



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

**For the three months ended December 31, 2016**

*(Expressed in US dollars)*

**Majestic Gold Corp.**  
**Management's Discussion and Analysis**  
**For the three months ended December 31, 2016**

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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 three months ended December 31, 2016 and 2015, (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 February 24, 2017.

This discussion focuses on key statistics from the unaudited condensed consolidated interim financial statements for the period ended December 31, 2016 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 three months ended December 31, 2016, was 5,841 ounces, compared to 7,213 ounces produced for the comparative period. The decrease in gold production in the current period over the comparative period is primarily attributed to approximately 30,000 tonnes of higher grade fine fraction material that was processed in the comparative period;
- Tonnes milled for the three months ended December 31, 2016, were 413,310 tonnes with an average head grade of 0.48 g/t, compared to 418,550 tonnes milled, with an average head grade of 0.58 g/t, for the comparative period. The lower average head grade, for the current period over the comparative period, is due to the processing of approximately 30,000 tonnes of higher grade fine fraction material at the mill in the comparative period;
- Gold sales revenue for the three months ended December 31, 2016 was \$4.1 million, from the sale of 3,119 ounces, at an average realized gold price of \$1,280 per ounce, compared to gold sales revenue, for the comparative period, of \$4.4 million from the sale of 3,537 ounces, at an average realized gold price of \$1,233 per ounce. The 8% decrease in gold sales revenue for the current period is due to a 12% drop in the number of ounces and partially offset by a 4% increase in the average realized gold price over the comparative period;
- Cash costs were \$854 per ounce and production costs were \$1,009 per ounce for the three months ended December 31, 2016, compared to cash costs of \$1,033 per ounce and production costs of \$1,284 per ounce for the comparative period. The decrease in both the cash and production costs for the current period over the comparative, is due primarily to a lower volume of waste material produced at mine and thereby reducing waste removal costs;
- General and administrative ("G&A") expenses were \$684,746 for three months ended December 31, 2016, compared to \$707,370 for the comparative period;
- On December 21, 2016, the Company closed a non-brokered private placement financing of 72,500,000 units at CAD\$0.135 per unit for total subscription proceeds of CAD\$9,787,500. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase an additional common share at CAD\$0.155 for a period of two years after the closing. The 72,500,000 units were issued in January 2017. Proceeds from the private placement will be used to partially fund construction of housing for inhabitants of two villages that are being relocated due to their close proximity to the Songjiagou open pit operation and for general working capital purposes; and
- During the current period, the Company began development on the Songjiagou North property.

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**OUTLOOK**

For the 2017 fiscal year, the Company's priority continues to be the optimization of its mining operations for which the Company began operating under a mine plan during the current period ended December 31, 2016.

**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, 2016, 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"). The Company commenced commercial gold production at the Songjiagou Gold Mine in May 2011.

**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 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).

**Resource Estimate\***

**Global Resource**

	Open Pit	Underground
<b>Indicated (MT)</b>	<b>Inferred</b>	<b>Inferred</b>
(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
<b>Indicated (MT)</b>	<b>Inferred</b>	<b>Inferred</b>
(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 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.

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**PRELIMINARY ECONOMIC ASSESSMENT**

The Company's Report dated January 19, 2016, is an amendment to the initial technical report in support of the Preliminary Economic Assessment ("PEA") for the Songjiagou Gold Mine, filed on August 21, 2013, and prepared by SRK Consulting (China) Ltd..

A summary of the main sections of the PEA are as follows:

**Operating Cost**

The following parameters were used to estimate the operating cost in the PEA:

- Mining cost: US\$ 1.79/t (RMB 11.3/t). Mining costs are assumed to increase by US\$ 0.05/t (RMB 0.3/t) annually;
- Stripping cost: US\$ 1.36 (RMB 8.55/t). Stripping costs are assumed to increase by US\$ 0.05/t (RMB 0.3/t) annually);
- Processing cost: US\$ 7.55/t (RMB 47.46/t);
- Administration cost: US\$ 0.72/t (RMB 4.50/t);
- Resource tax: US\$ 0.72/t (RMB 5/t);
- Mineral resource compensation fee: US\$ 31,830/year (RMB 200,000/year);
- Smelting cost: US\$ 15.91/t (RMB 100/t) of dry gold concentrate; and
- Exchange rate: US\$1 = RMB 6.2834 (CDN\$ 1 = RMB 6.2789).

**Mining Methods**

Mining activities have been outsourced to Dahedong, and mining equipment is also being supplied by the contractor. The PEA is based on conventional open pit mining using excavators to load 40 tonne trucks which haul ore to the processing plant - a distance of about 4 km. Ore break is by self-propelled air track drills. Benches are 12 m high. The overall slope of the pit is 48°. The mine is scheduled to operate 330 days per year, 3 shifts per day and 8 hours per shift.

**Recovery Methods**

The Songjiagou Gold Mine has three processing plants with capacities of 1,200 tpd, 2000 tpd, and the third a capacity of 6,000 tpd.

All material mined is currently being processed at the 6,000 tpd mill as the 1,200 tpd mill is not being utilized at this time; and the 2,000 tpd mill is being utilized by a third party, YE Zhifan ("Zhifan"), to process waste material from Songjiagou (< 0.30 g/t).

Similar flowsheets are adopted in the 1,200 tpd plant and the 6,000 tpd plant. The flow sheet comprises conventional three-stage crushing and grinding in a closed circuit. The slurry is subjected to a flotation circuit comprising of one stage of roughing, one stage of cleaning, and two stages of scavenging. The gold concentrate is dehydrated and then sent for metallurgical processing at a nearby smelter.

The Company has been unable to realize the full potential of the Songjiagou Gold Mine, due, in a large part, to the lack of consistent grade control of the material entering the mill after being mined in the pit. The Company's management is currently limiting production to the capacity of the 6,000 tpd mill as the Company continues to work on the implementation of its grade control program, and the development of an optimized mine plan at Songjiagou.

**SONGJIAGOU NORTH**

Songjiagou North property consists of a 0.414 sq. km. mining license immediately north of the original mining license at Songjiagou Gold Mine. The Songjiagou North mining license covers the extension of the Songjiagou gold mineralization to the north. The Company began development of a 2,175 meter ramp to access at least four mineralized vein structures from six different levels. The Company anticipates production to begin late in 2017 or early 2018.

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**EXPLORATION**

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 qualified person ("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, 2016	Three months ended December 31, 2015
<b>Operating data</b>		
Gold produced (ozs)	5,841	7,213
Gold realized net of smelting fees (ozs)	5,408	6,976
Gold sold (ozs)	3,119	3,537
Average realized gold price (\$/oz sold)	\$ 1,280	\$ 1,233
Total cash costs (\$/oz sold) <sup>(1)</sup>	854	1,033
Total production costs (\$/oz sold) <sup>(1)</sup>	1,009	1,284
All-in sustaining costs (\$/oz sold) <sup>(1)</sup>	1,053	1,219
<b>Financial data</b>		
Total revenues	\$ 4,078,820	\$ 4,444,460
Gross profit (loss) <sup>(2)</sup>	933,189	(96,178)
Adjusted EBITDA <sup>(1)</sup>	811,703	165,067
Net profit (loss)	319,700	(662,080)
Net profit (loss) attributable to shareholders	146,491	(548,999)
Basic and diluted loss per share	0.00	(0.00)
	December 31,	September 30,
<b>Balance Sheet</b>		
Cash and cash equivalents	\$ 5,274,060	\$ 9,037,258
Total assets	97,990,089	93,305,139
Total debt	32,525,305	33,038,286

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

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

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**RESULTS OF OPERATIONS**

**Gold Production**

	Three months ended December 31, 2016	Three months ended December 31, 2015
<b>Production data</b>		
Tonnes mined	437,022	540,605
Tonnes milled	413,310	418,550
Head grade (g/t)	0.48	0.58
Mill recovery	90%	91%
Gold produced (ozs)	5,841	7,213
Gold realized, net of smelting fees (ozs)	5,408	6,976

Tonnes milled for the three months ended December 31, 2016, were 413,310 tonnes with an average head grade of 0.48 g/t, compared to 418,550 tonnes milled, with an average head grade of 0.58 g/t, for the comparative period. Total gold produced for the period ended December 31, 2016, was 5,841 ounces, compared to 7,213 ounces produced for the comparative period.

The decrease in the average head grade and gold production for the current period over the comparative period is primarily attributed to approximately 30,000 tonnes of higher grade fine fraction material which was processed in the comparative period.

Total gold realized was 5,408 ounces for the period ended December 31, 2016, compared to 6,976 ounces realized in the comparative period.

**Revenues**

	Three months ended December 31, 2016	Three months ended December 31, 2015
<b>Gold</b>		
Ounces sold	3,119	3,537
Average realized price (\$/oz)	\$ 1,280	\$ 1,233
<b>Revenues</b>		
Gold	\$ 3,991,927	\$ 4,359,225
Other income	86,893	85,235
	\$ 4,078,820	\$ 4,444,460

Gold sales revenue was \$4.1 million for the three months ended December 31, 2016, from the sale of 3,119 ounces, at an average realized gold price of \$1,280 per ounce, compared to gold sales revenue of \$4.4 million from the sale of 3,537 ounces, at an average realized gold price of \$1,233 per ounce, for the comparative period. The drop in gold sales revenue for the current period is due to fewer ounces being sold and partially offset by the increase in the average realized gold price compared to the prior period.

Revenues for the periods ended December 31, 2016 and 2015, also include other income from a February 1, 2015 agreement to which the Company is a party to. The agreement 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.

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**Cost of Sales**

	Three months ended December 31, 2016	Three months ended December 31, 2015
<b>Ounces sold</b>	3,119	3,537
<b>Per ounce of gold sold <sup>(1)</sup></b>		
Cash costs	\$ 854	\$ 1,033
Production costs	1,009	1,284
<b>Cost of Goods Sold</b>		
Total cash costs	\$ 2,661,840	\$ 3,652,744
Total production costs	3,145,631	4,540,638

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

The cash costs per ounce were \$854 for the period ended December 31, 2016, as compared to \$1,033 per ounce for the comparative period. The production costs per ounce were \$1,009 for the period ended December 31, 2016, compared to \$1,284 per ounce for the comparative period. The decrease in cash and production cost for the current period over the comparative is due primarily to a lower volume of waste material produced at mine and thereby reducing waste removal costs.

**Other Items**

The more significant other items for the periods ended December 31, 2016 and 2015 are discussed below.

The Company's continued to control its G&A expenditures which were \$684,756 for the period ended December 31, 2016, compared to \$707,370 expended in the comparative period.

The details of the general and administrative expenses for the periods ended December 31, 2016 and 2015 are as follows:

	Three months ended December 31, 2016	Three months ended December 31, 2015
	-\$-	-\$-
Consulting and management fees	154,685	158,402
Depreciation	79,479	80,721
Office and general	137,420	173,269
Professional fees	510	9,470
Salaries	191,105	196,361
Shareholder communications	561	1,798
Travel	120,996	87,349
<b>Total</b>	<b>684,756</b>	<b>707,370</b>

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

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The details of the changes in the consolidated finance expense for the periods ended December 31, 2016 and 2015 are as follows:

	Three months ended December 31, 2016	Three months ended December 31, 2015
	-\$-	-\$-
Interest expense	212,966	271,695
Accretion of asset retirement obligation	18,273	21,088
<b>Total</b>	<b>231,239</b>	<b>292,783</b>

Net profit for the period ended December 31, 2016, was \$319,700 (\$0.00 per share) compared to a net loss of \$662,080 (\$0.00 per share) for the comparative period.

**SUMMARY OF QUARTERLY RESULTS**

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

	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 profit (loss)	\$319,700	(\$801,897)	(\$330,993)	(\$1,482,846)
Per share	\$0.00	(\$0.00)	(\$0.00)	(\$0.00)
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Net revenues	\$4,444,460	\$7,155,148	\$2,787,430	\$5,889,843
Net profit (loss)	(\$662,080)	(\$3,990,750)	(\$1,137,335)	(\$639,042)
Per share	(\$0.00)	(\$0.01)	(\$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 and 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.

During the three months ended December 31, 2016, the Company closed a non-brokered private placement of 72,500,000 units at CAD\$0.135 per unit for total subscription proceeds of CAD\$9,787,500 (\$7,289,730). Each unit consisted of one common share and one common share purchase warrant, entitling the holder to purchase an additional common share at CAD\$0.155 for a period of two years from date of issuance. The Company issued the 72,500,000 units in January 2017 on completion of the non-brokered private placement.

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At December 31, 2016, the Company had cash and cash equivalents of \$5,274,060 (September 30, 2016 - \$9,037,258) and had a working capital deficit of \$17,960,111 (September 30, 2016 - (\$16,492,256)).

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 \$319,998 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 \$256,533, to end at December 31, 2016, with \$5,274,060 in cash and cash equivalents.

Majestic began the first quarter ended December 31, 2015, with \$6,981,718 in cash and cash equivalents. During the three months ended December 31, 2015, the Company had expended \$3,658,339 on operating activities, net of working capital changes, received \$57,079 from investing activities, net of \$154,606 expended on investments in gold futures, and \$30,626 expended on the purchase of property, plant and equipment, received \$1,515,930 from financing activities which was attributable to loan borrowings, net of loan borrowing repayments and restricted cash placed on deposit, and had a foreign exchange gain of \$363,637, to end at December 31, 2015, with \$5,260,025 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" and the share purchase warrants are under a four month hold period.

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, 2016	839,765,216	27,700,000	-
Private placement	72,500,000	-	72,500,000
Outstanding at the date of this MD&A	912,265,216	27,700,000	72,500,000

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**TRANSACTIONS WITH RELATED PARTIES**

**Related party transactions**

The Company incurred the following related party transactions during the period ended December 31, 2016 and 2015:

	Three months ended December 31, 2016	Three months ended December 31, 2015
	-\$-	-\$-
Consulting fees charged by companies controlled by directors and officers of the Company - includes key management personnel compensation	150,307	150,826
Mining and milling services charged by Dahedong	3,913,964	5,461,563
Interest charged by Dahedong	19,156	66,716
	4,083,427	5,679,105

**Compensation of key management personnel**

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

	Three months ended December 31, 2016	Three months ended December 31, 2015
	- \$ -	- \$ -
Short-term employee benefits—management fees	58,461	58,445
Director fees	38,825	38,814
	97,286	97,259

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, 2016, 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. Refer to Note 3 of the Financial Report.

**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, 2016, the Company had no material 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.

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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.

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**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, 2016.

*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

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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.

*Other Price Risk*

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk, price risk or foreign exchange risk.

The Company is exposed to changes in market prices as this can impact the value of its investments.

The Company is exposed to changes in the price of gold which affects its earnings and cash flows. Changes in the price of gold will impact the profits and resulting cash flows of the Company and could potentially impact the classification and amounts of certain liabilities, most notably the asset retirement obligation.

As at December 31, 2016, the Company did not hold any gold futures contracts. The Company does not use derivative instruments to hedge or reduce its price risk to gold.

**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 year ended September 30, 2016.

**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

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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, 2016 and 2015:

	Three months ended December 31, 2016	Three months ended December 31, 2015
<b>Net Income (loss)</b>	\$ 319,700	\$ (662,080)
Depreciation and depletion	563,270	968,615
Finance expense, net of finance income	188,612	(118,054)
Gain on financial instruments	-	(15,730)
Foreign exchange loss	(3,383)	(5,195)
Income tax recovery	(256,496)	(2,489)
<b>Adjusted EBITDA</b>	<b>\$ 811,703</b>	<b>\$ 165,067</b>

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

	Three months ended December 31, 2016	Three months ended December 31, 2015
Revenue	\$ 4,078,820	\$ 4,444,460
Cost of sales, net of depreciation and depletion	(2,661,840)	(3,652,744)
G&A, net of depreciation	(605,277)	(626,649)
<b>Adjusted EBITDA</b>	<b>\$ 811,703</b>	<b>\$ 165,067</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 December 31, 2016 and 2015:

	Three months ended December 31, 2016	Three months ended December 31, 2015
<b>Gold sold (ozs)</b>	3,119	3,537
<b>Total cash costs per ounce</b>		
Contractor costs paid to Dahedong	\$ 3,913,964	5,461,563
Smelting costs	102,972	178,076
Resource taxes	124,829	398,682
Other direct costs	239,847	310,322
Changes in ending gold concentrate inventory	(1,719,772)	(2,695,899)
<b>Total cash costs</b>	<b>\$ 2,661,840</b>	<b>\$ 3,652,744</b>
<b>Per ounce sold</b>	<b>\$ 854</b>	<b>\$ 1,033</b>
<b>Total production costs per ounce</b>		
Total cash costs	\$ 2,661,840	\$ 3,652,744
Depreciation and depletion	483,791	887,894
<b>Total production costs</b>	<b>\$ 3,145,631</b>	<b>\$ 4,540,638</b>
<b>Per ounce sold</b>	<b>\$ 1,009</b>	<b>\$ 1,284</b>
<b>All-in sustaining costs per ounce</b>		
Total cash costs	\$ 2,661,840	\$ 3,652,744
General and administrative, net of depreciation	605,277	626,649
Sustaining capital expenditures <sup>(1)</sup>	16,800	30,626
<b>All-in sustaining costs</b>	<b>\$ 3,283,917</b>	<b>\$ 4,310,019</b>
<b>Per ounce sold</b>	<b>\$ 1,053</b>	<b>\$ 1,219</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 the three months ended December 31, 2016 and 2015:

<b>Additions to property, plant and equipment</b>			
Songjiagou Gold Mine	\$	3,785,787	\$ -
Songjiagou North		6,613,991	-
Sustaining capital expenditures		16,800	30,626
	<b>\$</b>	<b>10,416,578</b>	<b>\$ 30,626</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 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

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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 period ended December 31, 2016, 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.