

MESSAGE TO SHAREHOLDERS

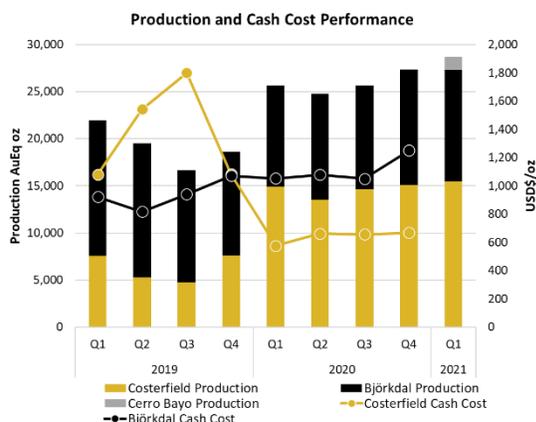


DOMINIC DUFFY
PRESIDENT, CEO AND DIRECTOR
MANDALAY RESOURCES

2020 was an amazing year for Mandalay Resources. The Company turned its operations around and returned to being a significantly profitable organization. Remarkably, this was achieved against the backdrop of the COVID-19 pandemic and all of the challenges it created. I am very proud that we not only successfully implemented protocols to protect our employees and maintain operations, but also continued to grow our production throughout the year.

Our achievements in 2020 positions Mandalay for a bright future with exploration success at both sites that will continue to grow the mine life of the Company.

SUCCESSFULLY EXECUTING ON OUR OPERATIONAL STRATEGY



In 2020, Mandalay produced 103,444 ounces of saleable gold equivalent, a 35% increase as compared to 2019. The main catalyst for this increase was the successful execution of the operational turnaround strategy at Costerfield focused on high-grade production from the Youle deposit.

At Costerfield, we increased 2020 gold equivalent production by 131% year-over-year due to significantly higher overall grades processed from Youle. Average grades from Costerfield were 11.6 g/t gold and 4.3% antimony. Youle will continue to be the primary

driver of production and positive cashflow generation for Costerfield in the coming years.

We expect to see a similar production profile and continued high-gold grades at Costerfield in 2021, and we are expecting an annual gold equivalent production of 53,000 – 60,000 ounces, with a cash cost per equivalent ounce produced of \$675 – \$825.

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2020 was a transitional year for the Björkdal operation, as it was the first full year of production with the open pit operations paused. We continued to execute on our strategy of maximizing the delivery of higher-margin underground ore to the mill to produce more profitable ounces. This entailed boosting the overall mix of underground ore, and supplementing the mill capacity with low-cost, lower-grade stockpiled ore. Björkdal produced 45,296 ounces of salable gold – fewer than in 2019 – due to underground haulage issues in early 2020 and dilution in Aurora, both problems which were remedied by year end 2020. We finished the year strong and are encouraged by the steady ramp-up in underground mill feed, as well as advancing development into Aurora’s high-grade lower levels. More recently in March 2021, the site recorded its strongest monthly production rate since July 2019, with approximately 4,500 ounces of gold produced.

We believe the work done throughout 2020 at Björkdal sets the foundation for a much-improved operation in 2021 and beyond. For 2021, we are forecasting production and cost improvements as production is expected to increase to 52,000 – 57,000 saleable gold ounces with a cash cost of \$900 – \$1,050 per ounce.

On a consolidated basis, we are anticipating higher production for 2021 while continuing to exercise our disciplined cost controls. We are forecasting 105,000 – 117,000 ounces of saleable gold equivalent production at an expected cash cost of \$800 – \$1,000 per ounce.

EXCITING EXPLORATION RESULTS AND MINE LIFE EXTENSION

Mandalay’s exploration efforts continued to yield positive results in 2020. We increased our Mineral Reserves at Costerfield of gold and antimony net of depletion by 25% and 22% respectively, extending the mine life from three years to between four and five years. This represents the longest reserve mine life Costerfield has had during Mandalay’s ownership. We also maintained our long mine life at Björkdal until 2029, most notably by increasing our underground Mineral Reserves – which are expected to be the primary source of mill feed going forward.

Exploration at Costerfield in 2020 and early 2021 has been very exciting. We continued to grow the Youle deposit and were very encouraged by recent drill intercepts which indicated the potential for continued success at depth with spectacular gold grades. 2020 drilling also focused on the Brown’s deposit to the east of the main Costerfield corridor.

Our 2021 exploration focus at Costerfield is three-fold: continuing to grow high-grade resources at depth on Youle to extend the mine life of the deposit, continuing to drill test exciting Youle analogue environments under the Cuffley, Augusta and Brunswick deposits, which includes drilling the deeper Fosterville-style environment, and advancing exploration on the promising Brown’s and western corridor projects. We are planning on spending more than \$6 million on exploration at Costerfield during 2021, its highest budget to date.

At Björkdal, we shifted our exploration strategy from focusing on incremental Mineral Reserve and Resource additions to identifying and drilling more prospective areas with the potential for higher-grade mineralization. Drilling in 2020 and early 2021 focused on the eastern and depth extension of Aurora as well as the eastern extension of the Lake Zone, with both programs returning exciting results and significant grades.

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For 2021, our exploration team will continue to focus on delivering higher grade underground Mineral Resources at Björkdal. We will concentrate our efforts on extending the Aurora system, as well as building Mineral Resources at Lake Zone and Main Zone.

RECORD FINANCIAL PERFORMANCE

A combination of strong operational performance, higher realized gold prices and disciplined cost controls allowed Mandalay to deliver outstanding financial results in 2020.

2020 was a record year in many respects. We generated \$179 million in revenue, our highest full-year result since 2016 – when we had three operating mines rather than the two we have today – and also generated a record EBITDA of \$94.2 million, and record EBITDA margin of 53%.

We are now generating significant cash from our strengthened operations – \$72.2 million in net cash flow from operating activities in 2020, which drove record adjusted net income of \$34.7 million and \$25.3 million in free cash flow.

A CLEAR PATH TOWARDS NET DEBT FREE

In 2020, we took steps to address our liquidity, strengthened our balance sheet and added financial flexibility. Last March we entered into a new \$65 million senior syndicated credit facility with HSBC Canada and Macquarie bank. This allowed us to extend the maturity of our bank debt and more closely align our payment terms with our projected life of mine cashflows. At the end of 2020, our current debt sits at \$59 million and we continue to pay down this balance each quarter.

Our improved cash generation has allowed us to increase our cash position to \$34.2 million at year-end. As our debt level declines and our cash balance continues to grow, we expect to become net debt free as our cash balance is expected to exceed our debt obligations in 2021, which will be another significant milestone for the Company.

ENVIRONMENT, SOCIAL AND GOVERNANCE & SAFETY

The Company had its best safety performance to date in 2020, with a Lost Time Injury Frequency Rate of 2.86. This was a significant achievement considering the complications and distractions encountered by all our employees as a result of COVID-19, and shows the continued success of the Company and our employees in caring for each other. We look forward to building upon these achievements and creating an even stronger enterprise in 2021.

In 2020, the Company set a framework for reporting on Environment, Social and Governance risks producing a SASB (Sustainability Accounting Standards Board) compliant Living our Values report which can be found on the Company's [website](#). In this report, the Company provides disclosure on its risks related to Greenhouse gas emissions, air, energy and water

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management, waste and hazardous materials management as well as additional items of importance to the Company such as safety programs, community engagement and mine closures. This report includes all pertinent risks as identified in the Company's enterprise risk management system.

Our mine operations are heavily engaged in community engagement efforts and we are proud of the support we provide locally, in particular, for the support to health and community organizations including first responders, during the COVID-19 pandemic.

2021 AND BEYOND

Mandalay enters 2021 in a considerably stronger position than in years past – both operationally and financially. Management has four core priorities that will position us for future growth and deliver enhanced shareholder value. They are:

- **Maximize our cash flow from operations:** Take full advantage of the robust gold price environment by continuing to increase our production at Costerfield and ramping-up higher-margin ounces from Björkdal underground.
- **Unlock further value and extend mine life through exploration:** Expand the Youle deposit to give us additional years of cash generation from high-quality, low-cost production. We will also aim to realize the significant potential of the Costerfield property by drilling targets to identify new high-grade ore sources. At Björkdal, we will continue to focus on delineating and growing higher-grade ore from Aurora.
- **De-risk our balance sheet:** Become net debt free in 2021, setting the foundation for further growth opportunities.
- **Re-invest capital into growing the business:** Strengthen the business and create value by investing in growth opportunities and initiatives that will surface value for our shareholders.

On behalf of the Board of Directors and Management of Mandalay, I would like to invite you to attend our Annual General Meeting of shareholders to be held on Wednesday, May 26, 2021, at 9:00 a.m. (Eastern Time). To proactively deal with the public health impact of COVID-19, and to limit and mitigate risks to the health and safety of our stakeholders, the Company will hold the Annual General Meeting in a virtual-only format, details of which can be accessed in the Company's Management Information Circular dated April 16, 2021.

We would like to thank Peter Jones, who has served on Mandalay's board for over 10 years, for his time, contributions, insights and dedication during his tenure, as he will not be standing for re-election at the Annual General Meeting. The Company greatly appreciates his valuable guidance and advice. The Board of Directors has nominated Julie Galloway for election at the Annual General Meeting to take Peter's place. If elected, Julie will bring valuable experience and insights to the Board and I look forward to working with her.

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I would like to thank our Board of Directors for their guidance, as well as our shareholders for their continued support. I would especially like to thank all our employees and contractors for their resilience, dedication, resourcefulness, and courage in finding safe ways to work amidst the uncertainty of a global pandemic. I am proud of what we have been able to achieve together this year, and most proud of the fact we did it safely.

Mandalay is well-positioned for success in 2021. I am excited for the days ahead and believe Mandalay has a bright future. I look forward to updating you on our progress.



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