

Mandalay Resources Corp.

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Mandalay Resources sitting on solid producing assets in Sweden and Australia, back to operating profitability

- Firm boasts two producing mines with exploration and growth upside
- Operating in mining-friendly jurisdictions
- Major production increase expected from high-grade Youle vein at Australia mine

What Mandalay Resources does:

Mandalay Resources Corp (TSE:MND) is a metals miner and produces gold, silver and antimony.

The company is focused on operating and optimizing its mines at Costerfield in Australia and Björkdal in Sweden. Both assets have the potential for further growth via production and exploration. The aim is to be cash generative, to self-fund exploration, establish and maintain high operating margins, and return cash to shareholders.

Its Costerfield project produces gold and antimony and covers 1,293 hectares. It has a mine life of three to four years and an annual processing capacity of 14,000 tonnes. Proved and probable reserves stand at 474,000 tonnes at 13.4 grams per ton (g/t) gold, 3.8% antimony for 204,000 ounces of gold and 17,800 tonnes of antimony.

Antimony has various uses including making paints, flame-proof materials and ceramics, as well as an alloy with lead.

Björkdal has a mine life of over a decade and has a processing capacity of 1.3 million tonnes a year. The project covers over 12,000 hectares and proved and probable reserves are 11.1 million tonnes at 1.54 grams per ton (g/t) gold for 548,000 ounces of the precious metal.

Last year, the firm struck a binding deal with Equus Mining to dispose of its third main asset, the Cerro Bayo mine in Chile, a non-operating asset since 2017 when a flood led to output being suspended.

In 2019, Mandalay also arranged the sale of other non-core assets - the Challacollo concessions to third parties, and the Ulu project in Nunavut.

How is it doing:

Mandalay has had its challenges in recent years but is back on a steady growth path these days and revealed in May that it returned to operating profitability in the first quarter of 2020.

The company reported a strong operating and financial performance in the quarter to March 31, 2020, despite the impact of the global coronavirus pandemic, largely thanks to its Costerfield mine in Australia, where it saw improved grades and realized gold prices, which led to record revenue.

Price: 2.15
Market Cap: \$196.14 m

Share Information

Code: MND
Listing: TSX
52 week High Low
2.48 0.46

Sector: Gold & silver

Website: www.mandalayresources.com

Company Synopsis:

Mandalay Resources creates exceptional shareholder value through the acquisition of undervalued assets that can rapidly become cash generative, self fund exploration, establish and maintain high operating margins and return cash to shareholders within a planned period of time.

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Revenue from the Australian mine for the quarter came in at C\$20.4 million, which was 96% up on the fourth quarter to end December 2019, and it saw adjusted earnings before interest, tax, depreciation and amortization (EBITDA) margin of 68% during the quarter, up from 29% in the fourth quarter of 2019.

Across the group as a whole, revenue came in at C\$41.5 million versus C\$29.9 million in the same quarter of 2019. Adjusted EBITDA was C\$20.1 million compared to C\$5.2 million in the first quarter of 2019. Adjusted net income per share was C\$0.06, up from a net loss of \$0.01 in the first quarter a year ago.

The production and grades increase was propelled by the high-grade Youle vein at Costerfield, which is expected to provide substantial further output improvement at the mine.

Meanwhile, Björkdal in Sweden continued to deliver steady production and sales, leading to C\$21.2 million in revenue and C\$8.8 million in adjusted EBITDA for the first quarter. In Sweden, Mandalay is ramping up underground output and looking to exploit the discovered Aurora zone.

The firm put what it called the "excellent consolidated financial performance" down to strong production at both mines coupled with higher realized gold prices and a 25% decline in cash cost per gold equivalent ounce,

In the quarter, across the group, Mandalay generated 25,677 saleable ounces of gold equivalent in the first quarter, up from the 21,940 ounces produced during the same three-month period a year ago.

On the financing front, in January this year, Mandalay restructured its debt with HSBC and Macquarie Bank, and unveiled a new US\$65 million credit facility.

Alongside this, Mandalay also struck two separate hedging programs with HSBC and Macquarie for a total of 150,000 ounces of saleable gold over three years beginning monthly in July 2020, or 50,000 ounces of saleable gold a year.

In March it told investors that the coronavirus pandemic had not impacted its production or supply chain and it had activated business continuity practices with the according measures across all sites, including its corporate office in Toronto, Canada.

What the broker says:

Following Mandalay's production numbers in April, broker Mackie said the miner was off to a 'fantastic' start in 2020 and upgraded its rating on the stock to 'Buy' from 'Speculative Buy', hiking its price target to C\$2.75 a share from C\$2.15 a share.

"We now expect production to increase from 95,000 ounces in 2020 to 125,000 ounces in 2021 (essentially unchanged) and for total cash costs to decrease from US\$658/ounce to US\$573/ounce, net of credits," the Mackie analysts said in a note.

"Going forward, our projections benefited from higher year-end reserve and resource grades at Costerfield and more underground tonnes at Björkdal."

Inflection points:

- More production improvements
- Metals price moves
- Second quarter results progress

What the boss says:

In a statement, accompanying the first-quarter results, Dominic Duffy, Mandalay's chief executive said: "This quarter was defined by strong operating and financial performance as the company ended the quarter with a cash balance of

\$21.5 million.

"We are excited to return to operating profitability after a period of transition and are eager to demonstrate continued success in growing organically and operating efficiently."

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