
MESSAGE TO SHAREHOLDERS 2022

DOMINIC DUFFY
PRESIDENT, CEO AND DIRECTOR
MANDALAY RESOURCES



OVERVIEW

Three years ago, Mandalay took critical steps towards repositioning itself for a renewed future. I am proud of the progress that the Company, our employees and contractors around the world have achieved collectively and individually. As you know, the world continues to be impacted by COVID-19 and Mandalay is no different. We have managed to navigate through these challenges and have consistently executed on our long-term strategy.

2021: A RECORD YEAR OF PERFORMANCE AND ACHIEVEMENTS

2021 was a statement year for the Company as we continued to generate strong returns for our shareholders by achieving record operating and financial performance. Supported by these consistently strong results, I am excited to say that this transformation continues to evolve. We are looking forward to further production growth by building upon the phenomenal exploration success at both our sites and extending their respective mine life. Below are some key milestones achieved along this journey:

Superior Share Price Performance

The closing trading price of our shares on April 18, 2022 was CA\$3.78 up 77% year to date. This is not just a short-term blip. Since the start of 2019, our share price has increased 373%, as compared to increases of 74% for the VanEck Vectors Junior Gold Miners ETF (TSX:GDXJ) and 100% for VanEck Vectors Gold Miners EFT (TSX:GDX).

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Record Production Performance

In 2021, Mandalay produced 123,002 ounces of saleable gold equivalent an increase of 19% over 2020 and 60% over 2019. This not only exceeded our 2021 guidance but was also our best result since 2017.

Record Financial Performance

Mandalay generated a record \$229.4 million in revenue for 2021, which translated to an adjusted EBITDA¹ of \$115.0 million, for a margin of 50% – another Company record. Q4 2021 marked our eighth consecutive quarter of profitability with a net income of \$15.3 million or CA\$0.21 per share. For the full-year, the Company generated \$54.9 million or CA\$0.75 per share in net income.

Strengthened Balance Sheet

The year-over-year production improvements demonstrate the completed turnaround at both assets allowing the Company to now transition its focus on creating long-term financial stability and future growth. In 2021, we continued to build on our financial strength by improving our cash generation while reducing our debt by \$15.2 million. At end of January 2022, Mandalay had \$47.2 million in cash and \$43.9 million owing on our senior credit facility. As our debt level continues to decline while our cash balance grows, we will have greater flexibility to pursue future growth prospects and the possibility of re-implementing a dividend.

Increased Commitment to Exploration and Transformational Discoveries

A key factor towards creating superior value for our shareholders will be continued exploration success. This was borne out in 2021, when we committed \$9 million to exploration expenditures, a significant increase over prior years, and saw a significant return on this investment in the form of a number of exciting discoveries, some of which are described below. We intend to follow up on these successes in 2022 by making further significant exploration investments, with both sites planning to increase drilling substantially on high priority targets.

At Costerfield, already one of the world's highest-grade producing mines, Mandalay discovered the Shepherd Zone in 2021. This is a new gold rich structural domain below the Youle orebody. We originally believed that this discovery consisted of two major veining horizons (Eastern and Western), containing coarse, visible gold. With follow-up exploration drilling, Shepherd was extended to 300 m and 400 m in strike length, in the Eastern and Western horizons respectively, which also included significant grades through five separate veins. Early indications suggest that these two main veining horizons are merging towards the south in an area that exhibits elevated widths and grades. Currently, the Shepherd veining remains open and untested at depth and to the south.

¹Adjusted EBITDA and free cash flow are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other issuers. Refer to our "Non-IFRS Measures."

At Björkdal, building upon our successful Lake and Main Zone extension projects, in early 2022, we provided an update with 17 holes and 7,253 m drilled into the eastern extension within three programs: the Central Zone Extension, Central Zone Conversion and Central to Lake Zone Testing. These results have been connected to the continuation of 21 existing veins and 16 new veins have been discovered. The increasing grades within the extensions of the Björkdal deposit at depth to the east mark a significant development in our multifaceted efforts to lift gold grades and will be a major focus of production in the years to come.

Increased Mineral Reserves and Resources

In conjunction with our commitment to exploration in 2021, we made major additions to our Mineral Reserves and Resources. By the end of 2021, we extended Costerfield's life of mine by two years to 2027. Costerfield's total Mineral Reserves as of December 31, 2021, were 769,000 tonnes at 12.6 grams per tonne gold and 2.5% antimony for a contained amount of 312,000 gold ounces and 19,500 tonnes antimony. During the 10 months from discovery to data cut-off in 2021, Shepherd was able to contribute 296,000 tonnes of ore at a grade of 12.4 grams per tonne gold and 1.0% antimony to Mineral Reserves.

At Björkdal, we improved geological confidence by upgrading tonnage to the Measured Resources and Proven Reserves categories while also maintaining the site's long mine life until 2030. Total Mineral Reserves as at December 31, 2021 were 12.1 million tonnes at 1.39 grams of gold per tonne for a contained 542,000 gold ounces. Unfortunately, the excellent results from the eastern extension programs were not included in our year-end update due to timing, but expect that those results will be reflected in the 2022-year end reporting.

Overall, as of December 31, 2021, Mandalay's total Proven and Probable Mineral Reserves totaled 854,000 ounces of gold and 19,600 tonnes of antimony, compared to 799,000 ounces of gold and 21,800 tonnes of antimony at 2020 year-end. These Mineral Reserves were added at an exploration cost of \$30.79 per gold equivalent ounce – further proof of the cost effectiveness and sustainability of our exploration programs.

Culture

Mandalay had a strong safety performance in 2021, completing the year with a Lost Time Injury Frequency Rate of 3.8, in-line with previous years. This is a significant achievement considering the complications and distractions encountered by all our employees because of COVID-19. We look forward to building upon these achievements as the continued success of this Company depends heavily on fostering a safe working space in which our employees care for each other.

Both of our operations are heavily involved in community engagement, and we are proud to have provided support locally to the health and community organizations including first responders during the pandemic.

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In 2021, Mandalay welcomed Julie Galloway, its second female director, to the Board of Directors and achieved its goal of 25% gender diversity.

For more disclosure regarding the Company's risks related to carbon emissions, energy, and water management and other ESG initiatives please refer to our report, [found here](#).

2022: NEXT STEPS

At Costerfield, we increased 2021 gold equivalent production by 18% year-over-year due to higher overall gold grades processed from Youle and higher realized metal prices. Average grades from Costerfield were 11.8 g/t gold and 3.96% antimony. For 2022, we anticipate further production growth as we ramp up stoping at the Youle mine and initiate production from Shepherd. We are expecting an annual gold equivalent production of 67,000 – 74,000 ounces, with a cash cost per equivalent ounce produced of \$560 – \$710 during 2022.

The work done throughout 2021 at Björkdal to remedy possible future dilution issues sets the foundation for a much-improved operation in 2022 and beyond. For 2022, Björkdal will increase its stoping rates within the higher grade, lower levels of the Aurora Zone. We have maintained our operational goal of achieving 1.2 million tonnes of production from the underground mine. As a result, we are forecasting production and cost improvements as production is expected to increase to 51,000 – 56,000 saleable gold ounces with a cash cost of \$980 – \$1,130 per ounce.

As a result, Mandalay is forecasting a consolidated production between 118,000 – 130,000 ounces of gold equivalent at an expected cash cost of \$700 – \$900 and all-in sustaining cost of \$1,100 – \$1,300. We are also looking forward to following up on the highly successful 2021 exploration campaign with anticipated exploration expenditures of between \$7 – \$9 million at Costerfield and between \$4 – \$5 million at Björkdal during 2022.

Over the course of 2022, exploration at Costerfield will focus on expanding the Shepherd veining to the south and at depth. Regionally, the Brunswick and Margaret depth testing programs will continue in parallel with the Cuffley Deeps, Robinsons Testing and Youle East Testing programs.

At Björkdal, we plan on continuing the eastern extension and infill programs and recommencing the North Testing and Infill program, which is designed to extend resources found in 2020 along multiple veining horizons located up to 500 m north of Aurora. In addition, diamond drill testing will commence on multiple, high priority, regional targets which have been discovered through intensive mapping sampling and geophysics over the past two years.

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. I am proud of what we have been able to achieve, but as mentioned earlier, we are not done – together, I am excited to build upon our recent success and continue to develop Mandalay into a leading gold producer.

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Lastly, 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 25, 2022, at 9:00 AM (Eastern Time). The Company will hold the Annual General Meeting in a virtual-only format, details of which will be provided in the Company's Management Information Circular.

A handwritten signature in black ink, appearing to read 'Duffy', is positioned above a rectangular area with a light gray dotted background.

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