated revenue of $17,369,493 for the quarter ended March 31, 2013. Income from mine operations before depreciation and depletion and loss on disposal of property, plant and equipment were $7,359,425 and EBITDA was $7,077,021. Net income after fair value adjustments and deferred income tax was $1,303,151. The Operating net income for the quarter was $3,358,939. These are all significantly better results than in the prior year quarter due to the success of the 24 hour/7 day per week mining schedule, the new mining mobile equipment and the conversion to the Cemented Rock Fill Long Hole Stoping mining method, all introduced in the fourth quarter of 2011 and further refined since then. As well, in the fourth quarter of 2012, a mobile crusher was introduced to the plant in order to more finely size ore feed to the mill which resulted in an increase in plant feed rate to about 10,000 t/month without unduly sacrificing recovery. In addition, excellent mine and mill grades achieved during the quarter contributed to the strong production and sales.

Costerfield financial results

	Three months ended March 31, 2013 $	Three months ended March 31, 2012 $
Revenue	17,369,493	11,282,888
Cost of sales	10,010,068	8,747,675
Income from mine operations before depreciation and depletion and loss on disposal of property, plant and equipment	7,359,425	2,535,213
Depreciation and depletion	2,583,368	1,279,590
(Gain) Loss on disposal of property, plant and equipment	156,398	-
Income from mine operations	4,619,659	1,255,623
Administration (1)	396,771	94,376
EBITDA (2)	7,077,021	2,440,837
Finance costs, fx and others (3)	1,996,660	714,239
Income/(loss) before tax	2,226,228	447,008
Current tax expense	-	-
Deferred tax expense (recovery)	923,077	-
Operating net income/(loss) after tax(4)	3,358,939	661,783
Net income/(loss) after tax	1,303,151	447,008
Capital expenditure (5)	5,406,081	5,704,639

[1]Includes intercompany transfer pricing Corporate recharge costs of $114,367.

[2]Does not include intercompany transfer pricing Corporate recharge costs.

[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and intercompany transfer pricing Corporate recharge costs of $1,635,191.

[4]Operating net income/(loss) after tax excludes non operating items such as intercompany interest expenses and all intercompany transfer pricing Corporate recharge costs.

[5]Includes additions net of retirement carrying amounts due to disposals. Also includes capitalized depreciation on equipment.

Costerfield Operating net income/ (loss) after tax reconciliation to Net income/(loss) after tax

	Three months ended March 31, 2013 $	Three months ended March 31, 2012 $
Net income/(loss) after tax	1,303,151	447,008
Add: Intercompany expenses		
Intercompany interest expense	306,230	214,775
Intercompany transfer pricing Corporate recharge costs	1,749,558	-
Operating net income/(loss) after tax	3,358,939	661,783

Costerfield operating statistics

The following table summarizes certain aspects of production, sales, costs and capital investment activities at Costerfield during the three months ended March 31, 2013 and 2012.

	Unit	Three months ended March 31, 2013	Three months ended March 31, 2012
Mining Production and Mining Cost			
Operating development	m	1,405	1,259
Mined ore	t	25,865	19,093
Ore mined Au grade	g/t	9.08	8.45
Ore mined Sb grade	%	4.80	4.39
Mined contained Au	oz	7,548	5,188
Mined contained Sb	t	1,242	838
Mining cost per tonne ore	$/t	263	342
Processing and Processing Cost			
Processed ore	t	26,578	18,348
Mill head grade Au	g/t	9.43	8.41
Mill head grade Sb	%	4.77	4.39
Recovery Au	%	89.80	88.62
Recovery Sb	%	95.91	95.78
Concentrate produced	dry t	2,285	1,447
Concentrate grade Au	g/t	86.14	93.03
Concentrate grade Sb	%	53.21	53.15
Saleable Au produced	oz	6,203	3,690
Saleable Sb produced	t	766	489
Saleable Au equivalent produced	oz	11,432	7,356
Processing cost per tonne ore	$/t	65.54	70.35
Sales			
Concentrate sold	dry t	2,238	1,322
Concentrate Au grade	g/t	86.48	94.03
Concentrate Sb grade	%	53.52	53.13
Au sold	oz	5,881	3,384
Sb sold	t	755	450
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed(1)	$/t	400.45	509.76
Site cash operating cost/tonne concentrate produced(1)	$/t	4,657	6,462
EBITDA/tonne ore milled(1)	$/t	266	133
EBITDA/tonne concentrate produced(1)	$/t	3,097	1,686
Cash cost per oz Au equivalent produced(1)(2)	$/oz	966.88	1,300.71
Capital Spending			
Capital development	m	438	305
Capital development cost	$000	2,202	1,987
Capital development cost/meter	$/m	5,028	6,513
Capital purchases	$000	1,980	2,653
Capitalized exploration	$000	1,224	1,065

[1]Does not include intercompany transfer pricing Corporate recharge costs.

[2]Cash cost per ounce of gold equivalent produced is a non IFRS performance measure that is included in this MD&A because this statistic is a key performance measure under control of the operations that management uses to monitor performance, to assess how the mine is performing, and to plan and assess the overall effectiveness and efficiency of mining operations. This performance measure does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. This performance measure should not be considered in isolation as a substitute for measures of performance in accordance with IFRS. Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the average antimony price in the quarter divided by the average gold price in the quarter. The total cash operating cost associated with the production of these equivalent ounces produced in the period is then divided by the equivalent gold ounces produced to yield the cash cost per equivalent ounce produced. Variations between the produced ounces and sold ounces in a reporting period are purely the result of the timing of shipments to customers.

Three months ended March 31, 2013, and March 31, 2012

The Costerfield mine completed 1,405 m of operating development in the first quarter of 2013 versus 1,259 m in 2012. It produced more ore in 2013 than in 2012: 25,865 t versus 19,093 t. At the same time, the mine grade of gold and antimony were also higher in 2013: 9.08 g/t Au and 4.80% Sb versus 8.45 g/t Au and 4.39% Sb in 2012. Mining costs were $263/t versus $342/t in the previous year. The increase in tonnage and mined grade and the decrease in costs are largely due to increased productivity and lower dilution of the refined cemented rock fill long hole stoping mining method.

Capital development advance increased from 305 m in 2012 to 438 m in 2013, while the cost decreased from $6,513/m to $5,028/m.

In the first quarter of 2013, the Costerfield concentrator processed 26,578 t of ore containing 9.43 g/t Au and 4.77% Sb. This is significantly more tonnes at higher grade than it processed in the corresponding period of 2012: 18,348 t with grades of 8.41 g/t Au and 4.39% Sb. The plant achieved higher recoveries in 2013 as well: 89.8% for gold and 95.91% for antimony in 2012 versus 88.62% for gold and 95.78% for antimony in 2012. The higher tonnage processed at higher recovery was made possible by the introduction of the mobile ore crusher in late 2012. Processing costs in 2013 were $65.54/t, lower than the $70.35/t incurred during the prior year period because the extra crushing costs were more than offset by economies of scale on higher throughput.

The improved mine tonnages, throughput, head grades and recovery led to significantly higher payable metal production in the first quarter of 2013 than in the first quarter of 2012: 6,203 oz Au and 766 t Sb versus 3,690 oz Au and 489 t Sb.

Site cash operating cost per tonne of ore processed was $400/t in the first quarter of 2013, compared to $510/t in the first quarter of 2012. The greater metal production in the first quarter of 2013 led to a lower cost per gold equivalent ounce produced: $967/oz as compared to $1,301/oz in 2012.

During the first quarter of 2013, the Company invested $2,202,385 in capital development, $1,224,071 in exploration and $1,979,625 in property, plant and equipment. The corresponding amounts for the prior year quarter were $1,986,706, $1,064,582, and $2,653,351, respectively.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended March 31, 2013

Cerro Bayo generated revenue of $24,255,195 for the quarter ended March 31, 2013. Income from mine operations before depreciation and depletion and loss on disposal of property, plant and equipment were $14,272,240 and EBITDA was $13,872,200. Net income after fair value adjustments and deferred tax income was $6,145,066. The Operating net income for the quarter was $9,107,008.These results are significantly greater than in the first quarter of 2012 due to higher tonnes mined and processed resulting in greater metal production and sales as the mine completed its ramp-up successfully.

Cerro Bayo financial results

	Three months ended March 31, 2013 $	Three months ended March 31, 2012 $
Revenue	24,255,195	9,436,629
Cost of sales	9,982,955	4,574,038
Income from mine operations before depreciation and depletion and loss on disposal of property, plant and equipment	14,272,240	4,862,591
Depreciation and depletion	3,263,231	2,784,023
(Gain) Loss on disposal of property, plant and equipment	-	-
Income from mine operations	11,009,009	2,078,568
Administration (1)	546,287	296,681
EBITDA (2)	13,872,200	4,565,910
Finance costs, fx and others (3)	3,038,831	11,245,310
Income/(loss) before tax	7,423,891	(9,463,423)
Current tax expense	2,262,603	-
Deferred tax expense (recovery)	(983,778)	(1,518,592)
Operating net income/(loss) after tax(4)	9,107,008	(7,944,831)
Net income/(loss) after tax	6,145,066	(7,944,831)
Capital expenditure (5)	6,603,393	4,887,663

[1]Includes intercompany transfer pricing Corporate recharge costs of $146,247.

[2]Does not include intercompany transfer pricing Corporate recharge costs.

[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and intercompany transfer pricing Corporate recharge costs of $2,815,695.

[4]Operating net income/(loss) after tax excludes non operating items such as intercompany interest expenses and all intercompany transfer pricing Corporate recharge costs.

[5]Includes additions net of retirement carrying amounts due to disposals. Also includes capitalized depreciation on equipment.

Cerro Bayo Operating net income/ (loss) after tax reconciliation to Net income/(loss) after tax

	Three months ended March 31, 2013 $	Three months ended March 31, 2012 $
Net income/(loss) after tax	6,145,066	(7,944,831)
Add: Intercompany expenses		
Intercompany interest expense	-	-
Intercompany transfer pricing Corporate recharge costs	2,961,942	-
Operating net income/(loss) after tax	9,107,008	(7,944,831)

Cerro Bayo operating statistics

The following table summarizes certain aspects of production, sales, costs and capital investment activities at Cerro Bayo during three months ended March 31, 2013 and 2012.

	Unit	Three months ended March 31, 2013	Three months ended March 31, 2012
Mining Production and Mining Cost			
Operating development	m	1,782	1,919
Mined ore	t	92,689	73,660
Ore mined Au grade	g/t	1.75	1.26
Ore mined Ag grade	g/t	233.30	243.02
Mined contained Au	oz	5,205	2,993
Mined contained Ag	oz	695,235	575,536
Mining cost per tonne ore	$/t	59.21	59.72
Processing and Processing Cost			
Processed ore	t	94,575	58,976
Mill head grade Au	g/t	1.75	1.41
Mill head grade Ag	g/t	232.99	244.69
Recovery Au	%	85.49	84.70
Recovery Ag	%	89.32	88.59
Concentrate produced	dry t	1,782	1,049
Concentrate grade Au	g/t	79.63	64.95
Concentrate grade Ag	g/t	11,062.35	11,760.88
Saleable Au produced	oz	4,432	2,190
Saleable Ag produced	oz	611,441	396,624
Saleable Au equivalent produced	oz	15,696	9,631
Processing Cost per tonne ore	$/t	27.51	29.35
Sales			
Concentrate sold	dry t	1,796	595
Concentrate Au grade	g/t	73.33	69.46
Concentrate Ag grade	g/t	11,338.84	11,837.36
Au sold	oz	4,115	1,284
Ag sold	oz	631,736	218,060
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed(1)	$/t	105.94	127.86
Site cash operating cost/tonne concentrate produced(1)	$/t	5,624	7,189
EBITDA/tonne ore milled(1)	$/t	147	77
EBITDA/tonne concentrate produced(1)	$/t	7,787	4,353
Cash cost per oz Ag produced net of Au byproduct credit(1)(2)	$/oz	8.96	11.45
Capital Spending			
Capital development	m	588	459
Capital development cost	$000	2,181	3,235
Capital development cost/meter	$/m	3,712	7,049
Capital purchases	$000	3,628	1,061
Capitalized exploration	$000	795	591

[1]Does not include intercompany transfer pricing Corporate recharge costs.

[2]The cash cost per ounce of silver produced net of gold byproduct credit is a non IFRS performance measures that is included in this MD&A because it is a key performance measure under control of the operations that management uses to monitor performance, to assess how the mine is performing, and to plan and assess the overall effectiveness and efficiency of mining operations. This performance measure does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. This

performance measure should not be considered in isolation as a substitute for measures of performance in accordance with IFRS. The cash cost per silver ounce produced net of gold byproduct credit is calculated by deducting the gold credit (which equals ounces gold produced times the realized gold price in the period) from the cash operating costs in the period and dividing the resultant number by the silver ounces produced in the period.

Three months ended March 31, 2013, and March 31, 2012

The Cerro Bayo mine produced 92,689 t of ore in 2013 versus 73,660 t of ore in 2012. The grade of gold mined increased from 1.26 g/t in the first quarter of the prior year to 1.75 g/t in the current quarter. The grade of silver mined decreased slightly from 243.02 g/t in 2012 to 233.30 g/t in 2013. 1,782 m of operating development were completed in the 2013 period versus 1,919 m in the prior comparable period. Mining cost per tonne in the first quarter of 2013 was $59.21/t, slightly less than the $59.72/t in the first quarter of 2012.

During the first quarter of 2013, the Cerro Bayo concentrator processed 94,575 t of ore containing 232.99 g/t silver and 1.75 g/t gold, while in the first quarter of 2012, it processed 58,976 t of ore with grades of 244.69 g/t silver and 1.41 g/t gold. The plant achieved better recoveries of metal in the current period than in the prior year comparable period: 85.49% recovery of gold and 89.32% recovery of silver versus 84.70% of gold and 88.59% of silver.

Cerro Bayo produced 1,782 dmt of concentrate containing 611,441 oz saleable silver and 4,432 oz saleable gold in the first quarter of 2013, as compared to 1,049 dmt of concentrate containing 396,624 oz silver and 2,190 oz gold in the comparable 2012 period. Processing costs during the first quarter of 2013 were $27.51/t, lower than the $29.35/t incurred in the first quarter of 2012.

During the first quarter of 2013, Cerro Bayo sold 1,796 dmt of concentrate, containing 4,115 oz of saleable gold and 631,736 oz saleable silver. Sales during the comparable quarter of 2012, impacted by shipping constraints due to civil protests in Aysen Province, were 595 dmt of concentrate, containing 1,284 oz Au and 218,060 oz silver.

Site cash operating cost per tonne of ore processed was $105.94/t in the first quarter of 2013 versus $127.86/t in the first quarter of 2012. Cash cost per ounce silver produced net of gold by-product was $8.96/oz in the first quarter of 2013, significantly lower than the $11.45/oz in the first quarter of 2012, mainly due to higher production as the ramp-up proceeded.

During the first quarter of 2013, the Company invested $2,181,039 in mine development versus $3,235,290 in 2012. The Company spent $3,627,746 for purchase of property, plant and equipment in 2013 versus $1,061,486 in 2012. It spent $794,608 on exploration versus $590,887 in the first quarter of 2012.

La Quebrada

Spending on exploration at La Quebrada was $442,152 during the first quarter of 2013.

Markets- Currency Exchange Rates

The average currency exchange rates for the reporting period are summarized in the table below. During the reporting period, the Company did not enter any hedging arrangements for currency exchange rates.

Currency	Average rate January 1, 2013 March 31, 2013	Average rate January 1, 2012 March 31, 2012
1A$ = C$	1.0474	1.0566
1A$ = US$	1.0388	1.0556
1 US$ = C$	1.0080	1.0011
1 US$ = Chilean Peso	472.26	488.65

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices for all the metals in the first quarter of 2013 were lower compared to the first quarter of 2012. Realized prices were impacted by the application of the Company's policy for adjustments with respect to open concentrate shipments. This resulted in reduced realized prices in the first quarter against their respective market prices.

COMMODITY	Average price January 1, 2013- March 31, 2013	Average price January 1, 2012- March 31, 2012
Gold US$/Oz - Realized[1]	1,587	1,715
Gold- US$/Oz. Average London Daily PM close (Metal Bulletin)	1,630	1,694
Realized antimony US$/Tonne[1]	10,358	12,282
Antimony US$/Tonne- Rotterdam Warehouse (Metal Bulletin)	11,128	12,692
Realized silver price US$/oz	28.40	32.97
Silver US$/oz Average London Daily PM close	30.03	31.78

[1]Includes the effect of prior period smelter revenue adjustment on sales revenue and realized prices for the period.

1.5 SUMMARY OF QUARTERLY RESULTS

The following information is derived from the Company's quarterly financial statements for the past eight quarters.

Particulars	March 31, 2013 $	December 31, 2012 $	September 30, 2012 $	June 30, 2012 $
Revenue	41,624,688	55,699,764	48,847,630	46,538,713
Income/(Loss)	10,904,114	22,375,166	9,011,008	19,246,828
Income/(Loss) per Share	0.03	0.07	0.03	0.07

Particulars	March 31, 2012 $	December 31, 2011 $	September 30, 2011 $	June 30, 2011 $
Revenue	20,719,516	24,233,020	26,960,784	24,360,995
Income/(Loss)	(8,920,644)	955,754	13,177,845	1,936,478
Income/(Loss) per Share	(0.03)	0.00	0.05	0.01

Since the acquisition of the Costerfield mine in December, 2009, and of the Cerro Bayo mine in August, 2010, the Company's results have been, and are expected to continue to be, influenced by the operational results of the Costerfield and Cerro Bayo mines. The mark to market adjustments of the Company's silver and gold price protection program, which impacted financial results in 2012, will not occur in 2013 as all the put contracts have either been sold or expired. Financial results are impacted by the levels of gold, silver and antimony production, the costs associated with that production and the prices received for metal in concentrate and the quantity and value of any outstanding silver or gold puts that the Company has purchased to provide price insurance for future periods. Metal prices are determined using prevailing international prices for gold, silver and antimony. The Company's products are sold in U.S. dollars, whereas the majority of mine costs are in Australian dollars (at Costerfield) and Chilean pesos (at Cero Bayo). The Company's results will be impacted by exchange rate variations during the reporting periods.

The general trend of increasing revenue since financial year ended December, 2011, represents the ramp-up of Costerfield production under Mandalay ownership and the acquisition, restart, and ramp-up of the Cerro Bayo mine. Volatility in earnings is largely due to the changes in value of the unexpired portion of the Company's gold and silver puts and variability in the Company's schedule of shipments from Cerro Bayo as a result of external factors such as the 2012 Aysen labour protests (and, in 2011, the Japanese earthquake which resulted in a customer Force Majeure). The Company expects this volatility to decline in the future as there are currently no put options in place for 2013 and we have established alternative shipping routes for Cerro Bayo concentrates to multiple customers.

1.6 LIQUIDITY, SOLVENCYAND USES OF CASH

At March 31, 2013, the Company had working capital of $42,225,227 compared to $38,480,236 at December 31, 2012. The Company had cash and cash equivalents of $26,641,169 at the end of the March 31, 2013 as compared to $17,264,446 at December 31, 2012.

In the future, the Company expects to fund operational requirements through a combination of internally generated cash flow, joint venture arrangements for its projects, debt offerings and equity financing.

In the opinion of management, the Company's working capital at March 31, 2013, together with cash flows from operations, will be sufficient to support the Company's normal operating requirements through 2013. The Company continuously reviews operational results, expenditures and additional financial opportunities in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining or increasing production levels at its current operations.

1.7 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

On May 30, 2012, the Company and the Bank of Montreal ("BMO") entered into a one-year revolving corporate loan facility (the "Corporate Facility") for $20 million. The Corporate Facility is for general corporate purposes, including working capital, capital expenditures and certain specified acquisitions. It is subject to an interest rate based on the lender's borrowing cost of the London Interbank Offered Rate (LIBOR) plus a variable margin of between 2.25% and 3.25%. Unused credit facility balances are subject to a standby fee at the rate of 0.8%. The Corporate Facility is secured by all of the Company's assets.

The company has no outstanding debt as at March 31, 2013.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

As of March 31, 2013, the Company had no related party transactions.

1.10 PROPOSED TRANSACTIONS

None.

1.11 CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, the recoverability of trade and other receivables, measurement of revenue and trade receivables, the proven and probable ore reserves and resources of mining properties and the related depletion and amortization amounts, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the assumptions used in the accounting for stock-based compensation, valuation of warrants, the provision for income and mining taxes and composition of future income and mining tax assets and liabilities, the expected economic lives of and the estimated future operating results and net cash flows from mining interests, the anticipated costs of reclamation and other closure cost obligations, the fair value measurement of derivative financial instruments and silver note, and the fair value of assets and liabilities acquired in business combinations.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of metals is recognized when all of the following conditions are satisfied:

- the significant risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the metals sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Sales of certain commodities are provisionally priced such that the price is not settled until a pre-determined future date based on the market price at that time. Revenue on these sales is initially recognized (when the above criteria are met) at the current market price. Provisionally priced sales are marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark to market adjustment is recognized in revenue.

Inventories

Finished goods, work-in-process and stockpiled ore are valued at the lower of average production cost or net realizable value. Production costs include the cost of raw materials, direct labor, mine-site overhead expenses and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future production costs to convert the inventories into saleable form.

Work-in-process inventory represents materials that are currently in the process of being converted into finished goods. The average production cost of finished goods represents the average cost of work in-process inventories incurred prior to the refining process, plus applicable refining costs and associated royalties.

Supplies are valued at the lower of average cost and net realizable value.

The estimates and assumptions used in the measurement of work-in-process inventories include saleable ounces of gold, silver and antimony and the gold, silver and antimony prices to be realized when the metal is sold. If these estimates or assumptions prove to be inaccurate, the Company could be required to write down the carrying amounts of its work-in-process inventories, which would reduce the Company's earnings and working capital.

Property, plant and equipment

Exploration and Evaluation

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized within property, plant and equipment.

The Company records its capitalized exploration and evaluation at cost. The capitalized cost is based on cash and the value of share considerations paid for the property and exploration costs incurred on the property. The recorded amount may not reflect recoverable values as this will be dependent on the results of exploration and development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

All costs related to the acquisition, exploration and evaluation of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are moved into development or production, sold, or management has determined there to be an impairment of the value.

Management reviews the carrying value of capitalized exploration and evaluation costs at least annually. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. Where this is the case, it is intended that these will be developed and be put into production when the current source of ore is exhausted or to replace the reduced output.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to mining interests within property, plant and equipment.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all unrecoverable costs associated with the project are written off.

Mining Interests

Mining interests represent capitalized expenditures related to the development of mining properties, acquisition costs, capitalized borrowing costs, expenditures related to exploration and evaluation transferred in and estimated site closure and reclamation costs.

Capitalized costs are depleted using the unit-of-production method over the estimated economic life of the mine to which they relate.

Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation and impairment charges.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

Depreciation

Mining interests are depreciated using the unit-of-production method based on the estimated total recoverable metal contained in proven and probable reserves at the related mine when the production level intended by management has been reached.

The production level intended by management is considered to be reached when operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a period of time and there are indicators that these operating results will be sustained. Other factors include one or more of the following:

- a significant utilization rate of plant capacity has been achieved;
- a significant portion of available funding is directed towards operating activities;
- a pre-determined, reasonable period of time of stable operation has passed; and
- a development project significant to the primary business objective of the Company has been completed and significant milestones have been achieved.

Management reviews the estimated useful lives, residual values and depreciation methods of the Company's property, plant and equipment at the end of each reporting period and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

Plant and equipment cost is depreciated using the straight-line method or diminishing-balance method over their estimated useful lives if their lives are shorter than the mine life; otherwise they are depreciated on the unit-of-production basis.

Site closure and reclamation cost obligations

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. The liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for site closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports prepared by third party industry specialists and discounted at a pre-tax rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

Changes in site closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost.

Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of mine.

Reserve estimates

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 - Standards for Disclosure of Mineral Projects ("NI 43-101"). Reserves are used in the calculation of depreciation and amortization, impairment assessment, assessment of life of mine stripping ratios and for forecasting the timing of payment of mine closure, reclamation and rehabilitation costs.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

Income taxes

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 credit. Deferred tax liabilities are generally recognized for all taxable temporary differences. 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. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

For subsidiaries, the Company recognizes a deferred tax asset for deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. The Company recognizes a deferred tax liability for taxable temporary differences associated with investments in subsidiaries, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

1.12 FINANCIAL INSTRUMENTS

General

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, reclamation and other deposits, derivative financial instruments, trade and other payables and long-term debt. The Company also periodically uses financial instruments to protect itself against future downward fluctuations in the prices of gold, silver and antimony. See "Hedging Activities" below.

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company has credit risk which is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable and derivative financial instruments. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at March 31, 2013, the Company had no past overdue trade receivables.

The Company invests its excess cash principally in highly rated government and corporate debt securities. The Company has established guidelines related to diversification, credit ratings and maturities that maintain safety and liquidity. These guidelines are periodically reviewed by the Company's audit committee and modified to reflect changes in market conditions.

The Company is subject to interest rate risk on its cash and cash equivalents and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short term nature of the investments. Excess cash is invested in highly rated investment securities at fixed interest rates with varying terms to maturity but generally with maturities of three months or less from the date of purchase.

The Company reports its financial statements in U.S. dollars; however, the Company has extensive operations in the Australia and Chile. As a consequence, the financial results of the Company's operations as reported in U.S. dollars are subject to changes in the value of the U.S. dollar relative to the Australia dollar and Chilean peso. The Company does not currently enter into any foreign exchange hedges to limit exposure to exchange rate fluctuations. The Board of Directors assesses the Company's strategy towards its foreign exchange rate risk as needed, depending on market conditions.

Hedging Activities

The Company's earnings and cash flows are subject to price risk due to fluctuations in the market prices of antimony, gold and silver. World antimony, gold and silver prices have historically fluctuated widely, being affected by numerous factors beyond the Company's control, including:

- the strength of the U.S. economy and the economies of other industrialized and developing nations;
- global or regional political or economic crises;
- the relative strength of the U.S. dollar and other currencies;
- expectations with respect to the rate of inflation;
- interest rates;
- purchases and sales of gold and silver by central banks and other holders;
- demand for jewelry containing gold and silver;
- Industrial demand for antimony (mostly for flame retardants) versus supply, largely controlled by China, and
- Investment activity, including speculation, in gold and silver as commodities.

The Company occasionally purchases derivative financial instruments to protect itself against future downward fluctuations in the prices of gold and silver.

1.13 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. During the second quarter of 2011, the Company finished implementing Sage AccPac Enterprise Resource Planning (ERP) software to strengthen internal control and reporting. Sage AccPac implementation combined with improvements in the monthly close process provides information to the senior management for appropriate decision making.

II. Internal Controls and Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the quarter ended March 31, 2013. The Company's controls include policies and procedures that:

- relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the design and operational effectiveness of the Company's internal control over financial reporting using the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

With the help of Sage Acc Pac ERP system that the Company implemented in 2011, the Company has been implementing complete segregation of duties. It has appointed KPMG to conduct an internal audit review of the Company. This is designed to further identify the gaps in internal control procedures and help create internal policy documents as necessary.

The table below is a summary of key internal control issues, their potential impact and the actions the Company is taking to remedy:

<table>
<tr><th>Internal control weakness</th><th>Potential impact of the weakness on the issuer’s financial reporting and its ICFR</th><th>Current plan or actions being undertaken for remediating the potential material weakness</th></tr>
<tr><td>Complete segregation of duties</td><td>Accuracy and possible fraud</td><td rowspan="2">KPMG have completed the first review of Costerfield and Cerro Bayo operations and no material weaknesses were reported by them.

The Company will keep tightening its internal control procedures to further minimize the possibilities of financial loss due to oversight or collusion.</td></tr>
<tr><td>Collusion</td><td>Financial loss to the Company</td></tr>
</table>

III. Limitation of Controls and Procedures

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

1.14 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 325,452,653 common shares issued and outstanding. The weighted average number of shares outstanding during the first quarter used for the calculation of per share results was 324,575,292.

Outstanding incentive stock options that could result in the issuance of additional common shares at the respective dates as of the date of this MD&A are as follows:

Exercise Price C$	As of March 31, 2013	As of May 14, 2013	Expiry Date
1.13	4,287,500	4,287,500	March 18, 2018
0.83	4,052,500	4,052,500	March 9, 2017
0.76	450,000	450,000	July 4, 2016
0.70	490,000	490,000	December 2, 2016
0.58	470,000	370,000	April 11, 2016
0.56	3,502,500	3,502,500	March 11, 2016
0.50	150,000	150,000	August 21, 2013
0.335	100,000	100,000	September 16, 2015
0.33	300,000	300,000	October 6, 2015
0.31	50,000	50,000	September 7, 2015
0.26	1,110,000	1,110,000	August 26, 2015
0.255	1,730,000	1,690,000	December 7, 2014
Total	**16,692,500**	**16,552,500**	

During the quarter ended March 31, 2013, the Company issued 4,287,500 stock options and had 13,630,000 options outstanding as of December 31, 2012 which could result in issuance of shares. 217,500 options were forfeited and 1,007,500 options were exercised during the first quarter of 2013. There were 16,692,500 options outstanding as of March 31, 2013, which could result in issuance of shares.

Outstanding share purchase warrants that could result in the issuance of additional common shares as of March 31, 2013, and as of the date of this MD&A are as follows:

Exercise Price C$	As of March 31, 2013	As of May 14, 2013	Expiry Date
0.31	14,650,000	14,650,000	November 30, 2014
0.47	6,350,000	6,350,000	November 30, 2014
Total	**21,000,000**	**21,000,000**	

During the quarter ended March 31, 2013, the number of warrants exercised was 2,600,000 and the Company received $1,227,832 (C$1,209,000) for the warrants exercised. The number of warrants outstanding as of March 31, 2013 was 21,000,000.

1.15 QUALIFIED PERSONS

Disclosures of a scientific or technical nature in this MD&A in respect of each of the Company's material mineral resource properties were prepared by, or under the supervision of, the "qualified persons" (as that term is defined in NI 43-101) listed below:

Project	Qualified Person	Relationship to Mandalay Resources
Costerfield	Chris Gregory	Employee
Cerro Bayo	Ronald Luethe	Employee
La Quebrada	Ronald Luethe	Employee

1.16 FORWARD LOOKING STATEMENTS

Certain statements contained in this document constitute “forward-looking statements”. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mining industry risks; fluctuations in the market price of mineral commodities; project development, expansion targets and operational delays; environmental risks and hazards; requirement of additional financing; health and safety; uncertainty as to calculations of mineral deposit estimates; marketability; licenses and permits; title matters; governmental regulation of the mining industry; current global financial conditions; currency risk; uninsured risks; competition; repatriation of earnings; properties without known mineral reserves; dependence upon key management personnel and executives; dependence on major customers; infrastructure; litigation; potential volatility of market price of common shares; possible conflicts of interest of directors and officers of the Company; risk of dilution; payment obligations relating to properties; instability of political and economic environments; and integration of acquisitions. Specific reference is made to the Annual Information Form for a discussion of some of the factors underlying forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.