

# Goldletter INTERNATIONAL

*the international independent information and advice bulletin for gold and related investments*

Special Situation - January 2012 Update

[www.majesticgold.net](http://www.majesticgold.net)



## Majestic Gold Corp. (Cdn\$ 0.16)

TSX.V : MJS  
Frankfurt : A0BK1D  
OTCQX : MJGCF

H+L prices (12 months) : Cdn \$ 0.29 – 0.13

Net shares issued : 617.3 million

Market Capitalization : Cdn \$ 98.8 million

**Next price target: Cdn \$ 0.40**

### Company profile

Majestic Gold (“Majestic”) is a gold exploration and development company with a gold deposit with trial-stage producing in the **Shandong Province of China**. Gold from this peninsula accounts for more than 25% of China’s gold production, which is presently estimated to be in excess of 288 tonnes or 9.3 million ounces.

In October 2010, Majestic published the most recently updated resource estimate for its **Song Jiagou Gold Project** prepared by Wardrop Engineering. The total NI 43-101 defined resource is Indicated – 33.74 million tonnes grading 1,147 g/t gold containing 1.244 million ounces of gold. Inferred – 38.81 million tonnes grading 1.467 g/t gold containing 1.83 million ounces of gold

These resources were defined at a cut-off grade of 0.30 g/t gold and a capped in grade of 40 g/t gold.

It is estimated that, of the total resource of approximately 3.0 million ounces of gold, approximately 2.3 million ounces are potentially recoverable under the current mining plan.

Majestic is currently processing 1,400 tonnes per day using two local mills. Production for 2010 was approximately 4,700 ounces of gold. However, construction of a new mill is on track to be operational from May 2011. The new mill will expand the Company’s production to 7,400 tonnes per day (combined from mill (6,000 tpd) and underground mines (1,400 tpd).

In January 2011, Majestic completed and delivered a positive Preliminary Assessment for the Song Jiagou Gold Project prepared by Wardrop. Highlights include Net Present Value of US\$ 525 million using a 10% discount rate; **total gold production of 2.32 million ounces at an average of 105,645 ounces per year for the mine-life of 22 years.**; Internal Rate of Return of 78.6%; Payback in 1.4 years; Life of Mine strip ratio 1.87: 1 (waste to ore); Initial capital costs US\$ 64.4 million.

## Overview of Projects

The Song Jiagou Property is located on the Jiaodong Peninsula in Muping County, the Shandong Province, the People's Republic of China.



The Song Jiagou Property lies on the western edge of the Muping-Tushan Gold Belt which hosts 20% of the known gold deposits on the Jiaodong Peninsula. Gold production from the entire peninsula accounts for over 25% of China's annual gold production, presently estimated to be 288 tons or 9.3 million ounces.

Gold deposits in the belt are commonly controlled spatially by fault zones. To the south of the Song Jiagou Property, which is located 30 km from the coast of the Jiaodong Peninsula, the Pengjiatuang Gold Deposit (> 650,000 ounces) occurs in the same structural environment within Cretaceous Laiylong conglomerates which underlie the Song Jiagou Property.

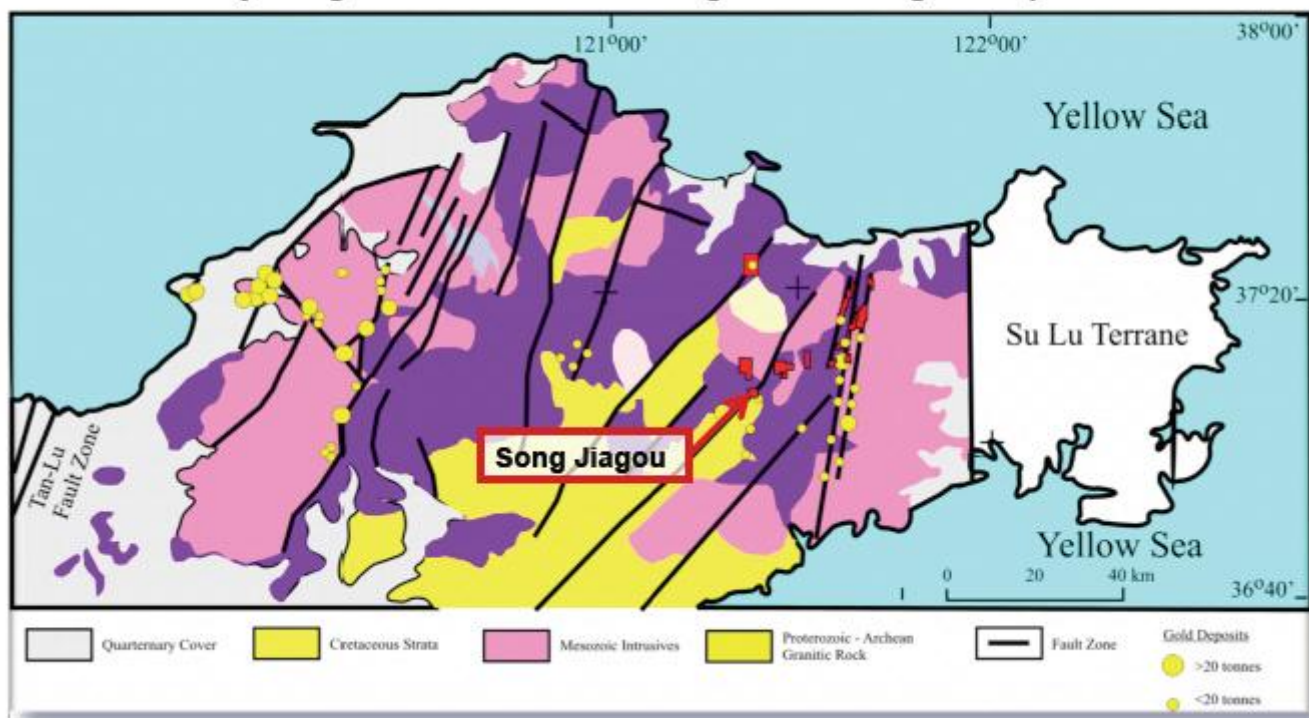
Gold mineralization on Song Jiagou is hosted by a series of steeply dipping, sub-parallel north-northeast trending fault zones. The area of Song Jiagou is interpreted as being the higher levels of a mesothermal system where gold bearing fluids have mineralized the matrix of the host conglomerates. The gold bearing quartz veins would then likely continue to much lower levels in the system.

Chinese estimates of 1.7 million tons at 6.76 g/t gold are reported from the high-grade fault zones to depths of 250 metres. Mineralization remains open to depth and indications in drill holes are that it continues for over 100 metres down dip. Pilot mining by Muping Gold Mines at 120 tons per day accesses the ore from four underground levels.

The potential at Song Jiagou lies at depth and in sub-parallel structures to the known resource which remains to be tested and in the low-grade bulk tonnage potential within the matrix of the host conglomerates.

MJS has a 94%-owned subsidiary, **Majestic Yantai Gold**, which in turn has a 100% interest in a Chinese co-operation company. The Song Jiagou Property is 100% owned by a cooperation company. MJS has a 75% interest in the net revenue from the Song Jiagou Project. The remaining 25% net revenue interest is held by Dahedong Smelter Mill (“Dahedong”), MJS’s Chinese partner. The Song Jiagou Mineral Exploration Licence is 3.76 km<sup>2</sup> in area and is contained within the Exploration Licence.

**~25% or 2.5 million oz of China's annual gold production**  
**Major regional structures hosting numerous gold deposits**



The Property consists of an open-pit, which is currently being mined at a rate of approximately 1,050 t/day and an underground mine (the Fayunhuang Mine, which is being mined at a rate of approximately 350 t/day. The gold concentrate produced by the mill is sold to Shandong Human Smelting Co., located 35 km from Song Jiagou.

The Fayunhuang underground mine has been operated since 1992, and is licensed to produce 66,000 tons per annum. Shandong Yantai Muping Gold Mine carried out exploratory drilling work on the Song Jiagou site since 2004. A small-scale trial mining has taken place at the open/pit since 2001 and the Company was pilot milling at a rate of approximately 250 tonnes per day between October 2007 and December 2009.

Mining from the open-pit was scaled up in December 2007, following the purchase of the remaining 40% interest in the site from Muping by MJS’ Chinese partner Dahedong. Subsequent to this purchase, the open/pit has been operated by Dahedong. The underground mine has been operated by Muping since 2004.

The initial NI 43/119 resource estimate for the Song Jiagou Property was published in 2006 and updated in 2007. The most recent NI 43/101 resource estimate was published in April 2010 and updated in October 2010.

The updated report included a revised resource estimate that was calculated by rotating the original model parallel to the trend of the Deposit and lowering the cut/off to 0.3 g-t. The capped grade is 40 g-t gold. This lower cut/off was selected by MJS to reflect a reduction in production cost after the Mining Contract was renegotiated.

2003	Signed JV Agreement to earn 60% of 13 licenses (including Song Jiagou)
2004	541m of channel samples in cross cuts - average 1.5 g/t over 95.4m (incl. 2.6 g/t over 47.5m) <b>Results indicated bulk-mineable target</b>
2005	26 holes drilled totaling 7,300m - tested near-surface and down-dip extension of near-vertical, high-grade mineralized fault zones <b>550m long, 500m wide, and up to 600m deep mineralized zone</b> <b>Initial resource estimate delivered &gt;400,000 oz with limited data</b>
2006	9 holes drilled on surface totaling 3,700m (infill), underground drilling on all levels (1,000m) Channel sampling L1 and L2 Prepared detailed geological / structural model <b>Revised Resource Estimate (~1,200,000 oz)</b>
2007/ 08	Trenching program to test the grades and widths of the gold mineralization on surface 5,000m of surface core drilling to further delineate near surface gold
2009	1,000m surface drilling
2010	<b>Revised Resource Estimate (~3,000,000 oz)</b> Mine operations commenced (at 1,400 tpd) – Mine expansion underway (to 7,400 tpd) Negotiated and closed acquisition of remaining 40% interest, land rights and processing facilities

Total NI 43-101 defined resource is: Indicated – **33.78 million tonnes at 1,147 g/t gold (1.21 million ounces)** and Inferred – **38.81 million tonnes at 1,467 g/t gold (1.83 million ounces)**.

It is estimated that of the total resource of approximately 3.0 million ounces gold, approximately 2.3 million ounces of gold are potentially recoverable under the current mine plane.

On January 20, 2011, Majestic announced that Wardrop, A Tetra Tech, had completed and delivered a positive Preliminary Assessment (“PA”) for the Song Jiagou Property.

Highlights are as follows:

- Net present Value of US\$ 525 million using a 10% discount rate
- Internal Rate of Return 78.6%
- Payback in 4 years
- **Total gold production of 2,324 million ounces (average 105,645 ounces per year for a mine-life of 22 years)**
- Life-of-Mine strip ratio 1.87: 1 (waste to ore)

The PA exceeded the expectations of Majestic and will form the basis for the company’s continued development of the Song Jiagou Project.

Majestic intends to undertake further exploration over the next two years.

Wardrop recommends two phases of exploration designed to upgrade and expand the existing resource. Phase I will focus on increasing the level of confidence in the shallow portion of the existing resource.

The all-inclusive cost of this phase is estimated to be Cdn\$ 1 million.

Phase II is the extension of the Phase I program. The objectives of this program are to increase confidence in the deeper mineralization and to identify additional resources both at depth and along strike.

The all-inclusive cost of the second program is estimated to be Cdn\$ 3.5 million.

Wardrop also recommends further engineering studies; conduct a detailed testing program to study metallurgical performance; further studies for tailings disposal for the remaining life-of-mine. The under construction Tailings Storage Facility will service approximately 4 to 5 years at a rate of 7,400 tonnes per day; conduct a comprehensive environmental impact assessment for the Project based on the proposed process rate; further studies on the fresh water supply.

In April 2011, Majestic announced that the mill is in the commissioning stage and has begun running ore through the mill in order to access the efficiency of the mill. Running at an initial throughput of 3,000 tonnes per day and currently producing 4,100 tonnes per day, the Song Jiagou Mine is currently producing 1,500 ounces of gold per month and progressively moving upwards towards full capacity of 6,000 tonnes per day.

## Capital Costs

Project "Song Jiagou" – Costs	
Capital Costs*	000's US\$
Pre-production (pre-strip)	0
Initial Capital	64,377
Initial Working Capital	7,120
Sustaining Working Capital	64,787
<b>TOTAL CAPITAL COSTS</b>	<b>129,163</b>
Operating Costs*	US\$/tonnes milled
Mining, Process and Transport	10.72
G&A and Quality Control	0.95
<b>TOTAL OPERATING COSTS</b>	<b>11.67</b>

\*Wardrop Engineering Inc. Preliminary Economic Assessment, January 2011.

The majority of the sustaining capital is required in years 4 and 5 and consists mainly of capital required to expand tailings, storage facilities and future exploration.

## ➤ Other Properties

On the **Jinguang Property**, Majestic recognized a write-down of Cdn\$ 294,508. The Property is recognized to be impaired.

The **Sawayaerdun Property** was sold in 2009, but final payment of Cdn\$ 846,458 has not been received.

## **Management**

**Rod W. Husband, P. Geo., CEO, Director**, has over 20 years of experience in all areas of economic geology with a particular focus in porphyry, epithermal, orogenic and skarn environments. In 1992, he became president and chief geologist of Pro Group Geological, a private company that provides a wide range of exploration services to its clients. With Pro Group Geological, Mr. Husband led initial exploration and advanced development for resource companies operating in Canada, the United States, Chile, Peru, Honduras, Mexico, the Philippines and Slovakia. He has a wide range of junior resource company management expertise and has served on the board of several public companies listed on the TSX Venture Exchange. Mr. Husband is also presently on the board of Global Hunter and Verona Development.

**Rudy Brauer, Director**, has 20 years of international experience in corporate finance and investment banking. He has served as president and member of the board for several companies in Germany and the United States, and has been highly successful in corporate fundraising and in the implementation of new business concepts. Mr. Brauer has a proven ability of analyzing and identifying the value of promising projects throughout various business sectors, projecting achievable goals, creating marketing plans and implementing business strategies on a global basis.

**David Chen, Certified Accountant in China, Controller**, holds an Honours Bachelor of Commerce degree and Master of Business Administration degree from Laurentian University in Canada. He has over 17 years of experience in financial reporting and management and financing for public and private companies. Mr. Chen led the financial reporting team and played a key role in the success of China Gold International Resources, which was the first TSX listed gold mining company to achieve dual primary listing on the Hong Kong Stock Exchange with IPO proceeds of approximately US\$ 309 million.

**Gurminder Sangha, B. Comm, Director**, is an independent business advisor to the mining industry. For over nine years, Mr. Sangha has focused on significant international exploration, development, and mining ventures, and all aspects of their structuring and finance. His previous positions include: Business Development Manager at Scotia McLeod; Commercial Banking Manager, Scotiabank; and has worked with numerous TSX-Venture companies throughout the financing and development of exploration and production stage companies.

**Mike Hibbits, P. Geo. VP Development and Exploration, Director**, is a professional geologist and senior mining professional with over 30 years of extensive and progressive experience and a proven track record from early exploration through to feasibility, mine development, and production. He has held senior positions at numerous public Canadian mining companies including: Silvercorp Metals, New Gold, Northgate Exploration, Royal Oak Mines, and Noranda Mines, among others. Mr. Hibbits has international experience in exploration and mining more specifically in Canada, South America, Mexico, China and the United States.

**Richard Shao, Ph.D. (Metallurgy, Beijing) Agent for China**, has as a former acting Department Head (Mineral Processing) at the Chinese University of Mining and Technology, numerous years of experience as both an advisor and a consultant for mineral processing and evaluation companies.

**Shaohui Chen, Director**, as former president of Northern China Planning and Design Institute of the Ministry of Chemical Industry, has over 25 years experience in the mining industry. In addition to his professional expertise in mining and leadership, He has established a reputable name for himself by acquiring a position as a general manager for Xinjiang Majestic Mining Inc., a joint venture between Xinjiang Bureau of Geology & Minerals and Majestic Gold.

**Fan Zhong Kong, General Manager Yantal Joint Venture**, is the Chairman of Yantal Zhongbiao Donghu Mining Co. which has a large marble business in Yantal City. He has 10 years of experience as the general manager of Yantal Myuping Wanggezhuang Town Dahedong Processing Plant and as the Chairman of Yantal Zhongbiao Donghu Mining Co.

## **Finance**

On November 3, 2011, Majestic Gold announced that the in July 2011 arranged Cdn\$ 10 million 7.5% convertible loan to advance its Song Jiagou Gold Project, has been converted into common shares of the Company at a price of Cdn\$ 0.205 per share.

In addition, loan interest in the amount of \$ 437,000 will also be converted into common shares of the Company at Cdn\$ 0.205 per share.

As at November 1, 2011, Majestic Gold had a cash position of Cdn\$ 1.9 million.

### **Investment recommendation:**

Majestic Gold's **Song Jiagou Gold Project** being in initial stage production is located in the Shandong Province of China, which accounts for more than 25% of China's gold production.

In October 2010, Majestic published the most recently updated resource estimate for its **Song Jiagou Gold Project** prepared by Wardrop Engineering. The total NI 43-101 defined resource is Indicated – **33.74 million tonnes grading 1,147 g/t gold containing 1.21 million ounces of gold**, and Inferred – **38.81 million tonnes grading 1.467 g/t gold containing 1.83 million ounces of gold**.

These resources were defined at a cut-off grade of 0.30 g/t gold and a capped in grade of 40 g/t gold.

It is estimated that, of the total resource of approximately 3.0 million ounces of gold, approximately 2.3 million ounces are potentially recoverable under the current mining plan.

Majestic intends to undertake further exploration over the next two years at a total expense of Cdn\$ 4.5 million. Phase I (Cdn\$ 1 million) is planned to convert inferred resources in the upper area to the Indicated category and Phase II (Cdn\$ 3.5 million) is planned to define resources in the mid-pit area and to test for additional resources at depth and along strike.

With approximately 2.3 million ounces of gold potentially recoverable under the current mining plan at low production costs of US\$ 321 per ounce based on a current gold price at around US\$ 1,600, this offers an annual gross cash flow of more than US\$ 35 million over the 22-year mine life of the Song Jiagou Gold Project.

At a current market capitalization of just Cdn\$ 99 million, we consider the shares of Majestic Gold significantly undervalued.

Our next price objective is Cdn\$ 0.40.