Condensed consolidated interim financial statements of

Mandalay Resources Corporation

June 30, 2012
(Unaudited)

Mandalay Resources Corporation
June 30, 2012

Table of contents

Mandalay Resources Corporation

Condensed consolidated interim statements of income
three and six months ended June 30,

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
	$	$	**$**	$
Revenues	**46,538,713**	24,360,995	**67,258,229**	40,970,048
Cost of operations				
Cost of sales excluding depletion and depreciation	**20,714,077**	12,124,951	**32,542,697**	19,630,479
Depletion and depreciation	**4,668,354**	2,540,624	**8,731,967**	5,416,934
	25,382,431	14,665,575	**41,274,664**	25,047,413
Income from mine operations	**21,156,282**	9,695,420	**25,983,565**	15,922,635
Expenses				
Administration	**4,258,623**	2,271,330	**7,023,511**	3,670,550
Share-based compensation	**469,447**	455,882	**837,549**	845,321
(Gain) on disposal of property, plant and equipment	**-**	-	**-**	(323,467)
	4,728,070	2,727,212	**7,861,060**	4,192,404
Income from operations	**16,428,212**	6,968,208	**18,122,505**	11,730,231
Other income (expenses)				
Gain (loss) on derivative financial instruments (Note 13)	**3,547,527**	(2,830,998)	**(7,310,107)**	(3,808,698)
Finance costs (Note 12)	**(899,598)**	(2,209,994)	**(2,105,046)**	(3,194,442)
Interest and other income	**205,635**	24,632	**276,055**	63,002
Foreign exchange gain (loss)	**200,720**	(15,370)	**59,853**	(446,375)
	3,054,284	(5,031,730)	**(9,079,245)**	(7,386,513)
Income before income taxes	**19,482,496**	1,936,478	**9,043,260**	4,343,718
Income taxes (recovery) (Note 11)				
Current	**435,633**	-	**435,633**	-
Deferred	**(199,965)**	-	**(1,718,557)**	-
	235,668	-	**(1,282,924)**	-
Net income for the period	**19,246,828**	1,936,478	**10,326,184**	4,343,718
Income per share (Note 14)				
Basic	**0.07**	0.01	**0.04**	0.02
Diluted	**0.05**	0.01	**0.03**	0.02
Weighted average number of common shares outstanding (Note 14)				
Basic	**281,218,285**	248,421,728	**275,691,357**	232,610,799
Diluted	**387,940,974**	309,467,316	**388,017,431**	282,529,393

Mandalay Resources Corporation

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

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
	$	$	**$**	$
Net income for the period	**19,246,828**	1,936,478	**10,326,184**	4,343,718
Other comprehensive loss				
Foreign currency translation	**(291,177)**	(1,141,651)	**(181,785)**	(414,931)
Comprehensive income for the period	**18,955,651**	794,827	**10,144,399**	3,928,787

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

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

	June 30, 2012	December 31, 2011
	$	$
Assets		
Current assets		
Cash and cash equivalents	**11,223,685**	12,741,454
Trade and other receivables (Note 4)	**19,943,583**	11,225,321
Inventories (Note 5)	**14,877,162**	12,401,401
Prepaid expenses and other	**788,695**	290,657
Derivative financial instruments (Note 13)	**6,409,861**	16,253,768
Total current assets	**53,242,986**	52,912,601
Non-current assets		
Reclamation and other deposits	**2,630,319**	2,431,941
Property, plant and equipment (Note 6)	**93,404,440**	79,099,451
Intangible asset	**1,414,082**	-
Deferred tax asset (Note 11)	**6,265,829**	4,450,865
Total non-current assets	**103,714,670**	85,982,257
Total assets	**156,957,656**	138,894,858
Liabilities		
Current liabilities		
Trade and other payables (Note 7)	**16,634,730**	13,320,759
Current portion of borrowings (Note 8)	**7,507,555**	10,004,691
Provisions (Note 9)	**1,856,631**	1,408,666
Total current liabilities	**25,998,916**	24,734,116
Non-current liabilities		
Borrowings (Note 8)	**1,919,724**	254,333
Reclamation and site closure costs	**13,761,740**	13,830,271
Provisions (Note 9)	**1,770,208**	1,105,172
Total non-current liabilities	**17,451,672**	15,189,776
Total liabilities	**43,450,588**	39,923,892
Equity		
Share capital (Note 10)	**84,155,059**	79,665,838
Share option reserve (Note 10 (a))	**7,480,415**	6,796,248
Warrants reserve (Note 10 (c))	**9,801,480**	4,543,207
Foreign currency translation reserve	**1,492,630**	1,674,415
Retained earnings (Note 10 (c))	**10,577,484**	6,291,258
Total equity	**113,507,068**	98,970,966
Total liabilities and equity	**156,957,656**	138,894,858

Approved and authorized for issue by the Board on August 7, 2012.

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

(Signed) Robert Doyle
Robert Doyle, Director

Mandalay Resources Corporation

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

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

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
		$	$	$	$	$	$
Balance, December 31, 2011	270,177,075	79,665,838	6,796,248	4,543,207	1,674,415	6,291,258	98,970,966
Warrants exercised (Note 10 (c))	12,193,000	4,387,964	-	(326,735)	-	-	4,061,229
Share options exercised (Note 10 (a))	482,000	286,873	(153,382)	-	-	-	133,491
Normal course issuer bid (Note 10 (d))	(630,500)	(185,616)	-	-	-	(234,050)	(419,666)
Share-based compensation (Note 10 (b))	-	-	837,549	-	-	-	837,549
Warrants exchange offer (Note 10 (c))	-	-	-	5,585,008	-	(5,805,908)	(220,900)
Total comprehensive income for the period	-	-	-	-	(181,785)	10,326,184	10,144,399
Balance, June 30, 2012	282,221,575	84,155,059	7,480,415	9,801,480	1,492,630	10,577,484	113,507,068

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Deficit	Total equity
		$	$	$	$	$	$
Balance, December 31, 2010	215,178,788	59,233,056	5,573,759	6,019,794	3,482,688	(12,024,086)	62,285,211
Warrants exercised (Note 10 (c))	52,070,287	18,883,172	-	(1,419,278)	-	-	17,463,894
Share options exercised (Note 10 (a))	375,000	228,140	(116,560)	-	-	-	111,580
Share-based compensation (Note 10 (b))	-	-	845,321	-	-	-	845,321
Total comprehensive income for the period	-	-	-	-	(414,931)	4,343,718	3,928,787
Balance, June 30, 2011	267,624,075	78,344,368	6,302,520	4,600,516	3,067,757	(7,680,368)	84,634,793

Mandalay Resources Corporation

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

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
	$	$	**$**	$
Operating activities				
Net income for the period	**19,246,828**	1,936,478	**10,326,184**	4,343,718
Adjustments to reconcile loss to net cash used by operating activities				
Depletion and depreciation	**4,676,415**	2,551,564	**8,748,163**	5,438,001
Gain on disposal of asset	**-**	-	**-**	(323,467)
Share-based compensation	**469,447**	455,882	**837,549**	845,321
Foreign exchange (gain) loss	**(9,759)**	115,469	**(102,518)**	333,720
Finance costs	**899,598**	2,209,994	**2,105,046**	3,194,442
Interest and other income	**(205,635)**	(24,632)	**(276,055)**	(63,002)
(Gain) loss on derivative financial instruments	**(3,547,527)**	2,830,998	**7,310,107**	3,808,698
Deferred tax	**(199,965)**	-	**(1,718,557)**	-
Change in non-cash operating working capital items				
Trade and other receivables	**(11,557,262)**	(1,331,477)	**(8,789,692)**	(4,527,996)
Inventories	**1,416,008**	(385,015)	**(2,479,795)**	(4,867,042)
Prepaid expenses and other	**(437,225)**	94,760	**(721,275)**	(175,340)
Intangible assets	**(1,414,082)**	-	**(1,414,082)**	-
Trade and other payables	**4,067,540**	(5,723,821)	**4,554,306**	(3,000,738)
Provisions	**242,837**	83,160	**889,682**	580,191
Cash generated from operations	**13,647,218**	2,813,360	**19,269,063**	5,586,506
Interest paid	**(427,053)**	(326,971)	**(711,048)**	(498,564)
Interest received	**205,647**	24,632	**276,067**	63,002
Net cash flows from operating activities	**13,425,812**	2,511,021	**18,834,082**	5,150,944
Investing activities				
Expenditure for reclamation	**(358,872)**	(134,197)	**(730,945)**	(526,638)
Expenditure for property, plant and equipment	**(10,278,944)**	(8,805,876)	**(20,142,934)**	(14,907,118)
Increase in reclamation deposit and others	**-**	(1,273,308)	**-**	(1,275,117)
Proceeds on disposal of property, plant and equipment	**-**	23,670	**-**	420,925
Proceeds from derivative financial instruments	**2,106,200**	-	**2,533,800**	-
Payment for derivative financial instruments	**-**	(14,091,450)	**-**	(16,053,450)
Net cash flows from investing activities	**(8,531,616)**	(24,281,161)	**(18,340,079)**	(32,341,398)
Financing activities				
Borrowings	**5,000,000**	-	**7,998,300**	4,931,313
Repayment of borrowings	**(12,682,550)**	(62,575)	**(13,550,263)**	-
Issuance of common shares for cash	**4,025,985**	16,754,672	**4,194,720**	17,575,474
Purchase of common shares for cancellation	**(282,593)**	-	**(419,666)**	-
Net cash flows from financing activities	**(3,939,158)**	16,692,097	**(1,776,909)**	22,506,787
Effects of exchange rate changes on the balance of cash held in foreign currencies	**(351,542)**	122,907	**(234,863)**	356,472
Decrease in cash and cash equivalents	**603,496**	(4,955,136)	**(1,517,769)**	(4,327,195)
Cash and cash equivalents, beginning of period	**10,620,189**	15,551,047	**12,741,454**	14,923,106
Cash and cash equivalents, end of period	**11,223,685**	10,595,911	**11,223,685**	10,595,911
Cash and cash equivalents are comprised of				
Cash	**6,305,017**	5,391,860	**6,305,017**	5,391,860
Cash equivalents	**4,918,668**	5,204,051	**4,918,668**	5,204,051
	11,223,685	10,595,911	**11,223,685**	10,595,911
Supplemental cash flow information				
Non-cash financial and investing activities				
Purchase of plant and equipment with equipment loans	**1,080,331**	200,988	**3,032,602**	623,943

1. Description of business and nature of operations

Mandalay Resources Corporation and its wholly-owned subsidiaries ("Mandalay" or the "Company") is a gold, silver and antimony producer engaged in mining and related activities including acquisition, exploration, extraction, processing and reclamation. Mandalay's assets are comprised of the Costerfield gold and antimony mine in Australia, the Cerro Bayo silver and gold mine as well as other exploration projects in Chile.

Mandalay is incorporated in British Columbia, Canada. The Company's shares are listed on the Toronto Stock Exchange ("TSX"). The head office and principal address of the Company is 76 Richmond Street East, Suite 330, Toronto, Canada, M5C 1P1. The Company's registered office is located at 1900 - 355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of International Financial Reporting Standards (IFRS) that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in Note 2 (r), of the Company's audited consolidated financial statements for the year ended December 31, 2011.

3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2011. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

New accounting pronouncement

(a) Application of new and revised International Financial Reporting Standards

Effective January 1, 2012, the Company adopted a revised International Financial Reporting Standards ("IFRSs") that was issued by the International Accounting Standards Board ("IASB"). The application of this new and revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

3. Summary of significant accounting policies (continued)

(a) Application of new and revised International Financial Reporting Standards (continued)

(i) Amendments to IFRS 7 Financial Instruments: Disclosures

Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

(b) Accounting standards issued but not yet effective

(i) Effective for annual periods beginning on or after July 1, 2012

Amended standard IAS 1 Presentation of Financial Statements

The amendment to IAS 1 revises the presentation of other comprehensive income.

(ii) Effective for annual periods beginning on or after January 1, 2013

- Amended standard IFRS 7 *Financial Instruments: Disclosures*

  The amendment to IFRS 7 enhances the disclosure required when offsetting financial assets and liabilities.

- New standard IFRS 10 *Consolidated Financial Statements*

  IFRS 10 outlines the principles for the presentation and preparation of consolidated financial statements.

- New standard IFRS 11 *Joint Arrangements*

  IFRS 11 defines the two types of joint arrangements (joint operations and joint ventures) and outlines how to determine the type of joint arrangement entered into and the principles for accounting for each type of joint arrangement.

- New standard IFRS 12 *Disclosure of Interests in Other Entities*

  IFRS 12 outlines the disclosures required in order to provide users of financial statements with the information necessary to evaluate an entity's interest in other entities, the corresponding risks related to those interests and the effects of those interests on the entity's financial position, financial performance and cash flows.

- New standard IFRS 13 *Fair Value Measurement*

IFRS 13 defines fair value, summarizes the methods of determining fair value and outlines the required fair value disclosures. IFRS 13 is utilized when another IFRS standard requires or allows fair value measurements or disclosures about fair value measurements.

3. Summary of significant accounting policies (continued)

(b) Accounting standards issued but not yet effective (continued)

(ii) Effective for annual periods beginning on or after January 1, 2013 (continued)

- New interpretation IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

  IFRIC Interpretation 20 summarizes the method of accounting for waste removal costs incurred as a result of surface mining activity during the production phase of a mine.

- Amended standard IAS 19 *Employee Benefits*

  IAS 19 outlines the accounting treatment and required disclosures for employee benefits. The amendments applicable to the Company consist of modification of the accounting treatment for termination benefits and the clarification of miscellaneous issues including the classification of employee benefits.

- Amended standard IAS 27 *Separate Financial Statements*

  IAS 27 outlines the accounting principles to be applied with regards to investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate, non-consolidated, financial statements. The previous standard was titled IAS 27 Consolidated and Separate Financial Statements.

- Amended standard IAS 28 *Investments in Associates and Joint Ventures*

  IAS 28 outlines the accounting treatment and corresponding application of the equity method of accounting in investments in associates and joint ventures. The previous standard was titled IAS 28 Investments in Associates.

(iii) Effective for annual periods beginning on or after January 1, 2014

- Amended standard IAS 32 *Financial Instruments: Presentation*

  The amendments to IAS 32 pertained to the application guidance on the offsetting of financial assets and financial liabilities.

(iv) Effective for annual periods beginning on or after January 1, 2015

- Amended standard IFRS 7 *Financial Instruments: Disclosures*

  The amendments to IFRS 7 outlines the disclosures required when initially applying IFRS 9 Financial Instruments.

- New standard IFRS 9 *Financial Instruments*

  Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement

(Expressed in U.S. dollars)

3. Summary of significant accounting policies (continued)

The Company has not early adopted these new and amended standards and is currently assessing the impact that these standards will have on the consolidated financial statements. IFRS 10, IFRS 11, IAS 27 and IAS 28 cannot be early adopted on a stand-alone basis and may only be early adopted as a group along with IFRS 12. Early adoption must be disclosed.

IFRS 12 disclosure is encouraged prior to adoption of the standard. This early disclosure does not require the entity to apply IFRS 10, IFRS 11, IAS 27 or IAS 28. IFRS 13 may be early adopted on a stand-alone basis so long as this fact is disclosed and the standard is applied prospectively as at the beginning of the annual reporting period in which the standard is initially applied.

4. Trade and other receivables

Trade and other receivables are comprised of the following:

	June 30, 2012	December 31, 2011
	$	$
Trade receivables	**18,061,118**	7,720,331
Value added tax and other indirect tax refundable	**1,651,259**	3,172,674
Other receivables	**231,206**	332,316
	19,943,583	11,225,321

The allowance for doubtful accounts was $Nil and $Nil at June 30, 2012 and December 31, 2011, respectively.

During the six month period ended June 30, 2012, the Company received $1.0 million value added tax from the Chilean tax authority, which was acquired as part of the Cerro Bayo acquisition in 2010. With this receipt, the Company has collected all value added tax refunds acquired as part of the Cerro Bayo acquisition.

5. Inventories

	June 30, 2012	December 31, 2011
	$	$
Finished goods	**6,141,956**	5,315,421
Work in progress	**1,926,521**	870,558
Consumables	**6,808,685**	6,215,422
	14,877,162	12,401,401

The amount of inventories recognized in cost of sales for three and six months ended June 30, 2012 were $25,382,431 and $41,274,664 respectively (2011 - $14,665,575 and $25,047,413).

There were no write-downs or reversals of write-downs during the six months ended June 30, 2012 or 2011.

(Expressed in U.S. dollars)

6. Property, plant and equipment

Property, plant and equipment consist of the following:

	Mining interests		Plant and equipment			Exploration and evaluation			Total
	Costerfield	Cerro Bayo	Costerfield	Cerro Bayo	Others	Costerfield	Cerro Bayo	Others	$
	$	$	$	$	$	$	$	$	
Cost									
As at December 31, 2010	15,127,566	13,326,943	13,693,863	10,247,799	92,862	1,120,578	584,847	9,888,012	64,082,470
Additions	6,160,012	14,481,737	5,491,977	3,880,364	88,236	2,774,475	506,179	1,754,268	35,137,248
Disposals	-	(2,433)	(1,681,419)	(522,958)	(65,838)	-	-	-	(2,272,648)
Reclassification to mining interest	-	577,625	-	-	-	-	(577,625)	-	-
Foreign exchange	(1,128,586)	-	(285,025)	-	68,515	(32,368)	-	(192,645)	(1,570,109)
As at December 31, 2011	20,158,992	28,383,872	17,219,396	13,605,205	183,775	3,862,685	513,401	11,449,635	95,376,961
Additions	3,828,284	6,156,586	5,357,222	2,274,572	-	2,313,648	1,889,855	1,699,484	23,519,651
Disposals	-	-	-	(1,969,551)	-	-	-	-	(1,969,551)
Reclassification to mining interest	2,589,475	(327,124)	-	-	-	(2,589,475)	327,124	-	-
Foreign exchange	(126,875)	-	(68,753)	-	(186)	57,895	-	(11,918)	(149,837)
As at June 30, 2012	26,449,876	34,213,334	22,507,865	13,910,226	183,589	3,644,753	2,730,380	13,137,201	116,777,224
Accumulated depreciation									
As at December 31, 2010	1,839,641	-	1,921,139	377,188	20,806	-	-	-	4,158,774
Expense	2,976,699	4,381,186	1,673,530	4,213,845	48,486	-	-	-	13,293,746
Disposals	-	-	(426,361)	(493,756)	(10,343)	-	-	-	(930,460)
Impairment	-	-	-	-	-	-	-	-	-
Foreign exchange	(139,840)	-	(103,435)	-	(1,275)	-	-	-	(244,550)
As at December 31, 2011	4,676,500	4,381,186	3,064,873	4,097,277	57,674	-	-	-	16,277,510
Expense	1,855,603	4,291,894	803,508	2,122,198	19,075	-	-	-	9,092,278
Disposals	-	-	-	(1,969,551)	-	-	-	-	(1,969,551)
Foreign exchange	(15,783)	-	(11,408)	-	(262)	-	-	-	(27,453)
As at June 30, 2012	6,516,320	8,673,080	3,856,973	4,249,924	76,487	-	-	-	23,372,784
Carrying value									
As at December 31, 2010	13,287,925	13,326,943	11,772,724	9,870,611	72,056	1,120,578	584,847	9,888,012	59,923,696
As at December 31, 2011	15,482,492	24,002,686	14,154,523	9,507,928	126,101	3,862,685	513,401	11,449,635	79,099,451
As at June 30, 2012	19,933,556	25,540,254	18,650,892	9,660,302	107,102	3,644,753	2,730,380	13,137,201	93,404,440

For three and six months ended June 30, 2012, Cerro Bayo's plant and equipment depreciation of $183,908 and $344,115 were capitalized in mining interest (2011 - $337,039 and $596,878).

(Expressed in U.S. dollars)

7. Trade and other payables

	June 30, 2012	December 31, 2011
	$	$
Trade payables	**8,695,455**	7,752,970
Accrued liabilities	**5,696,944**	3,851,276
Union agreement bonus payable	**1,414,082**	-
Income, payroll and other taxes payable	**848,249**	772,841
Payable to Coeur for VAT refund (Note 4)	**-**	943,672
	16,654,730	13,320,759

The average credit period of purchase is one month.

8. Borrowings

Borrowings consist of the following:

	Interest rate	Maturity	**June 30, 2012**	December 31, 2011
	%		**$**	$
Current				
Equipment loan (a)	7.86 to 9.93	2012-2013	**1,427,288**	718,377
Sprott loan (b)	11.00	2012	**-**	7,183,811
Silver contract (c)	-	2012	**1,080,267**	2,102,503
BCI Loan (d)	3.60	2012	**-**	-
Bank of Montreal - Corporate Facility (e)	3.99	2012	**5,000,000**	-
			7,507,555	10,004,691
Non-current				
Equipment loan (a)	7.86 to 9.93	2013 - 2014	**1,919,724**	254,333
			1,919,724	254,333
			9,427,279	10,259,024

(a) Equipment loans are secured by the applicable equipment they are financing.

(b) 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 is 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 is 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 loan, the Company incurred $757,086 (C$734,038) in loan issue costs.

The loan was fully repaid in June 2012.

(Expressed in U.S. dollars)

8. Borrowings (continued)

(c) Upon the acquisition of Cerro Bayo in 2010, the Company entered into an agreement with the vendor of Cerro Bayo whereby the Company makes future cash payments in an aggregate amount equal to the U.S. dollar equivalent of 125,000 ounces of silver to be paid in six quarterly instalments commencing in Q3 2011 and ending in Q4 2012 ("Silver Contract"). As at June 30, 2012, the Company paid the quarterly instalment of the Silver Contract of $565,792 based on the silver market price. The Company adjusted the silver contract to $1,080,267 as at June 30, 2012 based on the updated forecast silver prices and time values, resulting in a fair value measurement gain (loss) of $225,682 and ($194,847) for the three and six months ended June 30, 2012 (2011 - ($1,270,703) and ($1,856,977)).

(d) In March 2012, Cerro Bayo borrowed $1,000,100 from Banco Credito Inversiones ("BCI"). The loan is non-secured, bears interest at a rate of 3.68% and matured at on May 29, 2012. The Company fully repaid the loan at maturity.

(e) 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 any acquisition of an entity in the mining industry in Australia, Canada, Chile or the United States of America. It is subject to an interest rate of the lender's borrowing cost (LIBOR etc.) 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 assets held by the Company.

The Company incurred transaction costs of $157,828 (C$162,341) for the arrangement of the Corporate Facility, which is recorded in finance costs.

On June 8, 2012, the Company drew down $5 million of the Corporate Facility to repay the Sprott loan (Note 8).

Repayment of borrowings required in each of the next four years are as follows:

	Equipment loans	Silver contract	BMO Corporate Facility	Total
	$	$	$	$
2012 (6 months)	773,190	1,080,267	5,000,000	6,853,457
2013	1,264,043	-	-	1,264,043
2014	1,072,327	-	-	1,072,327
2015	237,452	-	-	237,452
	3,347,012	1,080,267	5,000,000	9,427,279

(Expressed in U.S. dollars)

9. Provisions

	Employee benefit (i)	Severance payment (ii)	Total
	$	$	$
Balance, December 31, 2011	1,480,381	1,033,457	2,513,838
Additions	1,042,220	680,629	1,722,849
Amounts paid	(597,409)	(15,495)	(612,904)
Foreign exchange	3,056	-	3,056
Balance, June 30, 2012	1,928,248	1,698,591	3,626,839
Less: current portion	1,856,631	-	1,856,631
Long-term portion	71,617	1,698,591	1,770,208

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

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

10. Share capital

At June 30, 2012, the Company had unlimited authorized common shares and 282,221,575 common shares outstanding (December 31, 2011 - 270,177,075 common shares). All outstanding shares are fully paid.

(a) Stock options

The Company has established a “rolling” stock option plan (the “Plan”) in compliance with the Toronto Stock Exchange’s policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the weighted average market price of the Company’s stock for the five trading days immediately before the date of grant. Options generally vest over three years and have a maximum term of seven years from date of grant.

(Expressed in U.S. dollars)

10. Share capital (continued)

(a) Stock options (continued)

	Number of options	Weighted average exercise price
		C$
Balance, January 1, 2011	10,100,946	0.27
Granted	5,748,750	0.58
Forfeited	(463,750)	0.24
Expired	(187,480)	0.50
Exercised	(1,487,500)	0.27
Balance, December 31, 2011	13,710,966	0.40
Granted	4,092,500	0.83
Forfeited	(62,500)	0.42
Expired	(24,380)	0.50
Exercised	(482,000)	0.28
Balance, June 30, 2012	**17,234,586**	**0.51**

The following table summarizes information about the stock options outstanding at June 30, 2012:

Options outstanding			Options exercisable	
Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
		C$		C$
5,344,586	2.44	0.26	5,344,586	0.26
1,502,500	3.16	0.26	1,126,875	0.26
50,000	3.19	0.31	37,500	0.31
100,000	3.21	0.34	75,000	0.34
300,000	3.27	0.33	225,000	0.33
230,000	3.57	0.42	115,000	0.42
240,000	0.76	0.50	240,000	0.50
3,965,000	3.70	0.56	-	0.56
470,000	3.78	0.58	-	0.58
490,000	4.42	0.70	-	0.70
450,000	4.01	0.76	-	0.76
4,092,500	4.69	0.83	-	0.83
17,234,586	3.47	0.51	7,163,961	0.27

(Expressed in U.S. dollars)

10. Share capital (continued)

(b) Share-based compensation

For the three and six month periods ended June 30, 2012, the Company recorded $469,447 and $837,549 (2011 - $455,882 and $845,321) as share-based compensation expense and recorded this amount in share option reserve. 4,092,500 stock options were granted in March 2012 (Note 10 (a)). The value for the stock options granted was determined using the Black-Scholes option pricing model. The weighted average grant date fair value was C$0.83 and C$0.83 for the three and six months ended June 30, 2012, respectively (2011 - C$0.49 and C$0.46). Expected stock price volatility is based on the Company's historical share price volatility.

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Risk free interest rate	-	2.89%	1.49%	2.67%
Expected dividend yield	-	-	-	-
Expected option life (years)	-	5.0	5.0	5.0
Expected stock price volatility	-	119%	91%	118%
Expected forfeiture rate	-	5%	5%	5%

(c) Share purchase warrants

A summary of the changes in share purchase warrants is presented below:

	Number of warrants	Weighted average exercise price
		C$
Balance, January 1, 2011	159,489,599	0.36
Exercised	(53,960,287)	0.33
Expired	(150,000)	0.25
Balance, December 31, 2011	105,379,312	0.38
Exercised	(12,193,000)	0.33
Balance, June 30, 2012	**93,186,312**	**0.39**

(Expressed in U.S. dollars)

10. Share capital (continued)

(c) Share purchase warrants (continued)

The following table summarizes information about outstanding share purchase warrants at June 30, 2012:

Number of warrants	Exercise price	Expiry date
	C$	
27,396,312	0.33	August 6, 2012
1,000,000	0.20	April 22, 2014
600,000	0.20	July 22, 2014
1,600,000	0.47	October 15, 2014
19,950,000	0.31	November 30, 2014
42,640,000	0.47	November 30, 2014
93,186,312	0.39	

On May 24, 2012, the Company issued an exchange offer to its warrant holders to exchange all or a portion of their common share purchase warrants of the Company for common shares of the Company at the rates set out below:

Warrant series	Exercise price	Expiry date	Exchange price for each warrant
	C$		
Series 2	0.33	August 6, 2012	0.58 common shares
Series 3	0.20	April 22, 2014	0.79 common shares
Series 4	0.20	July 22, 2014	0.79 common shares
Series 5	0.47	October 15, 2014	0.47 common shares
Series 6	0.31	November 30, 2014	0.63 common shares
Series 7	0.47	November 30, 2014	0.47 common shares

The offer expired on July 3, 2012. Warrants that were not tendered to the exchange offer remain outstanding in accordance with their terms and are not affected by the exchange offer.

The Company has calculated the incremental difference in the fair value of these warrants immediately prior to and after the exchange offer. The fair value of warrants were determined using a Black-Scholes option pricing model applying the following weighted average assumptions prior to and after the warrant exchange offer. The Company estimated the share price volatility by referring to similar transactions.

(Expressed in U.S. dollars)

10. Share capital (continued)

(c) Share purchase warrants

	Prior to offer	After offer
Current share price, times a number of shares entitled to with one warrant	0.67	0.31 - 0.53
Risk free interest rate	1.10%	1.10%
Expected dividend yield	-	-
Expected option life (years)	0.2 to 2.5 years	0.2 to 2.5 years
Expected stock price volatility	25%	25%

The resulting incremental fair value of $5,805,908 associated with the exchange offer, net of related transaction costs of $220,900, was recorded as an increase to warrants reserve, with the offset to retained earnings.

As of July 4, 2012, 67,297,777 warrants were tendered to the exchange offer, and subsequent to June 30, 2012, the Company issued 35,795,052 common shares in exchange for the tendered warrants.

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

In October 2011, the Company entered into an NCIB. The NCIB covers the period of October 17, 2011 to October 16, 2012. Pursuant to the 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 will be made at the discretion of the Company at prevailing market prices, commencing October 17, 2011 and ending October 16, 2012. Pursuant to TSX policies, daily purchases made by the Company will not exceed 53,433 common shares and 6,084 purchase warrants. 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.

Under the NCIB, the Company repurchased 424,500 and 630,500 common shares at an average price of C$0.68 and C$0.67 at a cost of $282,594 and $419,666 (C$287,105 and C$425,775) during three and six months ended June 30, 2012. The excess of the purchase price over the average stated value of shares purchased for cancellation of $157,624 and $234,050 (C$157,502 and C$233,279) were charged to retained earnings. The Company ceases to consider shares outstanding on the date of the Company's purchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a date shortly thereafter.

(Expressed in U.S. dollars)

11. Income tax

The Company uses the liability method of accounting for income taxes. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and on the carryforward of tax losses and tax credits. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

As at June 30, 2012, the Company recognized deferred tax assets of $6,265,829 (December 31, 2011 - $4,450,865). During the six months ended June 30, 2012, the Company utilized the deferred income tax asset of $1,546,231 that had been recognized as of December 31, 2011. This amount related solely to Cerro Bayo. In addition, during the six months ended June 30, 2012, the Company recognized $3,361,195 with respect to a deferred tax asset at Costerfield.

12. Finance costs

	Three months ended June 30,	
	2012	2011
	$	$
Interest on loans	**890,943**	477,336
Fair value adjustment on Silver Contract	**(225,682)**	1,270,703
Accretion of reclamation and site closure costs	**234,337**	461,955
	899,598	2,209,994

	Six months ended June 30,	
	2012	2011
	$	$
Interest on loans	**1,443,874**	851,788
Fair value adjustment on Silver Contract	**194,847**	1,856,977
Accretion of reclamation and site closure costs	**466,325**	485,677
	2,105,046	3,194,442

(Expressed in U.S. dollars)

13. Derivative financial instruments

The Company enters into certain silver put options and gold put options to hedge commodity price risks. The following table presents the costs and fair value of outstanding derivative financial instruments held by the Company as at June 30, 2012 and December 31, 2011. The Company recorded a fair value measurement gain (loss) of $3,547,527 and ($7,310,107) for three and six months ended June 30, 2012 (2011 - $(2,830,998) and $(3,808,698)), and sold certain put options for $2,106,200 and $2,533,800 for three and six months ended June 30, 2012 (2011 - $Nil and $Nil).

		June 30, 2012	
	Maturity period	Cost	Fair value
		$	$
Silver			
50,000 ounces silver put option/month (300,000 ounces in total) at the price of $25 per ounce	July 2012 through to December 2012	910,000	280,150
100,000 ounces silver put option/month (600,000 ounces in total) at the price of $35 per ounce	July 2012 through to December 2012	4,083,000	4,584,801
70,000 ounces silver put option/month (420,000 ounces in total) at the price of $30 per ounce	July 2012 through to December 2012	1,933,750	1,341,760
Gold			
2,400 ounces gold put option/month (14,400 ounces in total) at the price of $1,400 per ounce	July 2012 through to December 2012	1,764,000	203,150
		8,690,750	6,409,861
Less: Current portion			6,409,861
Non-current portion			-

		December 31, 2011	
	Maturity period	Cost	Fair value
		$	$
Silver			
50,000 ounces silver put option/month (450,000 ounces in total) at the price of $25 per ounce	April 2012 through to December 2012	1,262,500	1,158,200
100,000 ounces silver put option/month (1,200,000 ounces in total) at the price of $35 per ounce	January 2012 through to December 2012	7,344,000	9,916,300
70,000 ounces silver put option/month (840,000 ounces in total) at the price of $30 per ounce	January 2012 through to December 2012	3,358,950	3,771,670
Gold			
2,400 ounces gold put option/month (21,600 ounces in total) at the price of $1,400 per ounce	April 2012 through to December 2012	2,469,600	1,407,598
		14,435,050	16,253,768
Less: Current portion			16,253,768
Non-current portion			-

(Expressed in U.S. dollars)

14. Income per share

The weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Basic weighted average number of shares outstanding	281,218,285	248,421,728	275,691,357	232,610,799
Effective of diluted securities				
Stock options	12,216,113	7,385,544	12,408,844	6,497,799
Warrants	94,506,576	53,660,044	99,917,230	43,420,795
Diluted weighted average number of shares outstanding	387,940,974	309,467,316	388,017,431	282,529,393

The following potential common shares, outstanding at June 30, 2012, are anti-dilutive and are therefore excluded from the weighted average number of common shares for the purposes of diluted earnings per share because the exercise price exceeded the daily weighted average market values of the common shares for the three and six months ended June 30, 2012 of C$0.65 and C$0.69 (three and six months ended June 30, 2011 - C$0.76 and C$0.80), respectively:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Stock options	5,032,500	-	5,032,500	-

(Expressed in U.S. dollars)

15. Segmented information

	Australia	Canada	Chile	Total
	$	$	$	$
Three months ended June 30, 2012				
Revenue	14,124,851	-	32,413,862	46,538,713
Depletion and depreciation	(1,379,693)	(8,061)	(3,288,661)	(4,676,415)
Income (loss) from operations	3,770,281	(1,881,204)	14,539,135	16,428,212
Other income (expense), except for fair value adjustment on Silver Contract and derivative financial instruments	75,663	(592,389)	(202,199)	(718,925)
Income (loss) for underlying operations	3,845,944	(2,473,593)	14,336,936	15,709,287
Income for underlying operations per share				
Basic				0.06
Diluted				0.04
Fair value adjustments				
Gain on derivative financial instrucments (Note 13)	44,738	-	3,502,789	3,547,527
Fair value adjustment on Silver Contract (Note 12)	-	-	225,682	225,682
Total fair value adjustment	44,738	-	3,728,471	3,773,209
Net income (loss) before income tax	3,890,682	(2,473,593)	18,065,407	19,482,496
Current tax expense	-	-	(435,633)	(435,633)
Deferred tax recovery (expense)	3,264,788	-	(3,064,823)	199,965
Net income (loss)	7,155,470	(2,473,593)	14,564,951	19,246,828
Income (loss) per share				
Basic				0.07
Diluted				0.05
Cash expenditures for property, plant and equipment	4,714,185	33,082	5,531,677	10,278,944
Total assets as at June 30, 2012	25,343,671	82,109,850	49,504,135	156,957,656

(Expressed in U.S. dollars)

15. Segmented information (continued)

	Australia	Canada	Chile	Total
	$	$	$	$
Six months ended June 30, 2012				
Revenue	25,407,739	-	41,850,490	67,258,229
Depletion and depreciation	(2,659,283)	(16,196)	(6,072,684)	(8,748,163)
Income (loss) from operations	4,931,528	(3,130,045)	16,321,022	18,122,505
Other income (expense),				
except for fair value adjustment on Silver Contract				
and derivative financial instruments	(216,390)	(766,369)	(591,532)	(1,574,291)
Income (loss) for underlying operations	4,715,138	(3,896,414)	15,729,490	16,548,214
Income for underlying operations per share				
Basic				0.06
Diluted				0.04
Fair value adjustments				
Gain on derivative financial instrucments (Note 13)	(377,448)	-	(6,932,659)	(7,310,107)
Fair value adjustment on Silver Contract (Note 12)	-	-	(194,847)	(194,847)
Total fair value adjustment	(377,448)	-	(7,127,506)	(7,504,954)
Net income (loss) before income tax	4,337,690	(3,896,414)	8,601,984	9,043,260
Current tax	-	-	(435,633)	(435,633)
Deferred tax	3,264,788	-	(1,546,231)	1,718,557
Net income (loss)	7,602,478	(3,896,414)	6,620,120	10,326,184
Income (loss) per share				
Basic				0.04
Diluted				0.03
Cash expenditures for property, plant and equipment	8,466,721	72,409	11,603,804	20,142,934
Total assets as at June 30, 2012	25,343,671	82,109,850	49,504,135	156,957,656

(Expressed in U.S. dollars)

15. Segmented information (continued)

	Australia	Canada	Chile	Total
	$	$	$	$
Three months ended June 30, 2011				
Revenue	11,597,499	-	12,763,496	24,360,995
Depletion and depreciation	(1,008,977)	(10,940)	(1,531,647)	(2,551,564)
Income (loss) from operations	2,970,523	(1,484,468)	5,482,153	6,968,208
Other income (expense),				
except for fair value adjustment on Silver Contract				
and derivative financial instruments	(434,763)	(295,260)	(200,006)	(930,029)
Income (loss) for underlying operations	2,535,760	(1,779,728)	5,282,147	6,038,179
Income for underlying operations per share				
Basic				0.02
Diluted				0.02
Fair value adjustments				
Gain on derivative financial instrucments (Note 13)	(126,710)	-	(2,704,288)	(2,830,998)
Fair value adjustment on Silver Contract (Note 12)	-	-	(1,270,703)	(1,270,703)
Total fair value adjustment	(126,710)	-	(3,974,991)	(4,101,701)
Net income (loss) before income tax	2,409,050	(1,779,728)	1,307,156	1,936,478
Deferred tax	-	-	-	-
Net income (loss)	2,409,050	(1,779,728)	1,307,156	1,936,478
Income (loss) per share				
Basic				0.01
Diluted				0.01
Cash expenditures for property, plant and equipment	(3,547,271)	(1,217)	(5,257,388)	(8,805,876)
Total assets as at December 31, 2011	42,930,340	5,765,576	90,198,942	138,894,858

(Expressed in U.S. dollars)

15. Segmented information (continued)

	Australia	Canada	Chile	Total
	$	$	$	$
Six months ended June 30, 2011				
Revenue	25,890,019	-	15,080,029	40,970,048
Depletion and depreciation	(2,423,748)	(21,067)	(2,993,186)	(5,438,001)
Income (loss) from operations	8,625,174	(2,755,132)	5,860,189	11,730,231
Other income (expense), except for fair value adjustment on Silver Contract and derivative financial instruments	(465,240)	(955,374)	(300,224)	(1,720,838)
Income (loss) for underlying operations	8,159,934	(3,710,506)	5,559,965	10,009,393
Income for underlying operations per share				
Basic				0.04
Diluted				0.04
Fair value adjustments				
Loss on derivative financial instrucments (Note 13)	(126,710)	-	(3,681,988)	(3,808,698)
Fair value adjustment on Silver Contract (Note 12)	-	-	(1,856,977)	(1,856,977)
Total fair value adjustment	(126,710)	-	(5,538,965)	(5,665,675)
Net income (loss) before income tax	8,033,224	(3,710,506)	21,000	4,343,718
Deferred tax	-	-	-	-
Net income (loss)	8,033,224	(3,710,506)	21,000	4,343,718
Income (loss) per share				
Basic				0.02
Diluted				0.02
Cash expenditures for property, plant and equipment	(6,114,852)	(176,096)	(8,616,170)	(14,907,118)
Total assets as at December 31, 2011	42,930,340	5,765,576	90,198,942	138,894,858

For the three months ended June 30, 2012, the Company had four customers, from which it earned more than 10% of its total revenue (2011 - two). Revenue from these customers amounted to $14,124,851, $14,402,306, $7,393,512 and $10,615,400 (2011 - $11,597,499 and $12,763,496).

For the six months ended June 30, 2012, the Company had four customers, from which it earned more than 10% of its total revenue (2011 - two). Revenue from these customers amounted to $25,407,738, $21,386,273, $9,846,174 and 10,615,400 (2011 - $25,890,019 and $15,080,029).

16. Subsequent events

From July 1, 2012 to August 7, 2012:

The Company drew down $3,000,000 from the BMO Corporate Facility on July 12, 2012. The funds were used to repay the equipment loans.