
MESSAGE TO SHAREHOLDERS

DOMINIC DUFFY
PRESIDENT, CEO AND DIRECTOR
MANDALAY RESOURCES



Safe production and safe working conditions are a core part of Mandalay Resources' values. Now, more than ever, the health of our employees and their families, and the communities in which we operate, are of paramount importance.

We are closely monitoring developments relating to the COVID-19 pandemic in each of the jurisdictions where we have assets. So far, we are fortunate that neither our business nor our employees have been significantly affected by COVID-19. As a risk management measure, we have implemented comprehensive procedures to ensure the safety of our employees and the continuity of the business. We have also prepared contingency plans that review and analyze various consequences to the business, the supply chain, macro demand and supply factors. For the time being, to conserve our cash position during this time of uncertainty, we have postponed all non-essential spending. While we hope this will not be necessary, we are prepared to make further adjustments to our operations as and when required.

Although we are all understandably preoccupied with COVID-19 and its impact on global economies and individuals, I would like to spend the rest of this letter focusing on our progress and achievements in 2019. Last year, Mandalay Resources accomplished a key strategic objective by returning operations to positive cashflow generation and at the same time de-risking its balance sheet and non-operating assets. The business today is on better ground than it has been for some time and is well-positioned to execute on mine plans that demonstrate the long-term value and cash-generative potential of both sites. As indicated in our results for the first quarter of 2020, the work we did in 2019 is already bearing fruit and should place Mandalay Resources in an even stronger position once the uncertainties and disruptive effects of COVID-19 have subsided, as they inevitably will.

OPERATIONS

Coming into 2019, one of our key operating objectives was accessing the new ore source at the Costerfield mine: the Youle vein. I am pleased that we accomplished this safely. The Youle vein is anticipated to be the primary source of organic growth and cashflow for the Company over the next few years. Youle presents significantly improved higher-grade ore, better

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recoveries and significantly better ground conditions at Costerfield, allowing for more efficient mining as compared to the previously mined Brunswick vein. Its impact has already been evident in the first quarter of 2020 with quarterly production of 14,927 saleable ounces of gold equivalent – Costerfield’s highest quarterly production level since the second quarter of 2016. Processed gold grades averaged 12.6 g/t gold during the first quarter of 2020, a significant increase over the 2019 full year average of 5.1 g/t. We expect to see continued high gold grades at Costerfield over the course of 2020, setting us up to meet our 2020 production guidance of 44,000 – 52,000 ounces of saleable gold equivalent, with a cash cost per equivalent ounce between USD\$725 – \$875.

At Björkdal in 2019, we stabilized production, and completed the transition of the mine from both open pit and underground operations to solely underground in July. The aim was to eliminate the associated open pit costs and take advantage of processing higher margin underground Aurora zone and stockpiled ore, which we are now doing. We expect to increase the underground production rate to 1 million tonnes of ore in 2020 from 850,000 tonnes mined in 2019. The first quarter of 2020 saw 10,750 ounces of salable gold produced. These early encouraging signs suggest that the strategy is translating into increased production and positive cashflow generated from the operation. For 2020, we expect Björkdal to produce between 51,000 – 57,000 ounces of saleable gold at approximately USD\$750 – \$900 cash cost per ounce.

EXPLORATION

Net of depletion for production in 2019, Costerfield increased its Mineral Reserves for contained gold and antimony by 13% and 3%, respectively, and maintained its minimum three-year mine life for the eighth consecutive year. Björkdal modestly increased its underground Mineral Reserves for contained gold and maintained the operation’s 10-year mine life.

At Costerfield, I am pleased to say that we’ve concluded the first of the planned deep hole drilling campaigns. The first hole was completed beneath the Youle vein at 1,500 metres below surface. This program helped advanced our geological understanding of the highly prospective deep targets and sets the scene for 2020 deep drilling program, which will take place under the Augusta and Cuffley veins.

The Costerfield team will continue with the step-out drilling on the Youle vein to better outline the northern, southern and depth limits of this high-grade orebody. More regional exploration from surface is planned for the remainder of 2020, targeting the Damper Gully, True Blue, Brown’s Reef, and Robinson’s areas, which are all within minable distance from the existing operations.

At Björkdal, the main 2019 exploration objective was to outline the strike and dip limits of the Aurora zone and to define the limits of the high-grade, skarn-hosted mineralization discovered in 2018. Thus far, the limits of the mineralization of the Aurora zone has not yet been defined.

For 2020, exploration will concentrate on the underground, focusing on extensions of the Aurora zone including depth extensions and drilling significant distances to the north of the Aurora deposit.

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FINANCIAL POSITION

In March 2020, the Company strengthened its balance sheet and improved its near-term flexibility by entering into a new \$65 million senior credit facility with HSBC Canada and Macquarie Bank. The facility, which replaced our previous credit facility with HSBC Canada which was due to be repaid this year, strengthens and de-risks our balance sheet by: 1) extending the maturity date of our bank debt and providing payment terms that more closely match our projected life of mine cashflows; 2) providing additional liquidity to address near-term working capital requirements; and 3) allowing the Company to retire its remaining obligations relating to the outstanding gold bonds. We have also entered into two separate hedge programs for the duration of the new facility with respect to a portion of our future gold production to protect against any future declines in the price of gold. Given the uncertainty in today's economic landscape, I am extremely pleased with this timely transaction and would like to thank both HSBC Canada and Macquarie Bank for their support during this process.

Over the course of 2019, we made significant progress in divesting or finding sustainable solutions for all of our non-core assets. In Chile, we signed a binding option agreement for the sale of Cerro Bayo and completed the sale of Challacollo for total consideration (including contingent consideration) of CAD\$10.5 million. Prior to the sale of Challacollo, we also sold certain non-core concessions associated with the Challacollo property in a separate transaction for \$2.0 million. In Canada, we completed the sale of the Ulu property late in 2019, enabling the release of its reclamation obligations at that site. We are also working towards full closure of the Lupin property where the existing reclamation security held for this asset will be used to fund the closure costs.

ENVIRONMENT, SOCIAL AND GOVERNANCE

On ESG (Environment, Social and Governance) matters, we are engaged with our board and management teams on an updated framework where both our risk management efforts and our "Living our Values" framework will incorporate ESG factors, as recommended by the Sustainability Accounting Standards Board. Since inception, the Company has embedded its values into its operating systems. Starting with Safety first for all our operations, our values of Integrity, Agility, Responsibility, Performance and Innovation and Value Creation are how we measure our success. These values are reflected in our safety statistics, continuous improvement processes, compensation systems, employee surveys, employee resolution processes and overall operating philosophy. Recognizing the importance and significant market awareness of the implementation of ESG standards of disclosure, we are currently reviewing our framework and updating our disclosure and metrics to meet SASB guidelines. Our updated framework will further reinforce our commitment to building a sustainable mining company supported by a meaningful value system that resonates at all our sites. I am also pleased that this year, we completed another global employee survey and that our commitment to ensure a safe and rewarding place of work for our employees is reflected in these engagement efforts.

I would like to welcome our latest Board member Mr. Terrell Ackerman who joined us in June

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2019, as a nominee of CE Mining Fund III LP. We are very pleased to have Mr. Ackerman on our Board, his extensive experience in global mining operations will be extremely valuable and he will also be part of our Safety, Health, Environment and Community Committee.

SAFETY

Mandalay is committed to operational best practice and safety is a key pillar in our day-to-day decisions and actions. The Company is successful when our employees can work safely and when we proactively protect our people and property. In 2019, we implemented safety improvements at both sites, introduced the Björkdal workforce to the Safety Savvy, Train the Trainer Program and carried out continual leadership training for the management workforce. At Costerfield, we completed a significant policy review to ensure all aspects of the operation were covered by our safety process.

In 2020, we will continue to proactively improve our safety procedures and practice to ensure the safety of all employees and contractors on our sites.

2020 AND BEYOND

With 2019 behind us, we look towards 2020 and remain committed to maximizing shareholder value through optimization of our organic growth opportunities and generating positive cashflow.

I would like to thank our Board for their guidance, as well as our shareholders for their continued support over the past year. In particular, I would like to thank all of our employees and contractors for their commitment and dedication which have pushed the Company into a stronger position heading into 2020. I'm confident that with the people and talents we have in place, we can overcome this unprecedented time and strengthen our resolve to building a sustainable business that provides value to shareholders, our employees and our communities.



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