

Progress at Majestic Gold's Song Jiagou Mine music to investor's ears

by **Thomas Schuster**

With ownership of the Song Jiagou Gold Mine consolidated and small-scale production underway, **Majestic Gold Corp.** [MJS-TSXV] has set its sights on ramping up production at the open pit and underground operation in eastern China. As an added bonus, the Vancouver-based company recently released an updated NI 43-101 compliant resource estimate for the mine. As a result of a favourable revision to contract mining costs and a shift in the orientation of the block model, Wardrop Engineering increased its April 2010 resource estimate.

The current indicated resource now stands at 33.7 million tonnes (up 35.3%) averaging 1.147 grams gold/tonne. This translates to 1.2 million ounces (up 24.09% over previous estimate). Inferred resource are 38.8 million tonnes (up 37.96%) averaging 1.467 grams/tonne. This new resource contains 1.8 million ounces gold (up 7.5%). Calculations were based on a 0.30 grams/tonne cut-off with gold grades capped at 40 grams/tonne.

"We became involved in China in 2003 and drilled two projects," said Rod Husband, President, in an interview. "We outlined multi-million ounces on both – about 1.5 million ounces at the Sawayaerdun Project in Western China, and about 3 million at Song Jiagou."

Majestic sold its 72% interest in Sawayaerdun back to its Chinese partners in 2009 for \$7.35 million in an effort to weather the funding crises that crippled markets at that time. Since then, Majestic has been developing the Song Jiagou Mine.

Song Jiagou is on the Jiaodong Peninsula, Shandong Province. Geologically, the property lies on the western edge of the Muping-Fushan Gold Belt, which hosts 20%

of the known gold deposits on the Jiaodong Peninsula where gold production accounts for over 25% of China's annual gold production. Through 94%-owned subsidiary, Majestic Yantai Gold Limited, Majestic Gold now has a 100% interest in the Song Jiagou Mine. The remaining 6% is held by a third party, also a Majestic Gold shareholder.

Gold mineralization at Song Jiagou is hosted in a series of steeply-dipping, sub-parallel north-northeast trending fault zones. Mineralization remains open to depth and drilling suggests it continues for over 100 metres down dip. According to Majestic Gold, upside potential at Song Jiagou lies at depth and in sub-parallel, higher-grade, structures as well as the low-grade bulk tonnage hosted in the matrix of the conglomerates. The property actually hosts two operations; the 220 TPD underground Fayunkuang Mine and a 1,000 TPD open pit.

During the first nine months of 2010, the mine produced 4,709 ounces gold of which 4,592 ounces were sold at an average price of US \$1,180/oz. Metallurgical recoveries were about 89%.

"Right now we are producing about 6,000-to-9,000 ounces per year," stated Husband. "1,400 tonnes per day is not going to cut it. This operation needs 5,000 to 10,000 TPD."

In February last year, Majestic Gold made an agreement with its mining contractor partner, Dahedong Smelter Mill, to buy out the Muping JV interest – which held 40% of the Joint Venture company holding the property rights to the Song Jiagou Mine. Dahedong vended this interest into Majestic Gold in return for 160 million shares. This represents 32% of the company's 495 million outstanding shares.

Dahedong is responsible for mining, transporting and processing ore and tailings and other waste material from the Song Jiagou property for 30 years and will also be mainly responsible for relations with the Chinese government regarding mining operations.

In return, Dahedong will receive a 25% net profits interest from mining operations. The net profits and a mining fee will be payable solely from proceeds from the sale of production of gold and other metals from the property.

Majestic Gold and Dahedong plan to ramp up production to 7,500 TPD. This will involve increasing the size of processing facilities, including a mill, tailings storage facility, new tailings line, water and power supply – anticipated to cost about \$40 million.

Majestic has contracted Wardrop and related company, Tetra Tech (Beijing), to complete a preliminary economic assessment, concurrent with the required Chinese Geological and engineering studies required to apply for increased production levels. Results of these studies will culminate in a pre-feasibility report.

In October, Majestic received about \$9 million from the exercise of warrants as well as receiving more proceeds from the Sawayaerdun sale. Subsequently, the company paid its debt to RAB Special Situations (Master) Fund of over \$2 million. Majestic Gold has about \$3.5 million in the till and will now move its engineering studies forward quickly to fully develop Song Jiagou. ■

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