



**MANAGEMENT DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**For the nine months ended June 30, 2019**

*(Expressed in US dollars)*

**Majestic Gold Corp.**  
**Management's Discussion and Analysis**  
**For the nine months ended June 30, 2019**

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**INTRODUCTION**

The following Management Discussion and Analysis ("MD&A") of the financial condition and results of operations of Majestic Gold Corp. ("Majestic" or "the Company") should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements and related notes thereto for the nine months ended June 30, 2019 and 2018, (the "Financial Report").

The financial information in this MD&A is derived from the Company's financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in US dollars unless otherwise indicated.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website [www.majesticgold.com](http://www.majesticgold.com).

This MD&A contains information to August 27, 2019.

This discussion focuses on key statistics from the unaudited condensed consolidated interim financial statements for the period ended June 30, 2019 and up to the date of this MD&A and pertains to known risks and uncertainties relating to the gold exploration and development and mining industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions.

**THIRD QUARTER 2019 HIGHLIGHTS**

- **Gold production** was 6,803 ounces for the third quarter of 2019, a decrease of 12% compared to 7,690 ounces produced for the 2018 comparative quarter. The decrease was due primarily to a 14% decline in tonnes milled for the third quarter of fiscal 2019 - 326,543 tonnes compared to 381,557 tonnes milled in the 2018 comparative quarter. The decrease in tonnage milled is due to the Company's current efforts focused on developing the underground area. The Company expects that mill throughput levels will return to prior period levels in the first quarter of fiscal 2020. Gold production for the third quarter of 2019, included 2,073 ounces from the underground development from the 25,214 tonnes milled at an average head grade of 2.56 g/t;
- **Gold sales revenue** reached \$6.9 million for the third quarter of fiscal 2019, from the sale of 5,299 ounces, at an average realized gold price of \$1,293 per ounce, compared to gold sales revenue of \$10.4 million from the sale of 7,729 ounces, at an average realized gold price of \$1,349 per ounce, for the 2018 comparative quarter. The 34% decrease in gold sales revenue for the current quarter is primarily due to a 31% decrease in ounces sold;
- **Total cash costs and all-in sustaining costs ("AISC")** for the third quarter of fiscal 2019 were \$630 per ounce and \$771 per ounce, compared to \$679 per ounce and \$799 per ounce for the 2018 comparative quarter. The cash costs and all-in sustaining costs for the first nine months of fiscal 2019 were \$619 per ounce and \$728 per ounce, compared to \$649 per ounce and \$761 per ounce for the 2018 comparative period. The Company continues to work in maintaining its cash costs and AISC averages below \$675 per ounce and \$775 per ounce, respectively. Refer to pages 14-15 for the MD&A for the computation of this Non-IFRS financial measure;
- **Adjusted EBITDA** was \$2,842,981 for the third quarter of 2019, compared to \$4,450,572 for the comparative quarter of fiscal 2018. Adjusted EBITDA for the first nine months of 2019 was \$11,026,585, compared to \$12,214,080 for the comparative period of fiscal 2018. Refer to pages 14-15 of the MD&A for the computation of this Non-IFRS financial measure;
- **Net income** for the third quarter of 2019 was \$868,964, compared to \$2,341,572 for the 2018 comparative quarter. The significant decrease in net income is the result of the decrease in gold sales.
- The Company's **balance sheet** benefitted from the third quarter of 2019's operating and financial performance, increasing its cash to \$22.8 million at June 30, 2019 from \$18.8 million at September 30, 2018. As of June 30, 2019, the Company had working capital of \$4.8 million compared to a working capital deficit of \$2.2 million at September 30, 2018.

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**OUTLOOK**

The Company continues to focus on the improvement of its mining operations at the Songjiagou Gold Mine, and the Songjiagou North underground development ("Songjiagou North"), with initial production commencing, at Songjiagou North, during the first quarter of 2019.

The Company continues to pursue possible acquisitions as well as exploring the opportunity of a direct financing of its Chinese subsidiary.

**DESCRIPTION OF BUSINESS**

Majestic is a Vancouver, Canada based gold producer with mining operations in China. The Company's main business involves the acquisition, exploration and development of mineral properties. At June 30, 2019, and at the date of this MD&A, all of the Company's mineral property interests and mining operations are located in China, with the Songjiagou Gold Mine as the Company's flagship project. The Company is a TSX Venture Exchange listed mining company trading under the symbol "MJS".

**SONGJIAGOU GOLD MINE**

The Company's principal mining operation is the Songjiagou Gold Mine ("Songjiagou Project" and "Songjiagou") located in Shandong province, China. The Company commenced commercial gold production at the Songjiagou Gold Mine in May 2011. Majestic holds its 75% interest in Songjiagou through its 94% owned subsidiary Majestic Yantai Gold Ltd. The remaining 25% of Songjiagou is held by Yantai Dahedong Processing Co. Ltd..

The Company's mining permit for the Songjiagou Gold Mine is valid until May 17, 2020. The Company expects to successfully file its mining permit renewal application in late fiscal 2019. Mining permit renewal applications are typically filed six months in advance of their expiration dates, with mining permits being granted with five-year terms

**RESOURCE**

The Company filed an amended technical report titled "Independent Technical Report of Songjiagou Project, Shandong Province, The People's Republic of China" (the "Amended Report") dated January 19, 2016, as prepared by SRK Consulting (China) Ltd. ("SRK").

The Amended Report is an amendment of the initial technical report in support of the Preliminary Economic Assessment ("PEA") for the Songjiagou Gold Mine dated August 2, 2013, and prepared by SRK Consulting (China) Ltd. The Amended Report is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website [www.majesticgold.com](http://www.majesticgold.com).

**Amended Resource Estimate\* (in Amended Report dated January 19, 2016)**

**Global Resource**

Open Pit		Underground
Indicated (MT)	Inferred	Inferred
(0.30 g/t Au) cutoff	(0.30 g/t Au) cutoff	(0.80 g/t Au) cutoff
26.6 MT @ 1.40 g/t Au	23.4 MT @ 1.45 g/t Au	5.6 MT @ 2.60 g/t Au

**Within Original Mining License**

Open Pit		Underground
Indicated (MT)	Inferred	Inferred
(0.30 g/t Au) cutoff	(0.30 g/t Au) cutoff	(0.80 g/t Au) cutoff
24.1 MT @ 1.44 g/t Au	18.0 MT @ 1.29 g/t Au	4.9 MT @ 2.60 g/t Au

\*The resource estimate is categorized as Indicated and Inferred as defined by the CIM guidelines for resource reporting. Mineral resources do not demonstrate economic viability, and there is no certainty that these mineral resources will be converted into mineable reserves once economic considerations are applied.

A PEA should not be considered to be a prefeasibility or feasibility study, as the economics and technical viability of the Songjiagou Project have not been demonstrated at this time. A PEA is preliminary in nature; it includes inferred mineral resources considered too speculative geologically to have the economic

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considerations applied to them that would enable them to be categorized as mineral reserves; there is no certainty that the preliminary assessment will be realized.

**DEVELOPMENT**

**SONGJIAGOU NORTH UNDERGROUND**

The Songjiagou North project area lies immediately north of the Songjiagou Gold Mine, within the project's mining license boundary. The area underlain by precious metal mineralized vein structures was converted to a five-year, 0.414 sq. km. mining license that was granted on February 18, 2016. The mining license area covers a continuation of the gold mineralization that is currently being developed in the adjacent Songjiagou Gold Mine. Previous sporadic exploration completed by No. 3 Brigade between 2001 and 2013 outlined five discrete mineralized vein structures that comprise a non-compliant National Instrument 43-101 resource found in a Brigade No. 3 report titled "*General Exploration Report on the Deep and Peripheral Area in Songjiagou Gold Mine, Muping District, Yantai City, Shandong Province*" and filed with the Bureau of Land and Resources of Shandong Province in 2013.

The Company's underground development plan for Songjiagou North property involves the construction of a 2,075 meter ramp to access four of the five identified mineralized vein structures from six different levels (+49, +9, -40, -80, -120, and -160 meter levels).

Development at Songjiagou North began in September of 2016; with 1,709 meters of ramp construction completed, down to the -91 meter level. Construction of a main auxiliary shaft, air shafts, and inclined shafts connecting the various levels have also been completed. Construction is now focused on the continued development of the +49, +9, -40m, -80m and -160 m levels, which will be mined initially. Current progress on the different levels is as follows:

- +49 Level: 1,952 meters of development
- +9 Level: 3,094 meters of development
- 40 Level: 4,891 meters of development
- 80 Level: 745 meters of development
- 160 Level: 1,092 meters of development

The Company commenced production in early fiscal 2019, focusing on the initial three levels of underground development, averaging over 240 tonnes per day of throughput at a grade of 2.54 g/t for the first nine months of fiscal 2019.

SRK Consulting (China) Ltd, continues to work with the Company to update the Company's NI 43-101 Technical Report and have taken 257 samples from underground that will be incorporated into the updated Technical Report. The Company expects the Technical Report to be completed in the late fiscal 2019 or early fiscal 2020.

**EXPLORATION**  
**Baiheng**

On March 6, 2018, the Company entered into a new two-year non-binding Letter of Intent ("LOI") with Yantai Baiheng Gold Mining Co. Ltd. ("Baiheng"). The March 8, 2018 LOI supersedes the July 11, 2016 LOI allowing the Company an additional 24 months to complete its due diligence on the Shuang Shan Tun and Xia Yu Cun properties ("Properties"), located in the Muping-Rushan Gold Belt in Shandong Province, China.

The March 6, 2018 LOI is, in principal, a due diligence agreement that allows Majestic until July 11, 2020 to complete its due diligence, after which the Company has the option to enter into a definitive agreement for the Properties.

The completion of the joint venture is subject to the completion of due diligence on exploration and development work completed on the Properties to date, the completion of a scoping study-level evaluation of the Properties, as well as the approval of the TSX Venture Exchange and all other required regulatory, corporate and security holder approvals. During the due diligence period and prior to entering into a definitive agreement with Baiheng, Majestic does not have any obligations to Baiheng.

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The Properties are both small tonnage, medium-high grade underground gold projects that have been developed as small scale producers. Majestic intends to determine the economic viability of larger scale development of either property on a joint venture basis.

**QUALIFIED PERSON**

Stephen Kenwood, President and CEO of Majestic, is the Company's QP as defined by National Instrument 43-101 and is the non-independent QP that has read and approved the technical information contained in this MD&A.

**SELECTED FINANCIAL INFORMATION**

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Operating data</b>				
Gold produced (ozs)	6,803	7,690	22,122	23,037
Gold realized net of smelting fees (ozs)	6,195	6,931	20,268	20,916
Gold sold (ozs)	5,299	7,729	19,719	20,482
Average realized gold price (\$/oz sold) \$	1,293	\$ 1,349	\$ 1,272	\$ 1,334
Total cash costs (\$/oz sold) <sup>(1)</sup>	630	679	619	649
Total production costs (\$/oz sold) <sup>(1)</sup>	848	821	784	806
All-in sustaining costs (\$/oz sold) <sup>(1)</sup>	771	799	728	761
<b>Financial data</b>				
Total revenues	\$ 6,928,695	\$ 10,520,149	\$ 25,312,703	\$ 27,589,817
Gross profit <sup>(2)</sup>	2,437,039	4,178,110	9,852,580	11,088,382
Adjusted EBITDA <sup>(1)</sup>	2,842,981	4,450,572	11,026,585	12,214,080
Net income	868,964	2,341,572	5,170,889	6,307,034
Net income attributable to shareholders	527,681	1,525,403	3,367,311	4,099,366
Basic and diluted income per share	0.00	0.00	0.00	0.01
			June 30, 2019	September 30, 2018
<b>Balance Sheet</b>				
Cash and cash equivalents			\$ 22,747,703	\$ 18,842,863
Total assets			125,410,513	123,643,469
Total current liabilities			26,563,499	29,182,046

(1) See "Additional Non-IFRS Financial Measures" on page 14-15.

(2) "Gross profit" represents total revenues, net of cost of goods sold.

**RESULTS OF OPERATIONS**

**Gold Production**

	Three months ended June 30,		Nine months ended June 30,	
(Ounces)	2019	2018	2019	2018
<b>Songjiagou Operations</b>				
Songjiagou Gold Mine	4,730	7,690	16,791	23,037
Songjiagou North Underground	2,073	-	5,331	-
Total	6,803	7,690	22,122	23,037

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	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Production data</b>				
<i>Songjiagou Gold Mine</i>				
Tonnes mined	310,154	432,550	977,411	1,249,287
Tonnes milled	301,329	381,557	925,836	1,174,171
Head grade (g/t)	0.52	0.65	0.60	0.63
Mill recovery	94%	96%	94%	95%
Gold produced (ozs)	4,730	7,690	16,791	23,037
Gold realized net of smelting fees (ozs)	4,283	6,931	15,363	20,916
<i>Songjiagou North Underground</i>				
Tonnes mined	25,214	-	65,325	-
Tonnes milled	25,214	-	65,325	-
Head grade (g/t)	2.56	-	2.54	-
Mill recovery	98%	-	98%	-
Gold produced (ozs)	2,073	-	5,331	-
Gold realized net of smelting fees (ozs)	1,912	-	4,905	-
<i>Total Songjiagou Operations</i>				
Tonnes mined	335,369	432,550	1,042,736	1,249,287
Tonnes milled	326,543	381,557	991,161	1,174,171
Head grade (g/t)	0.68	0.65	0.72	0.63
Mill recovery	96%	96%	96%	95%
Gold produced (ozs)	6,803	7,690	22,122	23,037
Gold realized net of smelting fees (ozs)	6,195	6,931	20,268	20,916

Gold production was 6,803 ounces for the third quarter of 2019, a decrease of 12% compared to 7,690 ounces produced for the 2018 comparative quarter. The decrease was due primarily to a 14% decline in tonnes milled for the third quarter of fiscal 2019 - 326,543 tonnes compared to 381,557 tonnes milled in the 2018 comparative quarter. The decrease in tonnage milled is due to the Company's current efforts focused on developing the underground area. The Company expects that mill throughput levels will return to prior period levels in the first quarter of fiscal 2020. Gold production for the third quarter of 2019, included 2,073 ounces from the underground development from the 25,214 tonnes milled at an average head grade of 2.56 g/t;

The average head grade was 0.68 g/t for the third quarter of 2019, compared to an average head grade of 0.65 g/t, for the 2018 comparative quarter.

Gold production for the first nine months of fiscal 2019 was 22,122 ounces, from 991,161 tonnes milled with an average head grade of 0.72 g/t and a 96% recovery rate, compared to gold production of 23,037 ounces for the 2018 comparative period, from 1,174,171 tonnes milled with an average head grade of 0.63 g/t and a 95% recovery rate. Gold production included 5,331 ounces produced at Songjiagou North Underground from 65,325 tonnes milled at an average head grade of 2.54 g/t.

The Company expects its head grade and gold production to experience continued improvement as the Company continues its work on optimizing its mining operations under the developed mine plan as well through the development of the Songjiagou North Underground Area.

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**Revenues**

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Gold</b>				
Ounces sold	5,299	7,729	19,719	20,482
Average realized price (\$/oz)	\$ 1,293	\$ 1,349	\$ 1,272	\$ 1,334
<b>Revenues</b>				
Gold	\$ 6,853,259	\$ 10,428,907	\$ 25,079,880	\$ 27,324,360
Other income	75,436	91,242	232,823	265,457
	\$ 6,928,695	\$ 10,520,149	\$ 25,312,703	\$ 27,589,817

Gold sales revenue for the third quarter of fiscal 2019 was \$6.9 million, from the sale of 5,299 ounces, at an average realized gold price of \$1,293 per ounce, compared to gold sales revenue of \$10.4 million from the sale of 7,729 ounces, at an average realized gold price of \$1,349 per ounce, for the 2018 comparative quarter. The 34% decrease in revenue for the current period is due primarily from the 31% decrease in ounces sold.

Gold sales revenue for the first nine months of fiscal 2019 was \$25.1 million, from the sale of 19,719 ounces, at an average realized gold price of \$1,272 per ounce, compared to gold sales revenue of \$27.3 million from the sale of 20,482 ounces, at an average gold price of \$1,334 per ounce, for the 2018 comparative period.

**Cost of Sales**

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Ounces sold</b>	5,299	7,729	19,719	20,482
<b>Per ounce of gold sold <sup>(1)</sup></b>				
Cash costs	\$ 630	\$ 679	\$ 619	\$ 649
Production costs	848	821	784	806
<b>Cost of Goods Sold</b>				
Total cash costs	\$ 3,338,507	\$ 5,251,272	\$ 12,197,260	\$ 13,293,062
Total production costs	4,491,656	6,342,039	15,460,123	16,501,435

(1) See "Additional Non-IFRS Financial Measures" on page 14-15.

Cash costs decreased by 7% to \$630 per ounce in the third quarter of 2019, compared to \$679 for the third quarter of 2018. Production costs per ounce were \$848 for the third quarter of 2019, compared to \$821 per ounce for the 2018 comparative period. The slight decrease in cash costs per ounce for the third quarter of 2019 was due to the improved average head grade. The Company continues to work in maintaining its cash costs average below \$675 per ounce.

The total cash costs per ounce sold for each of the eight most recently completed quarters are as follows:

	2019				2018				2017
	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	
<b>Ounces sold</b>	5,299	8,612	5,807	5,103	7,729	6,030	6,722	5,708	
<b>Per ounce of gold sold <sup>(1)</sup></b>									
Cash costs	\$ 630	\$ 659	\$ 549	\$ 658	\$ 679	\$ 605	\$ 654	\$ 640	
Production costs	848	782	728	834	821	804	790	792	

(1) See "Additional Non-IFRS Financial Measures" on page 14-15.

**Other Items**

The Company's general and administrative expenses ("G&A") expenditures were \$812,268 for the third quarter of 2019, compared to \$889,545 for the third quarter of 2018. G&A expenditures for the first nine months of 2019 were \$2,285,328, compared to \$2,288,784 for the 2018 comparative period.

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The G&A details for the nine months ended June 30, 2019 and 2018 are as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Consulting and management fees	\$ 140,054	\$ 308,957	\$ 389,017	\$ 541,745
Financial advisory	4,534	-	20,922	-
Depreciation	65,061	71,240	196,470	206,109
Office and general	716,091	142,152	984,146	436,491
Professional fees	16,351	91,246	67,378	100,789
Salaries	(90,426)	122,817	422,682	625,342
Shareholder communications	4,687	3,262	20,634	17,784
Travel	(44,084)	149,871	184,079	360,524
<b>Total</b>	<b>\$ 812,268</b>	<b>\$ 889,545</b>	<b>\$ 2,285,328</b>	<b>\$ 2,288,784</b>

G&A expenses recorded in the statement of operations reflect the normal corporate business cycle. The Company strives to provide efficient and cost-effective administrative support to management's ongoing efforts to monitor production costs, and increase shareholder value.

The details of the changes in the consolidated finance expense for the periods ended June 30, 2019 and 2018 are as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Interest expense	\$ 192,577	\$ 213,932	\$ 576,933	\$ 620,224
Accretion of asset retirement obligation	22,198	23,578	66,573	69,917
<b>Total</b>	<b>\$ 214,775</b>	<b>\$ 237,510</b>	<b>\$ 643,506</b>	<b>\$ 690,141</b>

The Company reported net income for the third quarter of 2019, was \$868,964 (\$0.00 per share) compared to \$2,341,572 (\$0.00 per share) for the third quarter of 2018.

The Company's adjusted EBITDA was \$2,842,981 for the third quarter of 2019, (2018 Q3– \$4,450,572). Refer to pages 14-15 of the MD&A for the computation of this Non-IFRS financial measure;

**SUMMARY OF QUARTERLY RESULTS**

The financial results for each of the eight most recently completed quarters are summarized below:

	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Net revenues	\$6,928,695	\$11,114,761	\$7,269,247	\$6,214,381
Net income	\$868,964	\$2,664,549	\$1,673,376	\$569,384
Income per share	0.00	0.00	0.00	0.00
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Net revenues	\$10,520,149	\$8,250,650	\$8,819,018	\$7,603,642
Net income	\$2,341,572	\$1,628,257	\$2,337,205	\$494,529
Income per share	\$0.00	\$0.00	\$0.00	\$0.00

Significant variations in net revenues between periods are primarily due to variances in gold sales as well as the volatility of gold prices.

Significant variations in the net income between periods are primarily due to the volatility of gold prices and variances in gold sales, production costs, G&A expenses.



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**LIQUIDITY**

The Company's liquidity requirements arise principally from the need for working capital to finance expansion of its mining and processing operations. The Company's principal sources of funds have been proceeds from the borrowing from various financial institutions in China, equity financings, and cash generated from operations. The Company's liquidity depends primarily on its ability to generate cash flow from its operations and to obtain external financing to meet its debt obligations as they become due, as well as the Company's future operating and capital expenditure requirements.

At June 30, 2019, the Company had cash of \$22,747,703 (September 30, 2018 - \$18,842,863).

The Company had working capital of \$4,837,553 at June 30, 2019, improved from a working deficit of \$2,242,850 at September 30, 2018, of which key components included:

- *Cash* - was \$22.8 million; up \$3.9 million from the end of fiscal 2018;
- *Inventories* - was \$3.8 million, up \$0.7 million from the end of fiscal 2018;
- *Restricted cash* - was \$4.4 million, up \$0.4 million from the end of fiscal 2018; related to the issuance of banker's acceptance notes in the third quarter of 2019;
- *Accounts payable and accrued liabilities* - \$8.5 million, down \$2.8 million from the end of fiscal 2018, primarily due to payments of the Company's capital expenditures;
- *Loans payable* - was \$17.4 million, up \$0.3 million from the end of fiscal 2018, due to the issuance of banker's acceptance notes in the third quarter of 2019.

Majestic began the 2019 fiscal period, with \$18,842,863 in cash. During the nine months ended June 30, 2019, the Company had generated \$2,682,624 from its operating activities, net of working capital changes, expended \$739,771 on its investing activities, which included \$737,452 for the purchase and development of property, plant and equipment, and generated \$2,086,995 from financing activities, which was attributable in loan borrowings, net of loan borrowing repayments, restricted cash deposits related to banker's acceptance notes and payment of financial guarantee held on deposit, and had a foreign exchange loss of \$125,008, to end at June 30, 2019, with \$22,747,703 in cash.

Management considers its operating cash flows to be sufficient to cover the next twelve months to meet its planned exploration, development, operational activities, and its current outstanding debts. The Company has completed its mining and production facilities and is now dependent on achieving consistent profitable income from operations. Revenue and expenses should increase as production increases with the mill reaching full capacity. Should this not be achieved, the Company will continue to be dependent on raising additional funds to meet operational requirements and ultimately upon achieving profitable operations.

**CAPITAL RESOURCES**

At the date of this MD&A, the Company has 27,700,000 stock options at an exercise price CAD\$0.12. All stock options will, if exercised, provide additional cash. At the date of this MD&A, the stock options outstanding are "out of the money".

As at the date of this MD&A, other than as described herein and in the Financial Report, the Company has no other arrangements for sources of financing.

In management's view, given the nature of the Company's operations, which consists of exploration, mining and evaluation of mining properties, the most relevant financial information relates primarily to current liquidity, solvency and planned property expenditures. The Company's financial success will be dependent upon the extent to which it can discover mineralization and the economic viability of developing its properties. Such development may take years to complete and the amount of resulting income, if any, is difficult to determine. The sales value of any minerals discovered by the Company is largely dependent upon factors beyond the Company's control, including the market value of the metals to be produced.

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**OUTSTANDING SHARE DATA AS AT THE DATE OF THIS MD&A**

	Common shares issued and outstanding	Stock options
Authorized: an unlimited number of common shares without par value.		
Outstanding at June 30, 2019 and at the date of this MD&A	1,047,726,381	27,700,000

**TRANSACTIONS WITH RELATED PARTIES**

**Related party transactions**

The Company incurred the following related party transactions during the periods ended June 30, 2019 and 2018:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Consulting fees charged by companies controlled by directors and officers of the Company-includes key management personnel compensation	\$ 154,363	\$ 158,383	\$ 467,022	\$ 481,503

**Compensation of key management personnel**

The remuneration of directors and other members of key management personnel, which are included in the amounts disclosed above, were as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Short-term employee benefits—management fees	\$ 58,320	\$ 60,419	\$ 176,038	\$ 183,456
Director fees	38,727	40,116	118,224	123,206
	\$ 97,047	\$ 100,535	\$ 294,262	\$ 306,662

Key management included the Company's directors, executive officers and senior management. These transactions occurred in the normal course of operations and are measured at their exchange amounts, which is the amount of consideration established and agreed to by the parties.

**NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE**

A number of new standards, amendments to standards and interpretations are not yet effective as of June 30, 2019, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

**IFRS 16 Leases:** In 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), replacing IAS 17, Leases and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors will continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, Revenue from Contracts with Customers ("IFRS 15") has been adopted.

**IFRIC 23 Uncertainty over Income Tax Treatments:** New standard to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS12 "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on January 1, 2019.

**COMMITMENT AND CONTINGENCIES**

Commitments and contingencies include principal and interest payments of Company's bank loans, expenditure commitments on its mineral properties and future aggregate minimum operating lease payments required under the operating leases as described in the notes to the Financial Report.

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**OFF-BALANCE SHEET ARRANGEMENTS**

At June 30, 2019, the Company had no off-balance sheet arrangement such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

**FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Financial instruments**

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired or issued. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. Financial assets classified as fair value through profit or loss includes derivatives classified under investments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Financial assets classified as loans and receivables include cash, restricted cash and receivables.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company has no held-to-maturity investments.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. Financial assets classified as available-for-sale include marketable securities classified under investments.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date, being the date the Company commits to purchase the asset. The Company's non-derivative financial liabilities include accounts payable and loans payable.

Financial assets are derecognized when the right to receive cash flows from the investment has expired or has been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

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The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- (i) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- (ii) Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- (iii) Level 3 – Inputs that are not based on observable market data.

The Company's cash and marketable securities are classified as level 1. The derivative is classified as level 2.

## **Risk Management**

### **Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada and China. The credit risk associated with cash held in Canada is reduced by management ensuring that the Company uses a major Canadian financial institution with strong investment grade ratings by a primary ratings agency. The credit risk associated with cash held in China is reduced, but not fully mitigated, by management using a financial institution that is operated by the Government of China.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company plans to ensure that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in interest bearing accounts which are available on demand. Management believes the Company has sufficient cash on hand to finance operations for the next twelve months.

### **Industry Risk**

The Company is a mining company with a property and mining operations in China. Its mining activities involve numerous inherent risks. The Company is subject to various financial, equities markets, operational and political risks that could significantly affect its operations and cash flows. These risks include changes in local laws affecting the mining industry, a decline in the price of commodities, uncertainties inherent in estimating mineral resources and fluctuations in the foreign currencies against the US dollar. The Company does not use derivatives or hedging to mitigate the risk of changes in the price of gold or currency fluctuations.

The Company's business is highly dependent on the price of gold and venture capital markets, which are impacted by volatility factors the Company cannot control. A decrease in the price of gold could adversely affect the Company's financial condition, results of operations and cash flows. Lower gold prices may result in asset impairment, write-downs of mineral property carrying values and limitations in access to capital.

The Company operates in China and is exposed to the laws governing the mining industry in China. The Chinese government is currently supportive of the mining industry but there is uncertainty in future changes to government policies and regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance and expropriation. These factors could adversely affect the Company's exploration efforts and production plans.

The Company's property is located in an area that can experience severe winter weather conditions which could adversely affect mining operations. In addition, the Company is subject to changes in environmental laws and regulations that may result in unexpected costs.

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**Market Risk**

The significant market risks to which the Company is exposed are interest rate risk, currency risk and other commodity price risk. These are discussed further below:

*Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash held in bank accounts that earn interest at variable interest rates. The Company's loans payable accrues interest at fixed rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as of June 30, 2019.

*Currency Risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the functional currency of the entity completing the transaction or holding the funds. The Company does not manage currency risks through hedging or other currency-based derivatives. The Company and its subsidiaries do not have significant transactions or hold significant cash denominated in currencies other than their functional currencies. Therefore, this risk is considered minimal.

**DIRECTORS**

Certain directors of the Company are also directors, officers and/or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploring mineral properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required to act in good faith with a view to the best interests of the Company and to disclose any interest, which they may have, in any project opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any directors in a conflict will disclose their interests and abstain from voting in such matters. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION**

The Company's financial statements and the other financial information included in this management report are the responsibility of the Company's management, and have been examined and approved by the Audit Committee of the Board of Directors. The financial statements were prepared by management in accordance with IFRS and include certain amounts based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

Management recognizes its responsibility for conducting the Company's affairs in a manner to comply with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities.

The Board of Directors supervises the financial statements and other financial information through its audit committee, which is comprised of independent directors.

**RISKS AND UNCERTAINTIES**

Risks and uncertainties information concerning risks specific to the Company and its industry, which are required to be included in this MD&A are incorporated by reference to the Company's annual MD&A for the period ended September 30, 2018.

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**ADDITIONAL NON-IFRS FINANCIAL MEASURES**

The Company has included additional financial performance measures in this MD&A, such as adjusted EBITDA, total cash costs, total production costs and AISC. The Company reports total cash costs, production costs, and AISC on a per gold ounce sold basis. In the gold mining industry, this is a common performance measure but does not have any standardized meaning. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

"Adjusted EBITDA" represents earnings before interest (including non-cash accretion of financial obligations), income taxes and depreciation and depletion ("EBITDA"), adjusted to exclude impairment charges, allowance for doubtful accounts, gains or losses on asset dispositions, share-based compensation, gains/losses on financial instruments and foreign exchange gains/losses.

"Total cash costs per ounce" is calculated from operation's cash costs, which include resource taxes, and dividing the sum by the number of gold ounces sold. Operations cash costs include mining, milling, smelter and other direct costs.

"Total production costs per ounce" are calculated by adding depreciation and depletion to total cash costs and dividing the sum by the number of ounces of gold sold.

"All-in sustaining cash costs per ounce" includes total cash costs per ounce (as defined above) and adds the sum of G&A, share-based compensation, sustaining capital expenditures and certain exploration and evaluation costs, all divided by the number of ounces sold. As this measure seeks to reflect the full cost of gold production from current operations, new project capital is not included in the calculation of all-in sustaining costs per ounce. Additionally, certain other cash expenditures, including income tax payments and financing costs, are not included.

The following table provides details of the primary components of adjusted EBITDA:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 6,928,695	\$ 10,520,149	\$ 25,312,703	\$ 27,589,817
Cost of sales, net of depreciation and depletion	(3,338,507)	(5,251,272)	(12,197,260)	(13,293,062)
G&A, net of depreciation	(747,207)	(818,305)	(2,088,858)	(2,082,675)
<b>Adjusted EBITDA</b>	<b>\$ 2,842,981</b>	<b>\$ 4,450,572</b>	<b>\$ 11,026,585</b>	<b>\$ 12,214,080</b>

The following table provides a reconciliation of adjusted EBITDA to the consolidated financial statements for the periods ended June 30, 2019 and 2018:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Net Income</b>	<b>\$ 868,964</b>	<b>\$ 2,341,572</b>	<b>\$ 5,170,889</b>	<b>\$ 6,307,034</b>
Depreciation and depletion	1,218,210	1,162,007	3,459,333	3,414,482
Finance expense, net of finance income	210,584	165,336	382,671	517,883
Gain on financial instruments	-	-	-	(126,045)
Foreign exchange income	2,120	(4,161)	(1,789)	173,964
Income tax expense	543,103	785,818	2,015,481	1,926,762
<b>Adjusted EBITDA</b>	<b>\$ 2,842,981</b>	<b>\$ 4,450,572</b>	<b>\$ 11,026,585</b>	<b>\$ 12,214,080</b>

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The following tables provide reconciliation to the consolidated financial statements of total cash costs per ounce, and total production costs per ounce as disclosed in this MD&A to the consolidated financial statements for the periods ended June 30, 2019 and 2018:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Gold sold (ozs)</b>	<b>5,299</b>	<b>7,729</b>	<b>19,719</b>	<b>20,482</b>
<b>Total cash costs per ounce</b>				
Mining and milling expenditures	\$ 3,531,582	\$ 3,811,671	\$ 10,932,962	\$ 11,513,115
Smelting costs	225,308	357,785	754,342	967,234
Resource taxes	263,154	319,463	843,070	806,302
Other direct costs	150,871	112,458	403,276	398,534
Changes in ending gold concentrate inventory	(832,408)	649,895	(736,390)	(392,123)
<b>Total cash costs</b>	<b>\$ 3,338,507</b>	<b>\$ 5,251,272</b>	<b>\$ 12,197,260</b>	<b>\$ 13,293,062</b>
<b>Per ounce sold</b>	<b>\$ 630</b>	<b>\$ 679</b>	<b>\$ 619</b>	<b>\$ 649</b>
<b>Total production costs per ounce</b>				
Total cash costs	\$ 3,338,507	\$ 5,251,272	\$ 12,197,260	\$ 13,293,062
Depreciation and depletion	1,153,149	1,090,767	3,262,863	3,208,373
<b>Total production costs</b>	<b>\$ 4,491,656</b>	<b>\$ 6,342,039</b>	<b>\$ 15,460,123</b>	<b>\$ 16,501,435</b>
<b>Per ounce sold</b>	<b>\$ 848</b>	<b>\$ 821</b>	<b>\$ 784</b>	<b>\$ 806</b>
<b>All-in sustaining costs per ounce</b>				
Total cash costs	\$ 3,338,507	\$ 5,251,272	\$ 12,197,260	\$ 13,293,062
G&A, net of depreciation	747,207	818,305	2,088,858	2,082,675
Sustaining capital expenditures <sup>(1)</sup>	455	108,321	68,784	218,940
<b>All-in sustaining costs</b>	<b>\$ 4,086,169</b>	<b>\$ 6,177,898</b>	<b>\$ 14,354,902</b>	<b>\$ 15,594,677</b>
<b>Per ounce sold</b>	<b>\$ 771</b>	<b>\$ 799</b>	<b>\$ 728</b>	<b>\$ 761</b>

(1) Sustaining capital expenditures are defined those expenditures which do not increase annual gold ounce production and excludes certain expenditures at the Company's operations which are deemed expansionary in nature. Capital expenditures include unpaid capital expenditures incurred in the period.

The following table reconciles sustaining capital expenditures to the Company's total additions as reported in the interim condensed consolidated statements of cash flows for statements for the periods ended June 30, 2019 and 2018:

	Three months ended June 30,		Nine months ended June 30,	
	2019	2018	2019	2018
<b>Additions to property, plant and equipment</b>				
Songjiagou Gold Mine	\$ 394,478	\$ 246,659	\$ 668,668	\$ 4,731,782
Songjiagou North Underground	-	3,052,880	-	3,362,175
Sustaining capital expenditures	455	108,321	68,784	218,940
	<b>\$ 394,933</b>	<b>\$ 3,407,860</b>	<b>\$ 737,452</b>	<b>\$ 8,312,897</b>

**FORWARD-LOOKING STATEMENTS**

This MD&A contains or incorporates by reference "forward-looking statements" within the meaning of applicable Canadian securities legislation. Except for statements of historical fact relating to the Company, information contained herein constitutes forward-looking statements, including any information as to the Company's strategy, plans or future financial or operating performance. Forward-looking statements are characterized by words such as "plan", "expect", "budget", "target", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions, assumptions and estimates of management

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considered reasonable at the date the statements are made, and are inherently subject to a variety of risks and uncertainties and other known and unknown factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the impact of general business and economic conditions, global liquidity and credit availability on the timing of cash flows and the values of assets and liabilities based on projected future conditions, fluctuating gold prices, currency exchange rates, possible variations in ore grade or recovery rates, changes in accounting policies, changes in the Company's corporate resources, changes in project parameters as plans continue to be refined, changes in project development, construction, production and commissioning time frames, risk related to joint venture operations, the possibility of project cost overruns or unanticipated costs and expenses, higher prices for fuel, steel, power, labour and other consumables contributing to higher costs and general risks of the mining industry, failure of plant, equipment or processes to operate as anticipated, unexpected changes in mine life, unanticipated results of future studies, seasonality and unanticipated weather changes, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of pending litigation and labour disputes, as well as those risk factors discussed or referred to in the Company's Management's Discussion and Analysis for the year ended September 30, 2018, filed with the applicable securities regulatory authorities and available at SEDAR [www.sedar.com](http://www.sedar.com). Although the Company 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 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. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates, assumptions or opinions should change, except as required by applicable law. The reader is cautioned not to place undue reliance on forward-looking statements. The forward-looking information contained herein is presented for the purpose of assisting investors in understanding the Company's expected financial and operational performance and results as at and for the periods ended on the dates presented in the Company's plans and objectives, and may not be appropriate for other purposes.