MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three months ended December 31, 2017

(Expressed in US dollars)

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 three months ended December 31, 2017 and 2016, (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 and on the Company's website www.majesticgold.com.

This MD&A contains information to February 27, 2018.

This discussion focuses on key statistics from the unaudited condensed consolidated interim financial statements for the period ended December 31, 2017 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.

OVERVIEW

- Gold production from the Songjiagou Gold Mine for the first quarter of fiscal 2018 was 7,050 ounces, a 21% increase in gold produced over the 2017 comparative quarter;
- Gross profit for the first quarter of fiscal 2018 was $3,508,693 compared to $933,189 for the 2017 comparative quarter;
- Net income for the first quarter of 2018 was $2,337,205 million, compared to $319,700 for the 2017 comparative quarter;
- Majestic's adjusted EBITDA was $3,793,538 for the first quarter of 2018, compared to $811,703 for the comparative quarter of fiscal 2017. Refer to pages 13-15 for the computation of this Non-IFRS financial measure;
- Gold sales revenue for the first quarter of fiscal 2018 was $8.7 million, from the sale of 6,722 ounces, at an average realized gold price of $1,299 per ounce, compared to gold sales revenue of $4 million from the sale of 3,119 ounces, at an average realized gold price of $1,280 per ounce, for the 2017 comparative quarter;
- Cash costs for the first quarter of fiscal 2018 were $654 per ounce (2017 Q1 - $854), and all-in sustaining costs ("AISC") were $756 per ounce (2017 Q1 - $1,053);
- Tonnes milled for the first quarter of fiscal 2018 were 381,911 tonnes with an average head grade of 0.61 g/t and a 95% recovery rate, compared to 413,310 tonnes milled, with an average head grade of 0.48 g/t, and a 90% recovery rate for 2017 comparative quarter;
- General and administrative ("G&A") expenses for the first quarter of fiscal 2018 were $697,331, (2017 Q1 – $684,756); and
- On February 9, 2018, the Company completed a non-brokered private placement (the "Offering") by issuing 64,724,919 common shares at CAD$0.15 per common share for total proceeds of CAD$9,708,738 (USD $7,700,000). In connection with the Offering, the Company paid aggregate finder's fee to two arms-length individuals by issuing 3,236,246 common shares and incurred share issue costs of CAD$36,004 (USD$28,555)

OUTLOOK

The Company's priority for the 2018 fiscal year continues to be the improvement of its mining operations through the implementation of its optimized mine plan. Fiscal 2018 began with the Company achieving quarterly highs by averaging 0.61 g/t for its head grade and a total of 7,050 ounces produced for its first quarter.

The Company also continues its progress of the underground development at the Songjiagou North property with the expected completion being in late fiscal 2018 to early fiscal 2019.

The Company will also pursuing possible acquisitions and has commenced exploring the opportunity of a direct financing of its Chinese subsidiary through an Asian Market facility, with a possible separate listing of the Chinese subsidiary's shares on an Asian exchange.

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 December 31, 2017, and at the date of this MD&A, all of the Company's mineral property interests and mining operations are located in China. The Company is a TSX Venture Exchange listed mining company trading under the symbol "MJS".

The Company's principal mining operation is the Songjiagou Gold Mine ("Songjiagou Project" and "Songjiagou"), of the Muping mineral property, located in Shandong province, China. Majestic holds its interest in Muping through its 94% owned subsidiary Majestic Yantai Gold Ltd. ("Majestic Yantai").

SONGJIAGOU GOLD MINE

The Songjiagou Gold Mine is the Company's flagship project. The Company began commercial production in May 2011 using process facilities with a capacity of 6,000 tpd throughput. The Company's joint venture partner Yantai Dahedong Processing Company Ltd., ("Dahedong") has held the contract to mine and process ore since startup.

RESOURCE

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

The 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 and on the Company's website 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.*

- The amended resource estimate accounted for depletion by previous underground mining of an amount of 443,555 tonnes at an average grade of 0.85 g/t gold;
- The Amended Report designated Scenario 1 as a base-case for PEA of the Songjiagou operation. Scenario 1 allows for mining of only Indicated Resources, within the original mining license, at a rate of up to 7,400 tonnes per day. Results of the base-case analysis, using US$1,355 per ounce gold as the long term price are as follows:
  - Mining Inventory: 17.094MT @ 1.36 g/t gold
  - Stripping Ratio: 3.26:1
  - Mining Recovery: 95%
  - Mining Dilution: 5%
  - Smelting Recovery: 93%
  - After-tax NPV @ 10% discount rate: US$335 Million
  - Sensitivity analysis for 20% reduction in the base-case average gold price (US$1,084 per ounce) results in an after-tax NPV of US$232 Million

A PEA should not be considered to be a prefeasibility or feasibility study, as the economics and technical viability of the 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 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.

EXPLORATION

Songjiagou North

The Songjiagou North project area lies immediately north of the Songjiagou open pit operation, within the project's exploration 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 current plan for Songjiagou North property is an underground development of a 2,075 meter ramp to access at least four of the five identified mineralized vein structures from six different levels. Development began on Songjiagou North in the first quarter of 2017 and the Company anticipates the underground development to be completed at in late fiscal 2018 to early fiscal 2019 with production commencing thereafter.

Baiheng

On July 11, 2016, the Company entered into a new two year non-binding Letter of Intent ("LOI") with Yantai Baiheng Gold Mining Co. Ltd. ("Baiheng"). The July 11, 2016 LOI supersedes the August 6, 2015 LOI and allows the Company an additional 24 months for due diligence on the Shuang Shan Tun and Xia Yu Cun properties, located in the Muping-Rushan Gold Belt in Shandong Province, China.

The July 11, 2016 LOI is, in principal, a due diligence agreement that allows Majestic an 24 month detailed due diligence period, 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.

The Shuang Shan Tun and Xia Yu Cun 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 December 31, 2017		2016
Operating data				
Gold produced (ozs)		7,050		5,841
Gold realized net of smelting fees (ozs)		6,497		5,408
Gold sold (ozs)		6,722		3,119
Average realized gold price ($/oz sold)	$	1,299	$	1,280
Total cash costs ($/oz sold) (1)		654		854
Total production costs ($/oz sold) (1)		790		1,009
All-in sustaining costs ($/oz sold) (1)		756		1,053
Financial data				
Total revenues	$	8,819,018	$	4,078,820
Gross profit (2)		3,508,693		933,189
Adjusted EBITDA (1)		3,793,538		811,703
Net income		2,337,205		319,700
Net income attributable to shareholders		1,562,213		146,491
Basic and diluted income per share		0.00		0.00
		December 31, 2017		September 30, 2017
Balance Sheet				
Cash and cash equivalents	$	8,599,200	$	10,227,054
Total assets		107,372,830		105,726,421
Total current liabilities (3)		28,654,518		29,040,099

(1) See "Additional Non-IFRS Financial Measures" on page 13-15.
(2) "Gross profit" represents total revenues, net of cost of goods sold.
(3) "Total current liabilities" does not include deferred income

RESULTS OF OPERATIONS

Gold Production

	Three months ended December 31, 2017	2016
Production data		
Tonnes mined	441,608	437,022
Tonnes milled	381,911	413,310
Head grade (g/t)	0.61	0.48
Mill recovery	95%	90%
Gold produced (ozs)	7,050	5,841
Gold realized net of smelting fees (ozs)	6,497	5,408

Tonnes milled for the first quarter of 2018 were 381,911 tonnes with an average head grade of 0.61 g/t, compared to 413,310 tonnes milled, with an average head grade of 0.48 g/t, for the comparative period.

Total gold produced for the first quarter of 2018 was 7,050 ounces, compared to 5,841 ounces produced for the 2017 comparative quarter. Total gold realized was 6,497 ounces for the first quarter of 2018 (2017 Q1 – 5,408).

The average head grade increased by 27% over the 2017 comparative quarter leading to a 21% increase in gold produced for the first quarter of 2018. The Company expects its head grade and gold production to experience continued improvement as the mining operations are optimized under the developed mine plan.

Revenues

		Three months ended December 31, 2017		2016
Gold				
Ounces sold		6,722		3,119
Average realized price ($/oz)	$	1,299	$	1,280
Revenues				
Gold	$	8,730,422	$	3,991,927
Other income		88,596		86,893
	$	8,819,018	$	4,078,820

Gold sales revenue was $8.7 million for the first quarter of 2018, from the sale of 6,722 ounces, at an average realized gold price of $1,299 per ounce, compared to gold sales revenue of $4 million from the sale of 3,119 ounces, at an average realized gold price of $1,280 per ounce, for the comparative period. The significant increase in gold sales revenue over the comparative quarter is due primarily to additional 3,603 ounces being sold.

Revenues for the quarters ended December 31, 2017 and 2016, also include other income from a February 1, 2015 agreement which allows a third party use of the tailings pond for a fee of CNY 5.5 per tonne of ore processed to a maximum of 1,500 tonnes per day.

Cost of Goods Sold

		Three months ended December 31, 2017		2016
Ounces sold		6,722		3,119
Per ounce of gold sold (1)				
Cash costs	$	654	$	854
Production costs		790		1,009
Cost of Goods Sold				
Total cash costs	$	4,395,056	$	2,661,840
Total production costs		5,310,325		3,145,631

(1) See "Additional Non-IFRS Financial Measures" on page 13-15.

The cash costs per ounce were $654 for the first quarter of 2018, as compared to $854 per ounce for the 2017 comparative period. Production costs per ounce were $790 for the first quarter of 2018, compared to $1,009 per ounce for the 2017 comparative period.

Cash and production costs decreased by over 20% in the current quarter compared to the first quarter of 2017. The reduction in costs was achieved through improved head grades, recovery rates as well as the lower cost of mining under the amended contract of mining agreement.

Other Items

The Company's G&A expenditures were $697,331 for the three months ended December 31 2017, compared to $684,756 for the three months ended December 31 2016.

The details of the general and administrative expenses for the periods ended December 31, 2017 and 2016 are as follows:

		Three months ended December 31, 2017		2016
Consulting and management fees	$	123,602	$	154,685
Depreciation		66,907		79,479
Office and general		142,793		137,420
Professional fees		-		510
Salaries		246,013		191,105
Shareholder communications		1,197		561
Travel		116,819		120,996
Total	$	697,331	$	684,756

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 December 31, 2017 and 2016 are as follows:

		Three months ended December 31, 2017		2016
Interest expense	$	206,436	$	212,966
Accretion of asset retirement obligation		22,724		18,273
Total	$	229,160	$	231,239

Net income for period ended December 31 2017, was $2,337,205 ($0.00 per share) compared to $319,700 ($0.00 per share) for the 2016 comparative period.

The Company's adjusted EBITDA was $3,793,538 for the first quarter of 2018, (2017 Q1– $811,703).

SUMMARY OF QUARTERLY RESULTS

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

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Net revenues	$8,819,018	$7,603,642	$8,193,464	$9,602,677
Net income	$2,337,205	$494,529	$1,477,267	$1,385,856
Income per share	$0.00	$0.00	$0.00	$0.00
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Net revenues	$4,078,820	$6,178,145	$6,744,418	$10,434,943
Net income (loss)	$319,700	($1,854,786)	($330,993)	($429,957)
Income (loss) 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 loss between periods are primarily due to the volatility of gold prices and variances in gold sales, production costs, G&A expenses and stock based compensation.

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 December 31, 2017, the Company had cash and cash equivalents of $8,599,200 (September 30, 2017 - $ 10,227,054) and had a working capital deficit of $12,936,249 (September 30, 2017 – ($15,055,756)).

Majestic began the first quarter ended December 31, 2017, with $10,227,054 in cash and cash equivalents. During the three months ended December 31, 2017, the Company had generated $576,797 in operating activities, net of working capital changes, expended $754,028 in investing activities, for the purchase and development of property, plant and equipment, and reclamation deposits, net of proceeds from the sale of gold futures, expended $1,610,001 in financing activities, which was attributable to loan borrowing repayments, net of loan borrowings and restricted cash placed on deposit, and had a foreign exchange gain of $159,378, to end at December 31, 2017, with $8,599,200 in cash and cash equivalents.

Majestic began the first quarter ended December 31, 2016, with $9,037,258 in cash and cash equivalents. During the three months ended December 31, 2016, the Company had expended $21,935 in operating activities, net of working capital changes, expended $10,416,578 in investing activities, for the purchase and development of property, plant and equipment, received $7,229,911 from financing activities which was attributable to share subscriptions received in advance and loan borrowings, net of loan borrowing repayments and restricted cash placed on deposit, and had a foreign exchange loss of $554,596, to end at December 31, 2016, with $5,274,060 in cash and cash equivalents.

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. In addition the Company has 72,500,000 share purchase warrants at an exercise price of CAD$0.155. All stock option and share purchase warrants will, if exercised, provide additional cash. At the date of this MD&A, the stock options and share purchase warrants outstanding are "out of the money".

On February 9, 2018, the Company completed a non-brokered private placement (the "Offering") by issuing 64,724,919 common shares at CAD$0.15 per common share for total proceeds of CAD$9,708,738 (USD $7,700,000). In connection with the Offering, the Company paid aggregate finder's fee to two arms-length individuals by issuing 3,236,246 common shares and incurred share issue costs of CAD$36,004 (USD$28,555).

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.

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

Authorized: an unlimited number of common shares without par value.	Common shares issued and outstanding	Stock options	Warrants
Outstanding at December 31, 2017	912,265,216	27,700,000	72,500,000
Common shares issued pursuant to a private placement	67,961,165	-	-
Outstanding at the date of this MD&A	980,226,381	27,700,000	72,500,000

TRANSACTIONS WITH RELATED PARTIES

Related party transactions

The Company incurred the following related party transactions during the periods ended December 31, 2017 and 2016:

	Three months ended December 31, 2017	2016
	-$-	-$-
Consulting fees charged by companies controlled by directors and officers of the Company - include key management personnel compensation	160,238	150,307
Mining and milling services charged by Dahedong	3,601,356	3,913,964
Interest charged by Dahedong	6,173	19,156
	3,767,767	4,083,427

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 December 31, 2017	2016
	-$-	-$-
Short-term employee benefits–management fees	61,347	58,461
Director fees	40,741	38,825
	102,088	97,286

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 December 31, 2017, 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 9 Financial Instruments

IFRS 9 covers the classification and measurement, impairment and hedge accounting of financial assets and financial liabilities and the effective date is for annual periods on or after January 1, 2018, with earlier application permitted. The Company is still assessing the impact of adopting IFRS 9. Amendments to IFRS 9 also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted.

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.

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.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2017, 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 and cash equivalents, 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.

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.

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 December 31, 2017.

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, 2017.

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 a reconciliation of adjusted EBITDA to the consolidated financial statements for the periods ended December 31, 2017 and 2016:

	Three months ended December 31, 2017	2016
Net Income	$ 2,337,205	$ 319,700
Depreciation and depletion	982,176	563,270
Finance expense, net of finance income	193,953	188,612
Gain on financial instruments	(126,045)	-
Foreign exchange income	(601)	(3,383)
Income tax expense (recovery)	406,850	(256,496)
Adjusted EBITDA	$ 3,793,538	$ 811,703

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

	Three months ended December 31, 2017	2016
Revenue	$ 8,819,018	$ 4,078,820
Cost of sales, net of depreciation and depletion	(4,395,056)	(2,661,840)
G&A, net of depreciation	(630,424.00)	(605,277)
Adjusted EBITDA	$ 3,793,538	$ 811,703

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 consolidate financial statements for the periods ended December 31, 2017 and 2016:

	Three months ended December 31, 2017	2016
Gold sold (ozs)	6,722	3,119
Total cash costs per ounce		
Contractor costs paid to Dahedong	$ 3,601,356	$ 3,913,964
Smelting costs	291,734	102,972
Resource taxes	205,215	124,829
Other direct costs	164,715	239,847
Changes in ending gold concentrate inventory	132,036	(1,719,772)
Total cash costs	$ 4,395,056	$ 2,661,840
Per ounce sold	$ 654	$ 854

Total production costs per ounce				
Total cash costs	$	4,395,056	$	2,661,840
Depreciation and depletion		915,269		483,791
Total production costs	$	5,310,325	$	3,145,631
Per ounce sold	$	790	$	1,009
All-in sustaining costs per ounce				
Total cash costs	$	4,395,056	$	2,661,840
G&A, net of depreciation		630,424		605,277
Sustaining capital expenditures (1)		57,246		16,800
All-in sustaining costs	$	5,082,726	$	3,283,917
Per ounce sold	$	756	$	1,053

(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 December 31, 2017 and 2016:

		Three months ended December 31,		
		2017		2016
Additions to property, plant and equipment				
Songjiagou Gold Mine	$	78,962	$	3,785,787
Songjiagou North Area		194,667		6,613,991
Sustaining capital expenditures		57,246		16,800
	$	330,875	$	10,416,578

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 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, 2017, filed with the applicable securities regulatory authorities and available at SEDAR 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.