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# MESSAGE TO SHAREHOLDERS

## SETTING THE FOUNDATION FOR PROFITABILITY AND GROWTH

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**DOMINIC DUFFY**  
PRESIDENT, CEO  
AND DIRECTOR  
MANDALAY RESOURCES



2019 is shaping up to be a transformative year for Mandalay Resources Corporation. At the halfway point of 2019, I am very excited about the position Mandalay Resources is in with regards to our operations, our exploration potential, and our financial condition; all of which underpin an exciting future for the Company.

### COMPELLING ORGANIC GROWTH PROFILE: A STATED GOAL TO DOUBLE PRODUCTION AND LOWER COSTS

One of the major elements of the Mandalay strategy since mid-2018 has been the focus on organic growth and increasing cash flow through strengthening operations. I am pleased to say that in early 2019 Mandalay laid out a significant production growth trajectory that is expected to take the Company from producing 81,568 ounces of gold equivalent in 2018 to 131,000-162,000 ounces of gold equivalent by the end of 2021.

The major catalyst for this multi-year growth trajectory is the expected production increase coming from a new ore source at the Costerfield mine: the Youle vein. Added to Mineral Reserves and Resources in early 2019, Youle is located approximately 800 metres from our existing Brunswick workings and is a high-grade orebody with substantial potential to grow. At approximately 18-19 grams per tonne of gold equivalent, the Youle vein is more than twice the grade of Brunswick and has significant cash generative potential. Youle is expected to take Costerfield production from 35,849 ounces of saleable gold equivalent in 2018 to 76,000-98,000 ounces of saleable gold equivalent in 2021, with the resultant positive impact on unit costs. We began developing across to Youle in late 2018 and we expect to begin producing from Youle in the fourth quarter of 2019. At the time of writing this letter, we are on schedule. Youle is the linchpin to Mandalay's goal of returning to profitability.

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## SIGNIFICANT EXPLORATION POTENTIAL

The efforts of our exploration teams at Costerfield and Björkdal in 2018 have yielded two high-quality, emerging exploration stories, each of which could have a material impact for the Company.

We are very excited about our exploration potential at Costerfield. We spent a lot of time investigating the potential for high-grade mineralization at depth. With the recent finding of a deep, world-class deposit at the neighbouring Fosterville operation, the importance and potential for discovery has increased the urgency for exploration. During 2019, we will conduct a deep hole drill program, drilling approximately one kilometre deep and 400 metres below the current reserves. We expect the deep hole exploration program to continue over several years, with the first year focusing on understanding the geology to target the zones most likely to host high-grade mineralization, which would be followed up on in subsequent years.

In mid-2018 we decided to shift our focus at Björkdal to search for higher-grade, wider underground areas that could result in more profitable production. As a result, we had a major exploration breakthrough with the discovery of the Aurora zone, which turned nearly 30 years of geological understanding on its head. The Aurora zone contains large areas of mineralization previously thought to be constrained. It was long believed that the marble contact had constrained the mineralization, but the Aurora discovery shows mineralized structures that are up to six times the height of historically mined structures and currently unconstrained up and down dip, being substantially wider, and at higher grades than historical averages. While much work still needs to be done to understand and delineate this area, we were able to add a small amount of Aurora into our year-end 2018 Mineral Reserve and Resource update. We expect the upside potential of Aurora and surrounding structures to positively impact our underground production in the years to come. Our exploration program will continue to focus on Aurora and surrounding structures while continuing searching for deposits of similar magnitude.

At the time of writing this letter, we have begun our 2019 drilling programs at both sites and I look forward to providing everyone with updates on these programs as the information becomes available.

## STRONG FINANCIAL POSITION

Central to the revitalization of Mandalay is the C\$54 million financing we completed in the first quarter of 2019. This fundraising transaction greatly improved our financial condition and gives us the funds required to not only fulfill our near-term liquidity obligations and backstop the remaining portion of our exchangeable gold bonds, but to also create value and growth. The net proceeds from this raise gives Mandalay the financial footing to: develop to the high-grade Youle vein at Costerfield (which is vital to achieving our growth targets), complete a necessary tailings upgrade at Björkdal, and to drill some extremely exciting exploration targets at both of our producing properties. Accomplishing this financing was no easy task, and I would like to personally thank the Company's major shareholders for stepping up to participate in the financing, all of our shareholders for their overwhelming support of the transaction, and all of the people involved for making this happen. This fundraising was a tremendous show of confidence for Mandalay and our value creation plans going forward, and I intend to repay this support by delivering on the growth plans that we have outlined.

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## A STRONG START TO 2019

Operationally, Mandalay has gotten off to a positive start in 2019. Björkdal, now with its new underground haulage fleet online, has performed very well to date, producing 14,385 ounces of gold in the first quarter – above expectations – and we expect this elevated metal production to continue in subsequent quarters. While excellent Björkdal performance has been welcome, we expect the major production increase for the Company to arrive once Costerfield’s Youle vein begins production later in the year.

## 2019 AND BEYOND

I view 2019 as a year in which Mandalay lays the foundation for a period of sustained growth and profitability. With operations at Björkdal firmly turned around and performing well, we will be working tirelessly to begin production from Youle, delivering strong results, and demonstrating that Mandalay is a Company that generates value for all our stakeholders. I believe that this is an exciting time for us and the beginning of Mandalay’s resurgence.

## THANK YOU TO OUR PEOPLE

I would also like to express my appreciation and gratitude to our dedicated and resilient employees. Our team has worked hard to meet and overcome several challenges, which have now put us in a position to thrive in the years to come. I would also like to thank our Board of Directors for their guidance and support, as well as all of Mandalay’s shareholders for their patience and confidence.



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