

# Mandalay Resources Corporation Announces Approximately C\$60 Million Financing Transaction and Provides Corporate Update

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TORONTO, Feb. 11, 2019 - [Mandalay Resources Corp.](#) ("Mandalay" or the "Company") (TSX: MND, OTCQB: MNDJF) announced today that it intends to raise up to approximately C\$60 million by way of a financing transaction consisting of:

- a marketed public offering of up to approximately C\$50M of subscription receipts (the "Public Offering"); and
- a US\$8M convertible bridge loan (the "Bridge Loan" and collectively with the Public Offering, the "Financing") from an affiliate of CE Mining Fund III L.P. ("CE Mining"), an investment fund advised by Plinian Capital Limited ("Plinian"), which is controlled by Brad Mills, Chairman of Mandalay's board of directors.

Three of Mandalay's largest shareholders have indicated their support for the Public Offering and have committed to making significant investments. In addition to making the Bridge Loan, CE Mining has also agreed to invest up to US\$12M in the Public Offering on the same terms as all other investors, subject to the terms of the Public Offering.

The Financing was negotiated and approved on behalf of Mandalay by a special committee of Mandalay's board of directors comprised exclusively of independent directors, each of whom is free of any conflict of interest relating to the Financing.

The net proceeds of the Financing are intended to fund working capital requirements (including development work at Costerfield, and tailings upgrade and capital requirements at Björkdal), debt reduction (including establishing a cash reserve for the purposes of satisfying the Company's obligations in respect of the Gold Bonds (as defined below)), future planned exploration activities at high potential opportunities including at Costerfield (Youle lode and deeper hole targets) as well as the emerging Aurora Zone at Björkdal, and for general corporate purposes.

As discussed in further detail below, during the fourth quarter of 2018 and the start of 2019, a combination of unexpected operational and financial events negatively impacted the Company's cash flow and cash reserves. This has created a risk that, without additional funding, Mandalay may breach its obligations under its third-party credit arrangements and be unable to continue to operate its business as a going concern. The Financing is intended to resolve Mandalay's short term liquidity needs and provide additional capital that is sufficient to allow Mandalay to execute its three year production growth plan, as outlined in the Company's press release of January 16, 2019, and to undertake significant exploration activities at its Björkdal and Costerfield mines.

Dominic Duffy, President and CEO of Mandalay commented, "This Financing gives Mandalay the financial flexibility it needs to not only address short term liquidity requirements but also to maintain and grow the business. In particular, the Financing provides the capital required to ensure that we execute the high-grade Youle vein development program. This is key to realizing our objective of doubling Mandalay's production profile over the next three years, as outlined in our three-year production guidance released on January 16, 2019. This Financing will also allow us to fast track the exploration and development of the Aurora zone at Björkdal where initial drilling has indicated significantly higher overall grades and thicknesses than Björkdal's average reserve grade and mineral thicknesses. We also intend to fund further exploration activities at both Costerfield and Björkdal, following up on particularly promising near mine prospects that emerged out of exploration drilling work completed in 2018."

Mr. Duffy continued, "We are also extremely pleased to have the support of our largest shareholders who have indicated that they intend to participate in the Financing in a significant way, in addition to CE Mining. Their commitments underline their support and confidence in Mandalay, the potential of its assets, and its strategy going forward."

Mr. Duffy concluded, "Over the past several months, we have carefully considered a number of potential alternatives for addressing Mandalay's liquidity needs. This Financing, which will improve Mandalay's financial situation, was the best alternative available to the Company and allows us to continue to execute our current business plan. While we regret that several recent unexpected events have had an adverse impact on the Company's cash position and put a strain on our short term liquidity, we are confident that this Financing will restore Mandalay to a sound financial position, giving us a much stronger balance sheet. From this position we can focus on our operational goals, de-risk our expansion programs and invest in our exciting near term exploration opportunities."

## Corporate Update

Mandalay's current liquidity issues have arisen since September 30, 2018 as a result of a number of unforeseen operational and financial developments.

*Gold Bond Redemptions.* In December 2018 and January 2019, Mandalay was required to spend US\$5.4M to retire US\$6.1 million principal amount of senior exchangeable gold bonds ("Gold Bonds") issued by Gold Exchangeable Limited (but which are Mandalay's financial responsibility) due to the holders of these Gold Bonds exercising their exchange rights. The remaining outstanding principal amount of the Gold Bonds is US\$24.0M.

*Capital Spending Overrun.* Capital spending at Björkdal in the fourth quarter of 2019 exceeded forecast amounts by approximately US\$3.8M as a result in cost overruns in the tailings dam construction.

*Operational Underperformance.* In the fourth quarter of 2018, operational underperformance at Björkdal resulted in a cash shortfall of approximately US\$4.6 million, due in part to a haulage bottleneck caused by the change in underground haulage contractors (see Mandalay's November 8, 2018 press release) as well as over budget operational costs. This situation has now been rectified and the operation is currently performing at budgeted levels.

As at September 30, 2018, Mandalay had cash and cash equivalents of US\$26.7M and undrawn availability of US\$10.0M under its revolving credit facility with HSBC Bank Canada (the "HSBC Facility"). As at December 31, 2018, cash and cash equivalents had declined to approximately US\$8.4M. Subsequent to year end, Mandalay drew an additional US\$5M under the HSBC Facility. Mandalay also anticipates that, once its audited financial statements for the year ended December 31, 2018 are finalized, the Company will not be in compliance with certain financial covenants set out in the HSBC Facility that are tested as at December 31, 2018. If this is the case, Mandalay would not have the ability to draw the remaining US\$5.0M under the HSBC Facility, and would be in default under the HSBC Facility, absent a waiver from HSBC Bank Canada. Mandalay is in advanced discussions with HSBC to obtain the required waivers with HSBC and currently expects to receive them prior to completion of the Financing.

These developments, combined with the fact that the Company is currently generating negative cash flow from operations, mean that Mandalay requires additional funding and call into question its ability to continue to operate as a going concern unless it completes the Financing or secures an additional source of capital in the short term.

## Details of the Financing

### Public Offering

The Public Offering will proceed as a marketed overnight public offering of subscription receipts ("Subscription Receipts") pursuant to a prospectus supplement to be filed under

Mandalay's final short form base prospectus dated February 12, 2018. The price and terms of the Public Offering will be described in the prospectus supplement, which will be filed with securities regulators in each of the provinces and territories of Canada, except Quebec. The offering may also include private placements in the United States.

The offering price of Subscription Receipts issued under the Public Offering will be determined in the context of the market with the price and total size of the Public Offering to be finalized at the time of the entering into an underwriting agreement for the Public Offering. The Public Offering is being made through a syndicate of underwriters led by BMO Capital Markets and including HSBC Securities (Canada) Inc. The Company has granted the underwriters an option, exercisable at the offering price for a period of 30 days following the closing of the Public Offering, to purchase up to an additional 15% of the number of Subscription Receipts issued under the Public Offering to cover over-allotments, if any. The Public Offering is expected to close on or about February 20, 2019 and is subject to certain conditions, including Mandalay receiving all necessary regulatory approvals and Mandalay's receipt of the Bridge Loan.

Each Subscription Receipt will entitle the holder thereof to receive one common share of the Company (a "Common Share"), subject to adjustment in certain circumstances.

The Subscription Receipts will be issued pursuant to a subscription receipt agreement to be entered into upon the completion of the Public Offering, pursuant to which the gross proceeds of the Public Offering less 50% of the underwriters' commission payable in connection with the Public Offering (the "Escrowed Proceeds"), will be held in escrow in an interest bearing account. Upon satisfaction or waiver of certain escrow release conditions (the "Escrow Release Conditions"), including the receipt of all shareholder approvals required for the Public Offering, the remaining 50% of the underwriters' commission and the underwriters' expenses will be released to the underwriters, the remaining Escrowed Proceeds will be released to the Company and each Subscription Receipt will be exchanged for one Common Share.

If the Escrow Release Conditions are not satisfied by April 30, 2019, holders of the Subscription Receipts will receive an amount per Subscription Receipt equal to the offering price per Subscription Receipt (the "Offering Price") together with a pro-rata share of any interest earned on the Escrowed Proceeds. If the Escrowed Proceeds (plus accrued interest) are not sufficient to make such payment, the Company will contribute such amounts as are necessary to satisfy any shortfall.

The securities offered under the Public Offering have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements. This press release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

### *Bridge Loan*

Mandalay and CE Mining have entered into a convertible loan agreement pursuant to which CE Mining has agreed to advance the Bridge Loan to Mandalay concurrently with the completion of the Public Offering. Mandalay will use the proceeds of the Bridge Loan to address immediate liquidity requirements and for working capital and general corporate purposes pending the release of the Escrowed Proceeds.

The Bridge Loan will have a term of one year, bear interest at a rate of 10% and, following the Special Meeting (as defined below), will be convertible at CE Mining's option into Common Shares at a price per share equal to the lesser of \$0.108 and a 5% discount to the Offering Price, provided that in no event will the conversion price be any less than \$0.099. The Bridge Loan will be unsecured and will be subordinated to the HSBC Facility. In connection with CE Mining's agreement to make the Bridge Loan, Mandalay has agreed to pay CE Mining a commitment fee of US\$160,000 upon completion of the Bridge Loan.

CE Mining's obligation to make the Bridge Loan is subject to certain conditions, including the closing of the Public Offering, receipt of all necessary third party and regulatory approvals and the receipt of certain waivers or standstills from HSBC Bank Canada. In addition, CE Mining requires that Brad Mills and Plinian sell any Common Shares currently owned by them (being approximately 28.3 million Common Shares) by not later than the date on which the Subscription Receipts are converted into Common Shares in order to

ensure that the interests of CE Mining and its investors, on the one hand, and Mr. Mills and Plinian, on the other hand, are aligned following completion of the Financing. Mandalay has agreed to arrange for the sale of these Common Shares in a manner that satisfies that requirement including, if necessary, by arranging for them to be delivered to the holders of Subscription Receipts upon the exchange of the Subscription Receipts or by repurchasing these Common Shares directly from Mr. Mills and Plinian.

CE Mining is an affiliate of Mr. Mills, the Chair of Mandalay's board of directors. As a result, TSX rules limit the number of Common Shares that may be issued upon conversion of the Bridge Loan absent shareholder approval to 45,159,587, being 10% of the number of Common Shares currently issued and outstanding (the "Conversion Limit"). If shareholder approval is obtained for the issuance of Common Shares upon conversion of the Bridge Loan in excess of the Conversion Limit and the Escrow Release Conditions are satisfied, the Bridge Loan will automatically convert into Common Shares concurrently with the conversion of the Subscription Receipts. If shareholder approval is not obtained for the issuance of Common Shares upon conversion of the Bridge Loan in excess of the Conversion Limit, the interest rate on the Bridge Loan will be increased to 12%, per annum, effective retroactively to the date on which the Bridge Loan was advanced.

In connection with the Bridge Loan, Mandalay has agreed that, for so long as CE Mining owns at least 10% of the outstanding Common Shares, it will be entitled to nominate two individuals for election to Mandalay's board of directors, provided that one of the two nominees shall be Mr. Mills.

### *Regulatory Matters*

Due to the anticipated extent of insider participation in the Public Offering, TSX listing approval for the issuance of Common Shares upon conversion of the Subscription Receipts will be subject to the Company obtaining approval of the Public Offering from shareholders in accordance with TSX requirements. As indicated above, TSX rules also require shareholder approval for any issuance of Common Shares upon conversion of the Bridge Loan in excess of the Conversion Limit.

In addition, the Bridge Loan and the Public Offering each constitutes a "related party transaction" under MI 61-101. The Company is exempt from obtaining a formal valuation and minority shareholder approval in connection with the Bridge Loan under Section 5.5(a) and Section 5.7(a) of MI 61-101 because neither the fair market value of the Common Shares that may be issued upon conversion of the Bridge Loan nor the proceeds of the Bridge Loan to be received by the Company exceeds 25% of the Company's market capitalization as calculated in accordance with MI 61-101. The Company is exempt from obtaining a formal valuation in connection with the Public Offering under Section 5.5(c) because the Public Offering involves a distribution of securities to related parties for cash consideration and the other conditions of Section 5.5(c) will be satisfied in connection with the Public Offering. The Company will be seeking minority shareholder approval for the Public Offering in accordance with MI 61-101 and receipt of such approval is one of the Escrow Release Conditions. A material change report in respect of the Bridge Loan will be filed less than 21 days before the closing of the Bridge Loan as the Company requires the financing it received under the Bridge Loan immediately to address its immediate liquidity and working capital requirements.

### *Special Meeting*

Mandalay intends to call and hold a special meeting of its shareholders (the "Special Meeting") as soon as reasonably possible following completion of the Public Offering for the purposes of seeking all necessary shareholder approvals in connection with the Public Offering and the conversion of the Convertible Loan. Further details relating to the Special Meeting and the Financing will be set out in an information circular that will be distributed to shareholders in connection with the Special Meeting.

For Further Information:

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About Mandalay Resources Corporation:

Mandalay Resources is a Canadian-based natural resource company with producing assets in Australia and Sweden, and care and maintenance and development projects in Chile. The Company is focused on growing production at its gold and antimony operation in Australia, and gold production from its operation in Sweden to generate near term cash flow.

Forward-Looking Statements:

This news release contains "forward-looking statements" within the meaning of applicable securities laws, including statements regarding the proposed Financing, Mandalay's current and anticipated financial condition and Mandalay's expected future production and exploration results. Readers are cautioned not to place undue reliance on forward-looking statements. Actual results and developments may differ materially from those contemplated by these statements depending on, among other things, changes in commodity prices and general market and economic conditions. There can be no assurance that the Financing will be completed on the terms described in this press release or at all or that Mandalay will be able to continue to operate as a going concern if the Financing is not completed. The factors identified above are not intended to represent a complete list of the factors that could affect Mandalay. A description of additional risks that could result in actual results and developments differing from those contemplated by forward-looking statements in this news release can be found under the heading "Risk Factors" in Mandalay's annual information form dated March 29, 2018, a copy of which is available under Mandalay's profile at [www.sedar.com](http://www.sedar.com) and in the prospectus supplement to be filed by Mandalay in connection with the Public Offering. In addition, there can be no assurance that any inferred resources that are discovered as a result of additional drilling will ever be upgraded to proven or probable reserves. Although Mandalay has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

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