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# Resource Scarcity

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## Trip Report
## Majestic Gold projects, China

I recently returned from eight days in China visiting the projects held by **Majestic Gold Corp (MJS-V; *closing even at $0.425 on 1,000 shares*).** The trip included traveling the breadth of northern China, but I will leave most comment on that for the next Journal. Even for a Sinophile such as myself the pace of change there is flabbergasting, in terms of both technological advance and, of more importance to this bit, in terms of understanding the needs of foreign mining investors. Even while long believing that commodity pricing driven by China's expansion would create higher base levels, we have been cautious about the recent rapid pace of this change. Though concerns linger about overheating, there is no doubt China's growth will keep the price of global goods at new, high levels. And we feel Majestic's China portfolio will make up for the major disappointment from the company's project in Slovakia, and the new component in coastal Shandong Province can provide lift for the stock over the northern winter.

The first stop on the trip was the company's original China acquisition, the **Sawayaerdun project** in China's far western Xinjiang province (or "Uygur Autonomous Region" in this case due to its large population of native Uygur speakers) that contains a portion of the major Tian Shan gold belt. MJS's project hosts a series of gold trends for which Chinese academic literature indicates a resource of 3 million oz gold; this estimate does not conform to western standards, and at any rate only a smallish surface portion of it looks to be viable based on what is known at this point. We do like the project as an exploration play. The Tianshan belt (yes it is spelled both ways, common for translation of Asian names) is one of the world's largest, hosting the 170 million oz Muruntau deposit and a number of other +10 million oz deposits in neighbouring central Asian countries. This year's work by MJS essentially confirmed the past results, and as such will not be a market mover. However, as some technical details of the known deposits are better understood they can be used to determine what portions might be viable as core resources to continue the work here. Drill results are pending and could provide an upside surprise, but this rugged project at 3,400 metres (+11,000 feet) elevation will not see follow up before next summer.

The new projects being acquired in established gold camps on the Pacific Coast are a different matter. Shandong province, north of the Yellow River's outlet into the Pacific, is part of the heartland for China's Han majority. Majestic's **Yantai Joint Ventures** on the Jiaodong Peninsula are within one of China's major gold producing regions, and well suited to year round work once the final approvals for the joint venture companies are in place. Both the JVs allow MJS to earn 60% in currently producing properties by funding exploration, and companies reporting to the Yantai City Gold Bureau that covers most of the Peninsula hold both projects. This district also contains deposits of the orogenic (sometimes called intrusion related) type, but with a greater emphasises on high-grade zones then is the case in some other orogenic districts.

The smaller of the two projects, **Fushan** to the east of Yantai centre (the 1.5 million person community that anchors the 6.5 million person "City" that surrounds it), is currently producing from a small underground zone that averages about 4-5 g/t, but which spikes to 90 g/t, by shipping to a remote mill and heap leach facility that we also visited. The heap leach material is coming from a separate zone in the same Fushan block. There is currently an estimate of 40,000 tonnes in a three level workings sending about 50 tonnes per day to the plant. Gold is associated with the sulphide mineral pyrrhotite, a cousin of pyrite, within a linear zone of sulphide enrichment akin to, but not in a textbook sense, a vein setting. There appear to be some fairly thick sections of decent grade in the system. The plant is a fairly standard set-up that recovers free gold by cyanide extraction, and then uses a flotation process that captures mineral within a specific range of surface tension (the property that allows a light coin to adhere to the oils on a finger) to concentrate the sulphide minerals. Gold extracted by cyanide is captured on site, while the concentrate is shipped for smelting. Keeping ore ahead for the mining is simply a matter of drifting along the structures, faults and shear zones, which control the mineralization. A number of such structures are known, but their real potential is yet to be outlined as there has to date been only a handful of drill holes to test them. MJS will focus its efforts by completing geophysical and geochemical surveys, and then drilling to both extend known zones and to test targets located by the surface surveys. This is a fairly standard program for a Canadian company, in one of China's strongest belts. The deal to earn 60% is by spending $2.5 million, which given the existing gold to be recovered from the project is a very light deal for Majestic. Why such good deals were offered, is explained below the Muping section.

The larger **Muping** JV covers 75 square kilometres (about 19,000 acres) in and around the major Muping mining camp to the west of the Yantai centre. Though not visited on this trip, it was indicated that a plant similar to that described for Fushan recovers gold from this system, and there is also an active heap leach operation. As with Fushan, gold is found with sulphides (iron bearing pyrite, plus some base metals sulphides) associated with a series of faults. The host rock in the area we visited is a porous fragmental rock, probably breccia created by grinding of brittle material along the major shear/fault zone it is in contact with. It appears, from a very cursory look, that the gold bearing fluids moved up along faults that moved through this major shear zone after it formed. This being the case, there would likely be a number of different host rocks for the gold along the length of the mineralizing faults. There are low-grade gold values throughout the breccia, but the focus is on sharp sections of high-grade that presumably are adjacent to the mineralizing fault. Here again, very high-grade multi-oz grades are encountered in at least short sample sections. The mine average grade is about 7 g/t gold. One drill hole testing below the breccia unit has located high-grade at depth. This is a large system, comfortably of a scale to be a multi-million oz target for high-grade gold zones. Once surface surveys are completed, we expect the market to be excited about the start of drill testing. To earn 60% of Muping, MJS must complete $4 million of work.

The reason that Majestic is getting such seemingly good deals in an established mining camp is quite simply that the local companies cannot spend money exploring them. The reason is twofold. The first is because federal policy opposes new state expenditures in the mining sector. This has been the case since my first visit to the country in 1996, but at that time and during subsequent visits I was shy about investing in the Chinese sector because it was apparent that *local* officials had not yet accepted the fullness of this. Within the state-collective system mines are locally owned (fee-simple municipal land, for lack of a better market analog). A number of previous JVs in China failed simply because locals, in the literal sense, and foreign investors did not understand each other's needs. The locals needed expansion to provide cash flow for other projects, while the foreigners needed to outline and formally study the deposits in order to fund expansion at a scale that made market sense. I believe that in Yantai the local officials now not only understand the need to explore, they are encouraging it. Partly this is the passage of time bringing an understanding between disparate groups, but the second half of the reason in Yantai is that the City already has a strong gold output (25-30% of China's total) from a number of large deposits. It is on these better-established projects where (if you will excuse some further conjecture) the City wants to focus its development funding from cash flow. The projects farmed out to MJS are somewhat geologically a-typical of the district. Having foreign funds do this work is simply good risk management from the perspective of Chinese mining engineers. And it is mining engineers and economists who have negotiated this. Geologists, who were/are in a separate branch of the government and therefore not involved in these negotiations, might value these projects more highly than does an engineer. That said, until they have

been outlined using western concepts they would not be simple to sell, so MJS gets an entry level price for being the partner to do that for the Joint Venture.

As evidence of the sea-change taking place in the local levels of Chinese mining, for the first time when I asked about seeing accounts that outline costs for the existing operations I was told this could be done. Before the answer was that they are secret (confidential) and would not be made available. This accounting would still need to be translated and likely rendered into a more western format. With that done, it would give MJS important details to determine minimum grade requirements in the district. I believe costs are low in China, but have not to date seen anything that can confirm this and my belief is merely gut level stuff of no financial value. The current scale of operations on the two JVs is too small to interest the market, 10,000s of oz per annum, but with straightforward exploration funding plus a better understanding of local costs it should be a fairly simple matter to outline enough material to expand the resource base to the 100,00s of oz output level. **Accumulate** while project details are being finalised.

Regards for now - Eric Coffin and David Coffin



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