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# MESSAGE TO SHAREHOLDERS

## 2018: A YEAR OF RENEWAL

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**MARK SANDER**  
PRESIDENT, CEO  
AND DIRECTOR  
MANDALAY RESOURCES



2017 was a challenging year for Mandalay, its employees, and its shareholders. In June, Mandalay was hit with an unexpected tragedy when a catastrophic inundation occurred in the bottom level of the Delia NW mine of our Cerro Bayo operation. We lost two of our miners – Jorge Sanchez and Enrique Ojeda – who were working in the bottom level of the of the mine at the time of the event. Our thoughts remain with their families. Operations at Cerro Bayo were suspended immediately, and the Company completed the transition to care and maintenance in September while we work to get the restart of operations permitted.

### 2017 REVIEW

The flow of news about the tragic events and aftermath at Cerro Bayo overshadowed the excellent news from the Company's other operations during the remainder of 2017. Despite having only two operations in production for the second half of 2017, Mandalay produced 131,186 ounces of gold equivalent for the year, which was only about 10% fewer ounces than the 145,497 ounces produced in 2016, a year in which all three assets were in operation.

Our Björkdal gold mine in northern Sweden was extremely successful in 2017, delivering the turnaround performance to which we were committed when we purchased the asset in 2014. Björkdal produced over 62,028 ounces of gold, nearly 50% higher than the production rate at acquisition, at \$816 per ounce cash cost, a considerable improvement over the 2016 cash cost of \$956 per ounce. Our exploration efforts at Björkdal were also successful and we succeeded in replacing depletion for the year, maintaining Björkdal's 10-year mine life.

Our Costerfield mine in Victoria, Australia, delivered yet another solid year of dependable performance. While the mine produced approximately 52,137 gold equivalent ounces, fewer than the 60,076 ounces in 2016 due to expected lower-grade material being mined and processed, excellent cost control led to a very respectable cash cost of \$701 per ounce of gold equivalent. Costerfield also replaced Mineral Reserves in 2017 with the addition of the Brunswick Lode to the mine plan. We have begun capital development at Brunswick and we are on track to be mining first ore in the second quarter of 2018.

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Mandalay's overall financial results for the year were significantly impacted by the Cerro Bayo inundation. While the Company's 2017 revenue of \$163 million was about 12% less than 2016 revenue of \$185.5 million, the Company's 2017 EBITDA of \$48.6 million, was only 5% less than Mandalay's 2016 EBITDA of \$50.9 million. Good production and low cash costs from Björkdal and Costerfield partly offset the production suspension at Cerro Bayo. However, the Company realized a significant consolidated net loss of \$42.7 million after special items. Special items included \$12.8 million of one-time costs from the search and recovery efforts at Cerro Bayo and the costs of going onto care and maintenance at Cerro Bayo, plus a write down of \$19.8 million to reflect future care and maintenance costs and delayed cash flow at Cerro Bayo. In all, the \$20 million net cash outflow for the year included approximately \$30 million of one-time items, which we do not expect to recur. Thus, we anticipate that Mandalay will return to positive cash flow in 2018.

## VALUE CREATION PLANS FOR 2018

Turning our attention to 2018, Mandalay has four key value creation objectives:

The first objective is to deliver strong results from safe operations with well-controlled costs from Björkdal and Costerfield. We are expecting to produce a total of approximately 101,000 – 113,000 ounces of gold equivalent from these two operations at cash costs and all-in costs of \$835 – \$910 and \$1,155 – \$1,280 per gold equivalent ounce, respectively. We are aiming to drive down costs throughout the year at these operations.

The second objective is to grow our Mineral Reserves and Resources. In 2018 we are upping our exploration spend to \$6.4 million. Our exploration focus at Costerfield is on Costerfield Deeps and Kendall (now renamed the Youle vein), where early drill results point to the potential for a high-grade mineralized shoot. After disclosing some very encouraging results in the first quarter of 2018, we are accelerating drilling at Youle with the intention of adding it to our Mineral Reserves by the end of 2018.

At Björkdal, we are focusing our drilling on raising the average grade of the Mineral Reserves and on growing open pit Mineral Resources to support a longer open pit mine life to match the underground mine life. Because we anticipate success in our ability to grow Mineral Reserves at Björkdal, we have begun a study to determine the optimum expanded production rate at the mine once our new tailings permit is approved later this year. We expect this permit will include the approval to increase the milling rate by up to 30% (from 1.3 to 1.7 million tonnes per year), which will set the foundation for the next generation of growth at Björkdal.

The third objective is to maximize the value of our existing portfolio. This has two components: The first is to restart the Cerro Bayo mine as soon as possible. Even though two of the operating mines at Cerro Bayo were untouched by the flooding and remain in good condition along with the plant, the entire operation was placed on care and maintenance until we are completely satisfied that operations can be resumed safely. As well, multiple permits are needed to restart operations and complete mining all the Mineral Reserves in the mine plan. Mandalay will not restart operations until all these permits are received. We currently anticipate restarting Cerro Bayo in 2019. Meanwhile, we are aggressively pursuing the permits, minimizing care and maintenance costs, and limiting the impacts following on from the event.

Another major aspect of maximizing the value of our portfolio is divesting four non-core assets. With improving gold and copper prices, the Company believes it is a good time to exit these assets and put the resulting cash to good use.

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Our fourth priority – and what I believe to be the major catalyst for a return to value creation for Mandalay – is to grow our portfolio through the acquisition of one or more producing or near-producing mines.

We are committed that we will only complete transactions that are:

- accretive to our existing shareholders;
- hold the potential for significant net asset value uplift relative to purchase price within three years; and
- for which we have devised a specific, deliverable value creation plan.

We realize that such opportunities are difficult to find and complete given our current low share price. However, Mandalay was built from scratch over the last eight years by executing three such acquisitions; and we retain the perspective and skills to deliver this contrarian acquisition strategy successfully.

The Board and executive team at Mandalay are acutely aware of the deterioration of shareholder value in 2017. However, we believe that the decline in Mandalay's market capitalization has taken far more value out of the Company than warranted by the operating suspension at Cerro Bayo. With 2017 behind us, we look to 2018 as a year of renewal for the Company, and we look forward to earning, once again, a reputation as a mining industry value creation leader. I would like to express my gratitude to our people for their tireless dedication and resilience, our Board of Directors for their input and guidance, and lastly, our shareholders for their patience and support.



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