

Introduction Report



Majestic Gold Corp.

November 2004

stock price Nov 24: c\$ 0.56
TSXV-MJS
shares issued: 22.7 mio
fully diluted: 28.4 mio

CHINESE DEMAND FOR GOLD WILL TRIPLE

In a recently released report, the World Gold Council expects annual gold demand from China to triple in the next few years as a result of the ongoing gold market deregulation.

The report was released on the occasion of the conference of the London Bullion Market Association in Shanghai in September, being held for the first time in China.

The forecast calls for a rise in gold demand on the mainland from the current 200 tonnes to 600 tonnes a year. The basis for this assumption is found in the effects that followed a similar market deregulation in India. According to the China Daily, much of the extra 400 tonnes a year would come from imports.

China now already ranks number 4 in gold demand in the world. The World Gold Council's statistics show that gold demand in China surged by 30.8% year-on-year to 51.5 tonnes during the second quarter of this year, in which 50 tonnes were for jewellery and 1.5 tonnes for retail investment. China's gold demand reached 207.6 tonnes last year, up from 203.9 tonnes in 2002 and 10 tonnes in 1982.

The report stated "The Chinese people are generally becoming more affluent (because of the nation's steady economic growth) and gold, while it may no longer be a sole destination for investment, will certainly play its ancient Chinese role of conspicuous display of wealth, as an adornment and as a perceived store of wealth".

Demand for jewellery in all its forms will also be very strong, particularly in the booming cities of China's eastern seaboard.

The control of gold as an investment or in jewellery form has been thrown open to small investors by making the precious metal available in pass-book accounts via commercial banks as bullion, coins and jewellery. Free entry into the gold jewellery business for domestic and foreign companies was permitted from April 2003.

---continued on page 2---

JOINING THE BIG CHALLENGE: EXPLORING FOR GOLD IN CHINA

In the last two years, China has shifted from an exporter of copper, lead and zinc into an importer of those metals, and an important one too. This dramatic change reflects what is going on in the nation: China is in a period of enormous economic expansion, which has gained the attention of the whole world but of which the impact, in my opinion, is not yet fully comprehended.

An annual growth of 8% is nice, especially if it is going to last for the next 10, 20 or maybe even 50 years. But an annual growth of 8% for a country with a total population (2000 census) of 1.29533 billion, representing about 22% of the total world population, is outright spectacular. Only looking at the aspects of mining and exploration, the demand for precious and base metals over the next years will be beyond belief. Firstly, enormous quantities of base metals will be necessary for many years to come as a result of the economic growth, and secondly, economic growth will lead to better living circumstances and higher spending and savings. This last factor is still largely overlooked in the western world as most of us have not a proper understanding of the role gold has always played in Oriental cultures. And already now, the Chinese gold supply cannot meet the Chinese demand. Read more about it in the columns.

Another factor is the highly fragmented structure of the Chinese gold mining industry. Many small operations with often out of date technical equipment. This is why the Chinese government welcomes foreign companies to participate in the rush to bring gold production and exploration efforts up to the required levels. In the last two years this process has started and, not surprisingly, the Canadian companies have entered the scene too. Over 20 companies are involved in joint-ventures. But doing business in China is very much different from doing business in other parts of the world. The country has its own traditional ways of doing things and there is no way to escape that. I have my doubts whether all the involved Canadian companies do fully realize what they are in to. It takes a special attitude, based on knowledge and understanding of and respect for the Chinese approach.

Majestic Gold has made sure to generate this necessary expertise and as a result, has been able to develop the right connections within China to assemble a prospective package of mining properties with a good outlook to build up its interests in good projects. The company is earning interests in the Fushan, Muping and Song Jiaguo Gold Projects in Shandong Province, China's most important gold area in the east and in the Sawayaerdun Gold Project in the western region of Xinjiang Province. The three Shandong projects all have small pilot mining operations going whereas the Sawayaerdun project, which is a joint venture with the Xinjiang Bureau for Geology and Mineral Resources, has the potential to become a big one.



At present, the company has scheduled working programs for all four projects. Given the proper results, Majestic Gold could rapidly develop into a sizeable actual gold producer, thus joining the fascinating challenge of making it possible for the Chinese to get the Chinese gold he or she is willing and able to buy.

Henk J. Krasenberg

