MANDALAY RESOURCES

Management's Discussion & Analysis

For the year ended December 31, 2012

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 consolidated financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the year ended December 31, 2012, and the Company's annual information form dated March 31, 2012 (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.

FOURTH QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

In the fourth quarter of 2012, the Company generated revenue of $55,699,764, profit from mining operations before depletion and depreciation of $31,700,757 and net income of $22,375,166 ($0.07 per share). Net income is inclusive of non-cash, non-operating expense of $138,747 related to mark-to-market adjustments of silver and gold put options[1] ("puts"), a silver note payable to Coeur d'Alene Mines Corporation (the "Silver Note"), and fair value mark-to-market adjustments related to financing warrants and deferred tax recovery of $5,579,573. Excluding non-cash and non-operating expense of $138,747 and deferred tax recovery of $5,579,573, profit after tax from underlying operations for the fourth quarter was $16,934,340 ($0.05 per share).

For comparison, in the fourth quarter of 2011 the Company generated revenue of $24,233,020, profit from mining operations before depletion and depreciation of $6,266,492 and net income of $955,754 ($0.00 per share) inclusive of a $2,832,516 mark-to-market adjustment of the silver and gold puts[1], the Silver Note and deferred tax recovery of $4,450,865. Excluding the non-cash items of fair value adjustment $2,832,516 and deferred tax recovery of $4,450,865, the loss from underlying operations in the fourth quarter of 2011 was $662,595 (loss of $0.01 per share).

As of December 31, 2012, cash and cash equivalents of the Company were $17,264,446.

2. Operating Highlights

[1] These put options gave the Company the right, but not the obligation, to sell a specified amount of gold or silver at a specified price within a specified time.

a. Consolidated Production and Sales Results

In the fourth quarter of 2012, Mandalay produced 10,927 ounces ("ozs") of gold ("Au"), 785 tonnes ("t") of antimony ("Sb") and 895,222 ozs of silver ("Ag"), representing 33,537 gold equivalent ounces ("Au Eq. ozs"). For 2012 total gold equivalent production was 107,941 Au Eq. ozs.

The Company sold 11,214 ozs of Au, 891,145 ozs of Ag and 809 t of Sb in the fourth quarter of 2012 or 33,920 Au. Eq. Ozs. For the full year, sales were 33,705 Au Ozs., 2,395 t Sb, and 2,766,380 Ag Ozs or 103,105 Au Eq. Ozs.

Quarterly and Annual Saleable Production

Metal	Source	3 months to 31 December 2012	3 months to 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
Gold (oz)	Costerfield	5,907	2,803	18,036	12,244
	Cerro Bayo	5,020	2,109	17,089	6,678
	Total	**10,927**	**4,912**	**35,125**	**18,922**
Antimony (t)	Costerfield	**785**	**346**	**2,481**	**1,576**
Silver (oz)	Cerro Bayo	**895,222**	**395,296**	**2,911,595**	**1,318,665**
Average quarterly prices:					
Gold US$/oz		1,717	1,685		
Antimony US$/tonne		12,317	13,890		
Silver US$/oz		32.57	31.81		
Au Eq. (oz)[1]	Costerfield	11,539	5,655	37,075	27,343
	Cerro Bayo	21,998	9,572	70,866	36,008
	Total	**33,537**	**15,227**	**107,941**	**63,351**

[1] Au Eq. oz produced is calculated by multiplying the saleable 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 "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 price in the quarter is calculated as the average of the daily LME PM fixes in the quarter, with price on weekend days and holidays taken from the last business day; average Sb price in the quarter is calculated as the average of the daily av erage of the high and low Rotterdam warehouse prices for all days in the quarter, with price on weekend days and holida ys taken from the last business day; average Ag price in the quarter is calculated as the average of the daily London Brok er'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 all prices is www.metalbulletin.com. Year-end Au Eq. oz produced is the sum of quarterly Au Eq. oz produced during the applicable year.

Quarterly and Annual Sales

Metal	Source	3 months to 31 December 2012	3 months to 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
Gold (oz)	Costerfield	6,146	2,837	17,489	12,915
	Cerro Bayo	5,068	2,347	16,216	5,538
	Total	**11,214**	**5,184**	**33,705**	**18,453**
Antimony (t)	Costerfield	**809**	**352**	**2,395**	**1,540**
Silver (oz)	Cerro Bayo	**891,145**	**396,150**	**2,766,380**	**1,112,000**
Average quarterly prices:					
Gold US$/oz		1,717	1,685		
Antimony US$/tonne		12,317	13,890		
Silver US$/oz		32.57	31.81		
Au Eq. (oz)[2]	Costerfield	11,951	5,739	35,858	27,681
	Cerro Bayo	21,969	9,826	67,247	30,100
	Total	**33,920**	**15,565**	**103,105**	**57,781**

[2] *Au Eq. oz sold is calculated by multiplying the saleable 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. Year-end Au Eq. oz is the total of the quarterly oz derived as above. Au Eq. values for 2011 have been re-calculated according to the above reporting policy. The source for all prices is www.metalbulletin.com. Year-end Au Eq. oz sold is the sum of quarterly Au Eq. oz sold during the applicable year.*

b. Costerfield Gold-Antimony mine, Victoria, Australia

i. *Production* — Saleable gold production for the fourth quarter of 2012 was 5,907 oz versus 4,317 oz in the previous quarter and 2,803 oz in the fourth quarter of 2011. Saleable antimony production for the fourth quarter of 2012 was 785 t versus 594 t in the previous quarter and 346 t in the fourth quarter of 2011. The combined impact of several improvements in the mine and plant helped increase throughput while maintaining high recovery. This helped Costerfield to achieve greater production in the current quarter versus the previous quarter and the comparable period in the prior year quarter.

ii. *Operating Costs* — Cash cost per ounce of gold equivalent produced in the fourth quarter of 2012 was $966 versus $1,293 in the previous quarter and $1,473 in the fourth quarter of 2011. Cash cost per ounce decreased in the fourth quarter of 2012 principally due to the high rate of ore mined and processed and consequent increase in metal production.

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

i. *Production* — In the fourth quarter of 2012, Cerro Bayo produced 895,222 ounces of saleable silver and 5,020 ounces of saleable Au versus 804,779 Ozs. of Ag and 4,787 Ozs. of Au in the previous quarter and 395,296 Ozs. of Ag and 2,109 Ozs. of Au in the fourth quarter of 2011. The Company achieved greater production in the fourth quarter of 2012 relative to the previous quarter and the comparable quarter of 2011 as a result of the successful completion of the mine tonnage ramp-up plan in the fourth quarter of 2012.

ii. *Operating Costs* — Cash cost per saleable ounce of silver produced in concentrate net of gold credits was \$5.17/oz in the fourth quarter of 2012 versus \$5.00/oz in the previous quarter and \$16.72/oz in the fourth quarter of 2011. Cash cost per ounce in the fourth quarter of 2012 represents steady state production. Slightly lower costs in the prior quarter occurred as a result of processing mill stockpiles accumulated in the first and second quarter of this year. Costs versus the same quarter in 2011 were significantly lower as a result of successful ramp-up of production in 2012.

3. Exploration

a. **Cerro Bayo**

Mandalay continued drilling at Cerro Bayo with seven diamond core rigs, completing 18,887 meters in the fourth quarter of 2012. On January 7, 2013 the Company announced drilling results generated by the ongoing exploration program at Cerro Bayo. Mandalay continued vein extensional and infill drilling on five veins and drilled eight new targets. Extensional drilling was undertaken on the Delia SE, Dagny, Coyita, Trinidad and Marcela veins and successfully extended the known mineralized zones by a collective 800 metres ("m") along strike. By the end of the year, only the Dagny vein extension had been fully delineated by drilling. Mineralization remains open, either at depth or along strike, on the other targets. These drill results will be included in the year-end 2012 resource and reserve update, expected to be released in the first quarter of 2013. Of the eight new targets tested, all contained either scattered intercepts of potentially economic grades and widths but without demonstrated continuity (Coigues Este and Central, Gabriela, Gabriela Este, Josefina, Josefina Este) or no significant results (Caiquenes and Guanaco 1).

b. **Costerfield**

Mandalay continued drilling at Costerfield with three diamond core rigs, completing 6,384 meters in the fourth quarter of 2012. On January 7, 2013 the Company announced the update on drilling results generated by the ongoing exploration program at Costerfield. On the N-Lode, new, widely spaced drill intercepts have confirmed much of the northward extension of the N-Lode mineralization toward previously reported high-grade intercepts located approximately 300 m north of the previous limit of Inferred Mineral Resources. Infill drilling and mine development sampling in the area of the previously Inferred Resources has increased confidence in the resource and are supporting ongoing successful mining. On the Cuffley Lode, new, widely spaced drill intercepts have confirmed the southward and depth extension of Cuffley mineralization toward previously reported high-grade intercepts approximately 100 m south of and approximately 150 m below the previous limit of Inferred Mineral Resources. Closely spaced infill drilling of two panels within the Cuffley Inferred Resource has also established the short-range continuity of mineralization. On the W-Lode, infill drilling and development sampling in the area of previously Inferred Mineral Resource has increased confidence in the reserve base of the W-Lode in the lower levels.

c. **La Quebrada, Chile**

Preliminary engineering studies continued at La Quebrada.

FULL YEAR FINANCIAL HIGHLIGHTS

The following table summarizes the Company's financial results for the year ended December 31, 2012 and 2011:

	Year ended December 31,2012	Year ended December 31,2011
	$	$
Revenue	171,805,623	92,163,852
EBITDA	79,935,066	32,013,588
Profit from mine operations	75,925,395	29,419,075
Net income	41,712,357	18,477,317
Total assets	185,290,684	138,894,858
Total liabilities	42,211,786	39,923,892
Earning/(loss) per share	0.14	0.07

Revenue for 2012 was $171,805,623 versus $92,163,852 in 2011. Profit from mine operations before depletion and depreciation was $95,264,831 versus $41,291,656 in 2011. Net profit for the year 2012 was $41,712,357 or $0.14 per share versus $18,477,317 or $0.07 per share in 2011. On a fully diluted basis, earnings per share in 2012 were $0.11 versus $0.06 in 2011.

1.0 DATE

This MD&A is dated as of February 20, 2013.

1.1 SUBSEQUENT EVENTS

On January 14, 2013, 1,647,000 financing warrants were exercised with a cash settlement of $1,339,340.

On January 9, 2013, and January 14, 2013, 600,000 and 2,000,000 warrants were exercised, respectively, with an exercise price of C$0.47 and total proceeds received were $1,227,833 (C$ 1,209,000).

On February 20, 2013, Mandalay's Board of Directors declared a quarterly dividend of CDN$0.01 per share, payable on March 14, 2013 to shareholders of record as of March 7, 2013.

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 2012 the mine achieved record production and throughput as noted above. Exploration success at the Cuffley and N lode has resulted in the Company undertaking a formal study to evaluate the feasibility of expanding the mine. Results of the study and commitment of capital to execute the mine expansion, if justified, are expected by mid-year 2013.

Cerro Bayo

Cerro Bayo is a 100%-owned silver–gold mine located in the Aysen Provence 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 achieved the interim production objective of 1,200 tonnes per day in the fourth quarter of 2012. Currently the mine is undergoing a further expansion of 200 tonnes per day and is expected to achieve a throughput rate of 1,400 tonnes per day by the first quarter of 2014.

1.3 SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended December 31, 2012 and December 31, 2011:

	Quarter ended December 31, 2012 $	**Quarter ended December 31, 2011 $**
Revenue	55,699,764	24,233,020
Cost of sales	23,999,007	17,966,528
Earnings from mine operations before depreciation and depletion	31,700,757	6,266,492
Depreciation and depletion	5,853,654	3,030,176
Income from mine operations	25,847,103	3,236,316
Administration	2,857,113	2,890,248
EBITDA	28,843,644	3,376,244
Finance costs, fx and others/(income)*	4,259,799	3,841,177
Income/(loss) before tax	18,730,191	(3,495,111)
Current tax expense	1,934,598	-
Deferred tax expense	(5,579,573)	(4,450,865)
Net Income/(loss) after tax	22,375,166	955,754
Total assets	185,290,684	138,894,858
Total liabilities	42,211,786	39,923,892
Income per share	0.07	0.00

*Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.

The following table sets forth the summary of financial results for the years ended December 31, 2012, December 31, 2011 and December 31, 2010:

	Year ended December 31, 2012 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Revenue	171,805,623	92,163,852	20,618,328
Cost of sales	76,540,792	50,872,196	13,465,319
Earnings from mine operations before depreciation and depletion	95,264,831	41,291,656	7,153,009
Depreciation and depletion	19,339,436	11,872,581	3,196,529
Income from mine operations	75,925,395	29,419,075	3,956,480
Administration	15,329,765	9,278,068	5,401,786
EBITDA	79,935,066	32,013,588	1,751,223
Finance costs, fx and others*	20,181,600	6,114,555	1,971,044
Income/(loss) before tax	40,414,030	14,026,452	(3,416,351)
Current tax expense	5,290,064	-	-
Deferred tax expense	(6,588,391)	(4,450,865)	-
Net Income/(loss) after tax	41,712,357	18,477,317	(3,416,351)
Income per share	0.14	0.07	(0.02)
Dividend**	3,200,544	-	-

*Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.
**On November 7, 2012, the Board of Directors declared a dividend in the amount of $0.01 per common share payable to shareholders of record on November 20, 2012. Total payment of $3,200,544 was made during the year ended December 31, 2012.

EBITDA Reconciliation to Net Income

The Company defines EBITDA as earnings before interest, taxes and non-cash charges/ (income). EBITDA is presented 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 and years ended December 31, 2012, and December 31, 2011.

	Three months ended December 31, 2012		Three months ended December 31, 2011	
	$	$	$	$
Net Income/(loss)		22,375,166		955,754
Add: Non-cash and finance costs				
Depletion and depreciation	5,853,654		3,030,176	
Write off mineral properties/exploration and evaluation	1,152,081		-	
Share based compensation	464,945		368,349	
Interest and finance charges	480,069		777,606	
Fair value adjustments	1,795,747		2,832,516	
Current tax	1,934,598		-	
Deferred tax	(5,579,573)		(4,450,865)	
Foreign exchange (gain)/loss	193,220	6,294,742	(62,411)	2,495,371
		28,669,908		3,451,125
Add/(Less): Interest & (other income)/expenses	173,737	173,737	(74,881)	(74,881)
EBITDA		28,843,645		3,376,244
Add: Fair value adjustments related to financing warrants charged to admin cost		(1,657,000)		-
Underlying EBITDA from pure operating activities		27,186,645		3,376,244

	Year ended December 31, 2012		Year ended December 31, 2011	
	$	$	$	$
Net Income/(loss)		41,712,357		18,477,317
Add: Non-cash and finance costs				
Depletion and depreciation	19,339,436		11,872,581	
Write off mineral properties/exploration and evaluation	1,587,791		-	
Share based compensation	1,777,915		1,642,407	
Interest and finance charges	2,964,804		2,823,771	
Fair value adjustments	14,013,834		1,032,500	
Current tax	5,290,064		-	
Deferred tax	(6,588,391)		(4,450,865)	
Foreign exchange (gain)/loss	318,769	38,704,222	439,256	13,359,650
		80,416,579		31,836,967
Add/(Less): Interest & (other income)/expenses	(481,513)	(481,513)	176,621	176,621
EBITDA		79,935,066		32,013,588
Add: Fair value adjustments related to financing warrants charged to admin cost		-		-
Underlying EBITDA from pure operating activities		79,935,066		32,013,588

Fair-value adjustments

As at December 31, 2012, the following items on the statement of financial position were subject to fair-value adjustments in accordance with IAS 39:

a) *All silver puts with a strike price of $25/oz* were sold or had expired as of December 31, 2012. Fair value adjustments resulted in a loss of $5,900 on the income statement for the fourth quarter of 2012.

b) *All silver puts with a strike price of $35/oz* were sold or had expired as of December 31, 2012. Fair value adjustments resulted in a gain of $429,700 on the income statement for the fourth quarter of 2012.

c) *All silver puts with a strike price of $30/oz* were sold or had expired as of December 31, 2012. Fair value adjustments resulted in a loss of $40,320 on the income statement for the fourth quarter of 2012.

d) *All gold puts with a strike price of $1,400/oz* were sold or had expired as of December 31, 2012. Fair value adjustments resulted in a loss of $1,524 on the income statement for the fourth quarter of 2012.

e) *Silver Note*. The Company had an obligation to pay to Coeur d'Alene Mines Corporation the U.S dollar equivalent of 125,000 oz of silver in six equal installments commencing in the third quarter of 2011. As of December 31, 2012, the sixth and last installment of 20,833 ounces valued at $629,583 was paid. The realized gain for this liability during the fourth quarter of 2012 was $60,649.

f) *Financing warrants.* The Company previously issued 3,050,000 'phantom' warrants to specific service providers as consideration for financing and other services that the Company received in prior years. Each phantom 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 for 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 December 31, 2012, no financing warrants were exercised. The Company recorded a fair value adjustment loss of $581,352 for three months ended December 31, 2012, on 2,629,100 outstanding financing warrants.

All 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 December 31, 2012	As of December 31, 2011
			Q1 2012	Q2 2012	Q3 2012	Q4 2012		
	$		$	$	$	$	$	$
Assets								
Derivative financial instrument (put options)	11,322,069	(a)	(10,857,634)	3,547,527	(4,393,918)	381,956	-	16,253,768
Deferred tax	4,640,857	(b)	1,518,592	199,965	(709,740)	5,579,573	11,229,246	4,450,865
Liabilities								
Derivative financial instrument (financing warrants)	(18,645)	(c)	-	-	1,657,000	581,352	2,219,707	-
Current portion of long-term debt	(453,413)	(d)	420,529	(225,682)	319,215	(60,649)	(0)	10,004,691
Shareholders' equity								
Surplus/(deficit)	45,312,243		(9,759,571)	3,973,174	(7,079,873)	5,440,826	37,886,799	6,291,258

(a)The Company entered into certain silver put options and gold put options to hedge commodity price risks. The Company recorded a fair value measurement gain of $381,956 for three months ended December 31, 2012.

(b) The Company recorded a deferred income tax of $5,579,573 for three months ended December 31, 2012.

(c) The Company recorded a fair value expense relating to financing warrants of $581,352 for three months ended December 31, 2012.

(d) The Company adjusted the Silver Note to $Nil as at December 31, 2012, as its final installment of $629,583 was paid. Fair value measurement gain for three months ended December 31, 2012 was $60,649.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended December 31, 2012, and December 31, 2011

	December 31, 2012				December 31, 2011
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	21,334,227			21,334,227	(22,282)
Other items					
Interest and other income	(135,000)			(135,000)	74,881
Finance (costs)/income	(480,069)	(a)	381,956	(2,275,816)	(3,610,122)
		(b)	60,649		
Financing warrants	(1,657,000)	(c)	(581,352)		
Foreign exchange gain (loss)	(193,220)			(193,220)	62,410
Net income/(loss) before tax	18,868,938		(138,747)	18,730,191	(3,495,111)
Current tax	(1,934,598)			(1,934,598)	-
Deferred tax		(d)	5,579,573	5,579,573	4,450,865
Net income/(loss)	16,934,340		5,440,826	22,375,166	955,754
Income (loss) per share					
Basic	0.05			0.07	0.00
Diluted	0.05			0.06	0.00

(a)The Company entered into certain silver put options and gold put options to hedge commodity price risks. The Company recorded a fair value measurement gain of $381,956for three months ended December 31, 2012.

(b) The Company adjusted the Silver Note to $Nil as at December 31, 2012, as its final installment of $629,583 was paid. Fair value measurement gain for three months ended December 31, 2012 was $60,649.

(c) The Company recorded a fair value expense related to financing warrants of $581,352 for three months ended December 31, 2012.

(d) The Company recorded a deferred tax income of $5,579,573 for three months ended December 31, 2012.

Fair value and deferred tax adjustments impact on items in the income statement for years ended December 31, 2012, and December 31, 2011

	December 31, 2012				December 31, 2011
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	57,241,323			57,241,323	18,161,163
Other items					
Interest and other income	470,114			470,114	160,816
Finance (costs)/income	(2,964,804)	(a)	(11,322,069)	(16,978,638)	(3,856,271)
		(b)	(453,413)		
Financing warrants		(c)	(2,238,352)		
Foreign exchange gain (loss)	(318,769)			(318,769)	(439,256)
Net income/(loss) before tax	54,427,864		(14,013,834)	40,414,030	14,026,452
Current tax	(5,290,064)			(5,290,064)	-
Deferred tax		(d)	6,588,391	6,588,391	4,450,865
Net income/(loss)	49,137,800		(7,425,443)	41,712,357	18,477,317
Income (loss) per share					
Basic	0.17			0.14	0.07
Diluted	0.13			0.11	0.06

(a)The Company entered into certain silver put options and gold put options to hedge commodity price risks. The Company recorded a fair value measurement loss of $11,322,069 for year ended December 31, 2012.

(b) The Company adjusted the Silver Note to $Nil as at December 31, 2012, as its final installment of $629,583 was paid. Fair value measurement loss for year ended December 31, 2012 was $453,413.

(c) The Company recorded a fair value liability related to financing warrants of $2,238,352 for year ended December 31, 2012.

(d) The Company recorded a deferred tax asset of $6,588,391for year ended December 31, 2012.

1.4 RESULTS OF OPERATIONS

Three Months Ended December 31, 2012 compared to Three Months Ended December 31, 2011

During the three months ended December 31, 2012, the Company recorded net income of $22,375,166 (net of fair value adjustment loss of $138,747 and deferred income tax of $5,579,573) compared to net income of $955,754 during the three months ended December 31, 2011. Mandalay achieved EBITDA of $28,843,644 for the quarter ended December 31, 2012, compared to $3,376,244 in the quarter ended December 31, 2011. 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 December 31, 2012 were $2,857,113 compared to $2,890,248 during the quarter ended December 31, 2011. The main components of administration expenses were $1,086,755 at Costerfield, $1,409,074 at Cerro Bayo and $361,284 at Corporate. By comparison, in the fourth quarter of 2011 administration expenses were $814,215 at Costerfield, $1,260,580 at Cerro Bayo and $815,453 at Corporate.

Administrative expenses at Corporate included $1,000,000 accrued for executive performance bonuses, $361,229 in management fees, $134,726 in audit and internal review fees, $169,372 in travel expense, $202,117 in legal and accounting fees, $194,419 in investor relations and transfer agent and filing fees and $46,438 in consulting fees.

Capital expenditure in the fourth quarter of 2012, including capitalized depreciation and exploration, was $13,170,050. Of this, $7,606,746 was spent at Cerro Bayo, $5,211,510 was spent at Costerfield, $273,232 was spent at La Quebrada, and $78,562 was spent for corporate purposes. By comparison, capital expenditure in the fourth quarter of 2011 was $10,159,088. The increase in capital spending in the fourth quarter of 2012 relative to 2011 is the result of increasing capital development rates at both mines, purchases of new mining equipment, and increasing exploration drilling rate.

Year Ended December 31, 2012 compared to Year Ended December 31, 2011

During the year ended December 31, 2012, the Company recorded a net profit of $41,712,357 compared to a net profit of $18,477,317 during the year ended December 31, 2011.

During the year ended December 31, 2012, revenue was $171,805,623 versus $92,163,852 in 2011. Profit from mine operations during 2012 was $75,925,395 compared to $29,419,075 in 2011. Mine operating expenses for the year ended December 31, 2012 were $76,540,792 versus $50,872,196 in 2011. In addition, depletion and depreciation expenses were $19,339,436 for the mining operations versus $11,872,581 in 2011.

Profit, revenue, operating expenses, and depletion and depreciation were all higher in 2012 than in 2011 due to higher production output and consequently higher sales volumes at both the mines.

Administration expenses during the year ended December 31, 2012 were $15,329,765, compared to $9,278,068 in 2011. The increased expenses are associated with continuing growth and development of the Company reflected in the production and sales results of the year.

During 2012, the Company invested $20,130,744 in capital development, $11,897,079 in exploration, and $16,187,598 in property, plant and equipment. The corresponding amounts for 2011 were $15,491,675 for capital development, $10,184,994 for exploration and $9,460,576 for property, plant and equipment.

Costerfield Results, Production, Sales and Costs for the Three Months Ended December 31, 2012

Costerfield generated record revenue of $20,327,243 for the quarter ended December 31, 2012. Earnings from mine operations before depreciation and depletion were $7,741,278 and EBITDA was $6,654,523. Consolidated income after fair value adjustments and deferred income tax was $10,288,469. 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. This resulted in an increase in plant feed rate to about 10,000 t/month without unduly sacrificing recovery. By the end of the quarter, Costerfield achieved evenly matched mine output and mill throughput of 10,000 t/month (330 t/day), and all ore stockpiles built in previous quarters have been consumed.

Costerfield financial results

	Quarter ended December 31, 2012 $	Quarter ended December 31, 2011 $
Revenue	20,327,243	9,508,648
Cost of sales	12,585,965	7,949,079
Earnings from mine operations before depreciation and depletion	7,741,278	1,559,569
Depreciation and depletion	1,953,529	715,502
Income from mine operations	5,787,749	844,067
Administration (1)	1,708,153	814,215
EBITDA (2)	6,654,523	745,354
Finance costs, fx and others (3)	1,225,830	422,611
Income/(loss) before tax	2,853,766	(392,759)
Current tax expense	-	-
Deferred tax expense	(7,434,703)	-
Net income/(loss) after tax	10,288,469	(392,759)
Capital expenditure (4)	5,211,510	4,445,350

[1]Includes intercompany transfer pricing Corporate re charge costs of $621,398.
[2]Does not include intercompany transfer pricing Corporate re charge costs.
[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.
[4]Includes additions net of retirement carrying amounts due to disposals. Also includes capitalized depreciation on equipment.

Costerfield operating statistics

The following table summarizes certain aspects of production, sales, costs and capital investment activities at Costerfield during the years ended December 31, 2012 and 2011, three months ended December 31, 2012 and 2011, and three months ended September 30, 2012, June 30, 2012 and March 31, 2012.

	Unit	Year ended December 31, 2012	Year ended December 31, 2011	Three months ended December 31, 2012	Three months ended December 31, 2011	Three months ended September 30, 2012	Three months ended June 30, 2012	Three months ended March 31, 2012
Mining Production and Mining Cost								
Operating development	m	5,319	4,027	1,355	894	1,370	1,335	1,259
Mined ore	t	96,297	66,156	27,130	17,023	25,360	24,714	19,093
Ore mined Au grade	g/t	8.26	6.00	8.18	6.30	8.24	8.34	8.45
Ore mined Sb grade	%	4.33	3.97	3.70	3.78	4.53	4.77	4.39
Mined contained Au	oz	25,579	12,770	7,131	3,450	6,636	6,625	5,188
Mined contained Sb	t	4,166	2,626	1,004	643	1,146	1,179	838
Mining cost per tonne ore	$/t	282	272	245	303	297	261	342
Processing and Processing Cost								
Processed ore	t	94,187	71,973	31,916	16,344	23,112	20,812	18,348
Mill head grade Au	g/t	8.13	7.27	8.22	7.16	7.59	8.33	8.41
Mill head grade Sb	%	4.32	3.66	4.06	3.49	4.22	4.77	4.39
Recovery Au	%	89.06	86.32	88.54	88.11	89.68	89.55	88.62
Recovery Sb	%	95.89	92.27	95.17	94.13	96.42	96.49	95.78
Concentrate produced	dry t	7,191	4,706	2,276	1,012	1,713	1,755	1,447
Concentrate grade Au	g/t	90.33	96.10	88.32	102.18	92.57	88.52	93.03
Concentrate grade Sb	%	54.19	51.45	54.30	53.47	54.58	54.53	53.15
Saleable Au produced	oz	18,036	12,244	5,907	2,803	4,317	4,122	3,690
Saleable Sb produced	t	2,481	1,577	785	346	594	613	489
Saleable Au equivalent produced	oz	37,075	27,347	11,539	5,655	8,906	9,273	7,356
Processing cost per tonne ore	$/t	67.37	77.32	63.45	62.29	71.35	66.39	70.35
Sales								
Concentrate sold	dry t	6,921	4,682	2,324	1,029	1,526	1,749	1,322
Concentrate Au grade	g/t	89.87	96.20	86.76	101.77	93.67	87.53	94.03
Concentrate Sb grade	%	54.07	51.51	54.41	53.46	54.12	54.29	53.13
Au sold	oz	17,489	12,914	6,146	2,837	3,896	4,063	3,384
Sb sold	t	2,395	1,539	809	352	528	608	450
Benchmark Unit Cost								
Site cash operating cost/ tonne ore processed(1)	$/t	430.79	410.70	334.83	495.63	480.99	452.59	509.76
Site cash operating cost/tonne concentrate produced(1)	$/t	5,643	6,282	4,696	8,002	6,490	5,368	6,462
EBITDA/tonne ore milled(1)	$/t	202	174	209	46	206	247	133
EBITDA/tonne concentrate produced(1)	$/t	2,643	2,662	2,924	736	2,777	2,932	1,686
Cash cost per oz Au equivalent produced(1)(2)	$/oz	1,132.74	1,117.12	965.80	1,473.31	1,292.92	1,052.44	1,300.71
Capital Spending								
Capital development	m	1,720	1,027	472	345	516	427	305
Capital development cost	$000	7,964	6,160	2,050	2,146	2,086	1,842	1,987
Capital development cost/meter	$/m	4,631	6,002	4,342	6,228	4,043	4,317	6,513
Capital purchases	$000	7,871	5,492	1,850	1,656	664	2,704	2,653
Capitalized exploration	$000	5,133	2,774	1,312	643	1,507	1,249	1,065

[1]Does not include intercompany transfer pricing Corporate re charge 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 statistics 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 antimony realized price divided by the gold realized price. 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 December 31, 2012 and December 31, 2011

The Costerfield mine completed 1,355 m of operating development in the fourth quarter of 2012 versus 894 m in 2011. It produced more ore at higher gold grade in 2012 than in 2011: 27,130 t containing 8.18 g/t Au versus 17,023 t containing 6.30 g/t Au in 2011. At the same time, the mine grade of antimony was slightly lower in 2012 at 3.70% versus 3.78% in 2011. Mining costs were $245/t, versus $303/t in the previous year due to the improved mining method.

Capital development advance increased from 345 m in 2011 to 472 m in 2012, while the cost decreased from $6,228/m to $4,342/m.

In the fourth quarter of 2012, the Costerfield concentrator processed 31,916 t of ore containing 8.22 g/t Au and 4.06% Sb. This is significantly more tonnes at higher grade than it processed in the corresponding period of 2011: 16,344 t with grades of 7.16 g/t Au and 3.49% Sb. The plant achieved higher recoveries in 2012 as well: 88.54% for gold and 95.17% for antimony in 2012 versus 88.11% for gold and 94.13% for antimony in 2011.

The improved throughput, head grades and recovery led to significantly higher payable metal production in the fourth quarter of 2012 than in the fourth quarter of 2011: 5,907oz Au and 785 t Sb versus 2,803 oz Au and 346 t Sb. Processing costs in 2012 were $63.45/t, slightly higher than the $62.29/t incurred during the prior year period due primarily to the cost of fine crushing the ore feed.

Site cash operating cost per tonne of ore processed was $335/t in the fourth quarter of 2012, compared to $496/t in the fourth quarter of 2011. The greater metal production in the fourth quarter of 2012 led to a lower cost per gold equivalent ounce produced: $966/oz as compared to $1,473/oz in 2011.

During the fourth quarter of 2012, the Company invested $2,049,613 in capital development, $1,311,987 in exploration and $1,849,910 in property, plant and equipment. The corresponding amounts for the prior year quarter were $2,146,244, $643,090, and $1,656,016, respectively.

Year ended December 31, 2012, and December 31, 2011

The Costerfield mine completed 5,319 m of operating development versus 4,027 m in the prior year. It produced 96,297 t of ore containing 8.26 g/t Au and 4.33% Sb in 2012 as compared to 66,156 t of ore containing 6.00 g/t Au and 3.97% Sb. Mining costs were $282/t in 2012 vs. $272/t in 2011. The higher grades delivered as a result of achieving a better balance between stoping and development ore and improved plant throughput in the current year resulted in significantly improved financial results.

The capital development advance improved in 2012 to 1,720 m from 1,027 m in 2011 and the cost per meter declined to $4,631/m from $6,002/m. The Company believes that these improvements are sustainable going forward.

In the year ended December 31, 2012, the Costerfield concentrator processed 94,187 t of ore containing 8.13 g/t Au and 4.32% Sb. This is a significant increase in metal throughput relative to the prior year when 71,973 t of ore were processed containing 7.27 g/t Au and 3.66% Sb. The plant achieved higher recoveries in the 2012 period than in the 2011 period: 89.06% recovery of gold and 95.89% recovery of antimony as against 86.32% recovery of gold and 92.27% recovery of antimony. The improved tonnages, head grades and recoveries in 2012 led to greater saleable metal production in 2012. Concentrate production was 7,191 dry metric tonnes ("dmt") containing 2,481 t saleable Sb and 18,036 oz saleable Au in 2012 versus 4,706 dmt containing 1,577 t Sb and 12,244 oz Au for 2011. Processing costs were lower in 2012 than in 2011 as well: $67.37/t versus $77.32/t.

Site cash operating cost per tonne of ore processed was $431/t in 2012, slightly greater than the $411/t in 2011. The higher operating costs led to a slightly higher cost per gold equivalent ounce produced in 2012 ($1,133/oz) as compared to 2011 ($1,117/oz). However, the higher volumes of saleable metal in the 2012 led to much improved revenue, EBITDA and net income. The Company expects unit cash costs to improve as the impact of higher plant throughput going forward (more tonnes) is divided into relatively well-controlled total costs.

During 2012, the Company invested $7,964,203 in capital development, $5,132,931 in exploration and $7,870,833 in property, plant and equipment at Costerfield. The corresponding amounts for 2011 were $6,160,012 for capital development, $2,774,475 for exploration and $5,491,977 for property, plant and equipment.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended December 31, 2012

Cerro Bayo generated record revenue of $35,372,521 for the quarter ended December 31, 2012. Earnings from mine operations before depreciation and depletion were $23,959,479 and EBITDA was $22,550,405. Consolidated income after fair value adjustments and deferred tax income was $12,791,487.

Cerro Bayo financial results

	Quarter ended December 31, 2012 $	Quarter ended December 31, 2011 $
Revenue	35,372,521	14,724,372
Cost of sales	11,413,042	10,017,447
Earnings from mine operations before depreciation and depletion	23,959,479	4,706,925
Depreciation and depletion	3,900,125	2,314,674
Income from mine operations	20,059,354	2,392,251
Administration (1)	2,106,465	1,260,581
EBITDA (2)	22,550,405	3,446,344
Finance costs, fx and others (3)	1,371,675	1,291,859
Income/(loss) before tax	16,581,214	(160,189)
Current tax expense	1,934,598	-
Deferred tax expense	1,855,130	(4,450,865)
Net income/(loss) after tax	12,791,487	4,290,676
Capital expenditure (4)	7,227,303	5,519,168

[1]Includes intercompany transfer pricing Corporate re charge costs of $697,391.
[2]Does not include intercompany transfer pricing Corporate re charge costs.
[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.
[4]Includes additions net of retirement carrying amounts due to disposals. Also includes capitalized depreciation on equipment.

Cerro Bayo operating statistics

The following table summarizes certain aspects of production, sales, costs and capital investment activities at Cerro Bayo during the years ended December 31, 2012 and 2011, three months ended December 31, 2012 and 2011, and the three months ended September 30, 2012, June 30, 2012 and March 31, 2012.

	Unit	Year ended December 31, 2012	Year ended December 31, 2011	Three months ended December 31, 2012	Three months ended December 31, 2011	Three months ended September 30, 2012	Three months ended June 30, 2012	Three months ended March 31, 2012
Mining Production and Mining Cost								
Operating development	m	9,280	5,518	2,507	2,254	2,479	2,375	1,919
Mined ore	t	358,944	207,783	104,543	76,140	94,629	86,112	73,660
Ore mined Au grade	g/t	1.71	1.06	1.75	1.08	1.66	2.08	1.26
Ore mined Ag grade	g/t	284.96	220.82	305.53	207.83	276.33	305.34	243.02
Mined contained Au	oz	19,723	7,104	5,897	2,643	5,061	5,771	2,993
Mined contained Ag	oz	3,288,530	1,475,189	1,026,924	508,771	840,719	845,351	575,536
Mining cost per tonne ore	$/t	57.00	61.00	53.91	64.12	58.42	56.87	59.72
Processing and Processing Cost								
Processed ore	t	358,256	270,456	103,240	77,104	97,125	98,914	58,976
Mill head grade Au	g/t	1.70	1.00	1.75	1.12	1.67	1.87	1.41
Mill head grade Ag	g/t	284.79	187.16	305.97	202.48	275.66	295.56	244.69
Recovery Au	%	87.82	82.50	89.19	78.40	88.12	87.96	84.70
Recovery Ag	%	90.08	84.50	91.19	81.76	90.25	89.64	88.59
Concentrate produced	dry t	8,040	3,942	2,589	966	2,128	2,274	1,049
Concentrate grade Au	g/t	66.40	52.69	62.51	67.90	67.11	70.84	64.95
Concentrate grade Ag	g/t	11,374.11	10,404.28	11,193.11	12,729.21	11,381.01	11,395.32	11,760.88
Saleable Au produced	oz	17,089	6,678	5,020	2,109	4,787	5,093	2,190
Saleable Ag produced	oz	2,911,595	1,318,665	895,222	395,296	804,779	814,970	396,624
Saleable Au equivalent produced	oz	70,865	36,007	21,998	9,572	19,300	19,936	9,631
Processing Cost per tonne ore	$/t	25.68	28.97	24.78	28.66	24.70	25.41	29.35
Sales								
Concentrate sold	dry t	7,841	3,582	2,592	1,240	2,277	2,376	595
Concentrate Au grade	g/t	66.60	49.97	63.05	60.85	69.10	67.35	69.46
Concentrate Ag grade	g/t	11,414.56	10,035.23	11,130.58	10,309.72	11,395.17	11,636.95	11,837.36
Au sold	oz	16,216	5,538	5,068	2,347	4,904	4,960	1,284
Ag sold	oz	2,766,380	1,112,000	891,145	396,150	803,810	853,364	218,060
Benchmark Unit Cost								
Site cash operating cost/ tonne ore processed[1]	$/t	101	93	97.54	112.37	101	90	128
Site cash operating cost/tonne concentrate produced[1]	$/t	4,512	6,375	3,889	8,970	4,595	3,909	7,189
EBITDA/tonne ore milled[1]	$/t	185	83	218	45	221	180	77
EBITDA/tonne concentrate produced[1]	$/t	8,261	5,703	8,710	3,568	10,093	7,838	4,353
Cash cost per oz Ag produced net of Au byproduct credit[1][2]	$/oz	5.67	14.29	5.17	16.72	5.00	4.12	11.45
Capital Spending								
Capital development	m	1,904	2,453	400	404	503	542	459
Capital development cost	$000	12,167	9,332	3,063	1,530	2,946	2,921	3,235
Capital development cost/meter	$/m	6,392	3,804	7,667	3,786	5,854	5,393	7,049
Capital purchases	$000	7,909	3,880	2,803	1,469	2,831	1,213	1,061
Capitalized exploration	$000	4,466	5,656.252	1,361	2,520	1,215	1,299	591

[1]Does not include intercompany transfer pricing Corporate re charge 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 December 31, 2012 and December 31, 2011

The Cerro Bayo mine produced 104,543 t of ore in 2012 versus 76,140 t of ore in 2011. This represents average mine production of 1,160t/day, reflecting timely completion of the ramp-up. Mined ore grades increased from the fourth quarter of prior year to the current quarter: 1.75 g/t Au and 306 g/t Ag in the fourth quarter of 2012 versus 1.08 g/t Au and 208 g/t Ag in the fourth quarter of 2011. In addition, mine development rates increased: 2,507 m of operating development were completed in the 2012 period versus 2,254 m in the prior comparable period. Mining cost per tonne in the fourth quarter of 2012 was $53.91/t versus $64.12/t in the fourth quarter of 2011.

During the fourth quarter of 2012, the Cerro Bayo concentrator processed 103,240 t of ore containing 305.97 g/t silver and 1.75 g/t gold as compared to 77,104 t of ore with grades of 202 g/t silver and 1.12 g/t gold in the fourth quarter of 2011. The plant achieved significantly better recoveries of metal in the current period than in the prior year comparable period: 89.19% recovery of gold and 91.19% recovery of silver versus 78.40% of gold and 81.76% of silver.

The improvements in mine output and plant performance have translated to higher metal production. Cerro Bayo produced 2,589 dmt of concentrate containing 895,222 oz saleable Ag and 5,020 oz saleable Au in the fourth quarter of 2012, as compared to 966 dmt of concentrate containing 395,296 oz Ag and 2,109 oz Au in the comparable 2011 period. Processing costs during the fourth quarter of 2012 were $24.78/t, lower than the $28.66/t incurred in the fourth quarter of 2011.

During the fourth quarter of 2012, Cerro Bayo sold 2,592 dmt of concentrate, containing 5,068 oz of saleable Au and 891,145 oz saleable Ag. Sales during the comparable quarter of 2011 were 1,240 dmt of concentrate, containing 2,347 oz Au and 396,150 oz Ag.

Site cash operating cost per tonne of ore processed was $97.54/t in the fourth quarter of 2012 versus $112.37/t in the fourth quarter of 2011. Cash cost per ounce silver produced net of gold by-product was $5.17/oz in the fourth quarter of 2012, significantly lower than the $16.72/oz in the fourth quarter of 2011, mainly due to higher production as the ramp-up proceeded.

During the fourth quarter of 2012, the Company invested $3,063,466 in mine development versus $1,530,147 in 2011. The Company spent $2,802,724 for purchase of property, plant and equipment in 2012 versus $1,468,639 in 2011. It spent $1,361,112 on exploration versus $2,520,381 in the fourth quarter of 2011.

Year ended December 31, 2012, and December 31, 2011

The Cerro Bayo mine produced 358,944 t of ore in 2012 versus 207,783 t in 2011. In addition, the mine completed 9,280 m of operating development in 2012 versus 5,518 m in the prior year. Ore grades were 1.71 g/t Au and 285 g/t Ag in 2012 versus 1.06 g/t Au and 221 g/t Ag in 2011. Mining cost per tonne in 2012 was $57/t, slightly less than the $61/t in 2011.

During 2012, the Cerro Bayo concentrator processed 358,256 t of ore with grades of 285 g/t silver and 1.70 g/t gold. During the year 2011, the concentrator processed 270,456 t of ore with grades of 187 g/t silver and 1.00 g/t gold. The plant achieved 87.82% recovery of gold and 90.08% recovery of silver in 2012 versus 82.50% of gold and 84.50% of silver in 2011. Processing costs for 2012 were $25.68/t versus $28.97/t in 2011.

Cerro Bayo produced 8,040 dmt of concentrate containing 2,911,595 oz saleable Ag and 17,089 oz saleable Au in 2012. Production in the prior year was 3,942 dmt of concentrate containing 1,318,665 oz Ag and 6,678 oz Au. Processing costs for theyear2012 were $25.68/t versus $28.97/t in2011.

During 2012, Cerro Bayo sold 7,841 dmt of concentrate, 16,216 oz Au and 2,766,380 oz Ag. Sales for 2011 were 3,582 dmt concentrate, 5,538 oz Au and 1,112,000 oz Ag.

Site cash operating cost per tonne of ore processed was $101.27/t in 2012, versus $92.93/t in 2011. Cash cost per ounce silver produced net of gold by-product was $5.67/oz in 2012, significantly lower than the $14.29/oz achieved in 2011.

During 2012, the Company invested $12,166,541 for capital mine development versus $9,331,663 in 2011, $7,908,693 for purchase of property, plant and equipment versus $3,880,364 and $4,465,981 versus $5,656,252 for exploration.

La Quebrada

Spending on exploration at La Quebrada was $273,232 during the fourth quarter. During the year the Company spent $2,298,167 versus $1,429,092 in 2011.

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 October 1, 2012 December 31, 2012	Average rate January 1, 2012 December 31, 2012	Average rate October 1, 2011 December 31, 2011	Average rate January 1, 2011 December 31, 2011
1A$ = C$	1.0295	1.0353	1.0358	1.0206
1A$ = US$	1.0386	1.0359	1.0126	1.0325
1 US$ = C$	0.9914	0.9996	1.0228	0.9891
1 US$ = Chilean Peso	477.77	486.23	511.61	483.63

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market gold and silver price in the fourth quarter of 2012 were higher compared to the fourth quarter of 2011. Market antimony prices declined in the fourth quarter of 2012 relative to the fourth quarter of 2011. 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 fourth quarter against their respective market prices.

COMMODITY	Average rate October 1, 2012 December 31, 2012	Average price Janaury 1, 2012 December 31, 2012	Average rate October 1, 2011 December 31, 2011	Average price Janaury 1, 2011 December 31, 2011
Gold US$/Oz - Realized[1]	1,712	1,675	1,734	1,622
Gold- US$/Oz. Average London Daily PM close	1,717	1,668	1,686	1,572
Realized antimony US$/Tonne[1]	11,960	12,513	12,921	15,252
Antimony US$/Tonne- Rotterdam Warehouse	12,317	12,846	13,869	14,976
Realized silver price US$/oz	30	31	27	35
Silver US$/oz Average London Daily PM close	33	31	32	35

[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	December 31, 2012 $	September 30, 2012 $	June 30, 2012 $	March 31, 2012 $
Revenue	55,699,764	48,847,630	46,538,713	20,719,516
Income/(Loss)	22,375,166	9,011,008	19,246,828	(8,920,644)
Income/(Loss) per Share	0.07	0.03	0.07	(0.03)

Particulars	December 31, 2011 $	September 30, 2011 $	June 30, 2011 $	March 31, 2011 $
Revenue	24,233,020	26,960,784	24,360,995	16,609,053
Income/(Loss)	955,754	13,177,845	1,936,478	2,407,240
Income/(Loss) per Share	0.00	0.05	0.01	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 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 from the quarter ended December 31, 2011, to the quarter ended December 31, 2012, 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 over the last four quarters 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 2011 Japanese Earthquake and the 2012 Aysen labour protests. The Company expects this volatility to decline in the future as there are currently no put options in place for 2013 and we hope for fewer external interruptions in our scheduled shipments to customers.

1.6 LIQUIDITY, SOLVENCYAND USES OF CASH

At December 31, 2012, the Company had working capital of $38,480,236 compared to $28,178,485 at December 31, 2011. The Company had cash and cash equivalents of $17,264,446 at the end of the December 31, 2012 as compared to $12,741,454 at December 31, 2011.

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 December 31, 2012, 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

As at December 31, 2012, the Company had repaid the last installment of the silver contract to Coeur D'Alene Mines Corporation in the U.S. dollar equivalent amount of 20,333 ounces of silver. During the year ended December 31, 2012, the Company recorded a fair value measure net loss of $453,413 and paid the four instalments of the silver contract totalling $2,555,916 based on the prevailing silver market price.

In December 2010, the Company entered into a loan agreement with Sprott Resource Lending Partnership ("Sprott") in the amount of $10,054,000 (C$10,000,000) bearing interest at a rate of 11% and maturing on December 17, 2012. The loan was secured by certain assets of the Company. The Company drew down the first tranche of the loan of C$5,000,000 by December 31, 2010, net of the arrangement fee of $100,540 (C$100,000). The Company also issued 1,885,938 common shares to Sprott and incurred $467,266 in loan issue costs. These transaction costs are netted against the loan balance. The Company was required to prepay portions of the loan upon certain financing transactions occurring prior to maturity of the loan. In February, 2011, the Company drew down the second tranche of the loan of $5,027,000 (C$5,000,000). On this second tranche, the Company incurred $757,086 (C$734,038) in loan issue costs. The loan was fully repaid in June, 2012.

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 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 Facilities is secured by all of the Company's assets. The Company incurred transaction costs of $157,828 for the arrangement of the Corporate Facility. On June 8, 2012, the Company drew down $5 million of the Corporate Facility to repay a portion of the Sprott loan. On July 12, 2012, the Company further drew down $3 million of the Corporate Facility to repay equipment loans. As at September 30, 2012, Company had fully repaid the BMO loan amount.

In March, 2012, Cerro Bayo borrowed $1,000,100 from Banco Credito Inversiones ("BCI").The loan was non-secured, with an interest rate of 3.68% and matured at on May 29, 2012. The Company repaid this loan in full at maturity.

The company has no outstanding debt as at December 31, 2012.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

As of December 31, 2012, 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 fourth 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 fourth 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 December 31, 2012, the Company had no past due 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. World antimony, gold and silver prices are 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.

The financial reporting impact of these hedges under IFRS will potentially produce non-cash earnings volatility on a quarterly basis because IFRS require that these hedges be valued at fair value each quarter. In the fourth quarter of 2012, the mark-to-market gain on this hedge position was $381,956. It is not the Company's intent to trade these securities, but rather to hold them to maturity as price protection for its future revenues, earnings and cash flows.

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 December 31, 2012. 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 AccPac 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 324,787,153 common shares issued and outstanding. The weighted average number of shares outstanding during the fourth quarter used for the calculation of per share results was 319,175,841.

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 December 31, 2012	As of February 20, 2013	Expiry Date
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	470,000	April 11, 2016
0.56	3,965,000	3,965,000	March 11, 2016
0.50	150,000	150,000	August 21, 2013
0.42	70,000	70,000	January 25, 2016
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	1,402,500	1,402,500	August 26, 2015
0.255	2,130,000	2,130,000	December 7, 2014
Total	**13,630,000**	**13,630,000**	

During the quarter ended December 31, 2012, 80,000 stock options were expired and 3,334,586 options were exercised. There were 13,630,000 options outstanding as of December 31, 2012, which could result in issuance of shares.

Outstanding share purchase warrants that could result in the issuance of additional common shares as of December 31, 2012, and as of the date of this MD&A are as follows:

Exercise Price C$	As of December 31, 2012	As of February 20, 2013	Expiry Date
0.31	14,650,000	14,650,000	November 30, 2014
0.47	8,950,000	6,350,000	November 30, 2014
Total	**23,600,000**	**21,000,000**	

During the quarter ended December 31, 2012, the number of warrants exercised was 1,870,000 and the Company received $730,432 (C$714,550) for the warrants exercised. The number of warrants outstanding as of December 31, 2012 was 23,600,000.

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.