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Majestic Gold Corp. (MJS-V; \$0.48)^{1,2,6}

SECTOR OUTPERFORM (SPECULATIVE)

Awaiting Drill Results from Sawayaerdun Gold Project, China

Current Shares O/S: 22.7 million
52-Week High/Low: \$1.66/\$0.285

Fully Diluted: 28.4 million
Adjusted Market Capitalization:
\$10.0 million

Cash (estimated): \$0.9 million

Per Share Fully Diluted: \$0.03

Xinjiang Province

Majestic has completed a first-phase diamond-drilling program on the Sawayaerdun gold project in northwestern China, Xinjiang Province, near the Kazakhstan border. Majestic has a joint venture between itself (90%) and Richards Resource Technologies (10%) to earn a 90% interest from the Xinjiang Bureau of Geology. Majestic is required to spend US\$2 million over four years to earn its interest. The property purportedly hosts a historically published, but not National Instrument 43-101 compliant, resource of 45 million tonnes grading 1.75 g/t Au. This estimate is based on only 16 adits, 11 previous drill holes, and limited, undocumented Chinese production. The resource figure should be viewed as more an indication of potential rather than a categorized resource number.

Zone IV, which has undergone the most investigation historically, was the focus of the recent work by Majestic. Majestic has completed a first-phase drill program to determine the veracity of some of the original data, and five holes were completed (totalling 1,607 metres). Results from the drilling are awaited. Trench data from the project, released in September from Target 1 within Zone IV (with highlights summarized in the table), indicate very robust widths. A total of 17 trenches were cut and sampled along 50-metre intervals over a total strike length of 850 metres. Zone IV had previously been tracked on surface over a 4-kilometre length based on a number of discrete occurrences.

Recent Trench Data from the Sawayaerdun Gold Project, China

Trench #	From (m)	To (m)	Interval (m)	Au (g/t)	Comment
MT26	1.0	17.0	17.0	2.1	
MT30	0.0	39.0	39.0	1.5	
MT31	8.0	36.0	28.0	1.1	Open to east
incl.	21.0	35.0	14.0	1.5	
MT35	10.0	49.0	39.0	1.0	Open to east
MT36	28.0	71.0	43.0	1.5	Open to east
incl.	49.0	71.0	22.0	2.1	
MT38	0.0	53.0	53.0	1.6	Open to east & west
MT41	11.0	34.0	23.0	1.2	Open to east
MT42	11.0	24.0	13.0	1.8	
MT43	12.0	25.0	13.0	2.1	

Source: Majestic Gold Corp.

Target 1 is the most exposed and accessible of the targets and is an area of previous small-scale mining. The property is within the Tian Shan Gold Belt that hosts world-famous gold deposits such as Kumtor (17 million ounces) and Muruntau (140 million ounces). Mineralization is hosted by Carboniferous-age shales in contact with Devonian-age carbonates. Gold is clearly controlled by regional structures, which in drill core are identified by a swarm of quartz-carbonate veins and increased amounts of sulphide such as arsenopyrite and pyrite. (See [core picture below](#).)

Shandong Province

Considering that exploration work in western China can take place only in the warmer months, Majestic has signed up two projects in eastern China where there are no seasonal work restrictions. Majestic had not undertaken any investigation at the time of our visit (JWM), but has since commenced basic geological work to guide future exploration.

Shandong Province is a key gold-producing region within China. Currently, it produces between 25% and 33% (depending on the source of the information) of China's total gold. Mineralization generally is either gold-in-quartz veins or gold in fault zones associated with disseminated and stockworked sulphides. Depending on the geological host for the structures and the relative elevation with respect to mineralization, the characteristics of the various zones can be quite different. Majestic is just beginning to formalize its work program in Shandong, and consequently, any definitive results are not likely before year-end.

Comment

Since Sawayaerdun is in a remote location, any future success will greatly depend on finding higher grade "starter ore material". Since Shandong Province has a prolific history of successful mining, with little exploration, there is considerable exploration potential on the Shandong properties. With a focus on the geological setting and drill testing of early stage targets, this area of China could turn out to be majestic for Majestic Gold and its shareholders. We are reiterating our SECTOR OUTPERFORM (SPECULATIVE) rating on the Company.

Example Of Core, Sawayaerdun: Quartz-Carbonate Veined Zone



Entrance To Fushan Project Area: Crossing Recently Completed Four-Lane Divided Highway



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Rating Structure

SECTOR OUTPERFORM – Haywood’s top rating category. The analyst believes that the security will outperform its sector. Furthermore, the shares are forecast to provide attractive returns measured against alternative investments when considering risk profiles. The rating carries a minimum total return threshold of 15% for equities and 12% for trusts. The rating applies to companies that have tangible underlying assets that give a measure of support to the market valuation. The rating category considers both the absolute and relative values in assigning the highest rating on the security. **SECTOR OUTPERFORM (SPECULATIVE)** – Investment for risk accounts only. The security has strong upside although its risk profile leaves the potential for significant downside. Return expectations should generally exceed those of SECTOR OUTPERFORM to allow for the additional risk. Companies in this rating category carry greater financial and/or execution risk without tangible assets for underlying support. **SECTOR PERFORM** – The analyst believes that the security will trade with tight correlation to its underlying sector. Furthermore, the target price (together with any anticipated distributions) is at or above the market price, and forecast risk-adjusted returns are attractive relative to alternative investments. **SECTOR UNDERPERFORM** – Investors are advised to sell the security or hold alternative securities within the sector. Stocks in this category are expected to underperform relative to their sector. The category also represents stocks with unattractive forecast returns relative to alternative investments. **RESEARCH COMMENT** – An analyst comment about an issuer event that does not include a rating. **COVERAGE DROPPED** – Haywood Securities will no longer cover the issuer. Haywood will provide notice to clients whenever coverage of an issuer is discontinued. The termination of coverage will not occur unless clients have been provided with advice relating to positions they may still hold, such as a recommendation to sell their securities.

Risk Profile Parameters – Mining and Minerals Sector

Forecast Risk: High – Haywood forecasts are below guidance. The Company has a history of missing targets and/or Haywood expects guidance to be lowered. Limited hedging increases commodity leverage. Forecasts reflect higher commodity prices or production relative to guidance. **Moderate** – Haywood forecasts are generally in line with guidance. The Company has a history of meeting or exceeding guidance. Forecasts are consistent with current commodity pricing and production guidance. Hedging is in line with peers. **Low** – Haywood forecasts exceed guidance. The Company has a history of meeting or exceeding guidance. Forecasts allow for modestly lower commodity pricing or production levels. Commodity hedging lowers volatility relative to peers.

Financial Risk: High – The business plan is not fully funded, but requires debt and/or equity financing. The exploration program is funded for two years or less. This categorization does not predict whether the additional funds will be raised. **Moderate** – The development plan is fully funded, with the exploration program funded for three years or more. The Company’s debt is rated below investment grade. **Low** – The Company is fully funded. Its debt is rated investment grade and/or the Company has a history of profitability or dividend payments in each of the last three years.

Valuation Risk: High – The current valuation is at the high end of historic levels and/or at a premium to peers. The valuation reflects considerable exploration success and/or commodity appreciation. Where applicable, the current capitalization exceeds the DCF evaluation by more than 50%. **Moderate** – The current valuation is within historic ranges and generally consistent with peers. The valuation reflects reasonable exploration success and/or commodity appreciation. Where applicable, the current capitalization exceeds the DCF valuation by 15% to 50%. **Low** – The current valuation is at the low end of historic ranges and at a discount to peer valuations. The valuation reflects limited new exploration success and no commodity appreciation. Where applicable, the current capitalization exceeds the DCF valuation by less than 15% or falls below the current market value.

Political Risk: High – Currently no industry activity or infrastructure exists. Government opposition is significant. Obtaining permits is challenging. **Moderate** – Industry activity or infrastructure is minimal. Government at national, regional, and local levels is indifferent. Obtaining permits is relatively straightforward. **Low** – Industry activity and infrastructure exist. Government is supportive. Obtaining permits is facilitated.

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