MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three months ended December 31, 2018

(Expressed in US dollars)

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, 2018 and 2017, (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 and on the Company's website www.majesticgold.com.

This MD&A contains information to February 28, 2019.

This discussion focuses on key statistics from the unaudited condensed consolidated interim financial statements for the period ended December 31, 2018 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.

FIRST QUARTER HIGHLIGHTS

- ***Gold production*** increased by 14% to 8,043 ounces for the first quarter of 2019, compared to 7,050 ounces for the 2018 comparative quarter. Gold production for the first quarter of fiscal 2019, was from 339,835 tonnes milled with an average head grade of 0.74 g/t and a 96% recovery rate, compared to 381,911 tonnes milled, with an average head grade of 0.61 g/t, and a 95% recovery rate for 2018 comparative quarter. Gold production for the first quarter of 2019, included 1,231 ounces from the underground development from the 15,202 tonnes milled at an average head grade of 2.52 g/t;
- ***Gold sales revenue*** for the first quarter of fiscal 2019 was $7.2 million, from the sale of 5,807 ounces, at an average realized gold price of $1,238 per ounce, compared to gold sales revenue of $8.7 million from the sale of 6,722 ounces, at an average realized gold price of $1,299 per ounce, for the 2018 comparative quarter. The 18% decrease in revenue for the current period is primarily due to a 14% decrease in ounces sold and a lower average realized gold price;
- ***Total cash costs and all-in sustaining costs ("AISC")*** for the first quarter of fiscal 2019 were $549 per ounce and $669 per ounce, compared to $654 per ounce and $756 per ounce for the first quarter of fiscal 2018. An increase in the average head grade has contributed to an improved total cash cost per ounce for the first quarter of 2019 over the 2018 comparative period. Refer to pages 13-15 for the MD&A for the computation of this Non-IFRS financial measure;
- ***Adjusted EBITDA*** was $3,422,012 for the first quarter of 2019, compared to $3,793,538 for the comparative quarter of fiscal 2018. Refer to pages 13-15 of the MD&A for the computation of this Non-IFRS financial measure;
- ***Net income*** for the first quarter of 2019 was $1,673,376, compared to $2,337,205 for the 2018 comparative quarter. The lower net income is the result of a decrease in income from operations attributed to a lower volume of gold sales and an average realized gold price, as described above.

OUTLOOK

The Company's focus for fiscal 2019 is the continued improvement of its mining operations at the Songjiagou Gold Mine, as well as the completion of the Songjiagou North underground development ("Songjiagou North"). The Company commenced initial production at Songjiagou North at average rate of 150 tonnes per day ("tpd') during the first quarter of 2019 and expects to reach full production of 200-250 tpd during fiscal 2019.

The Company will continue to pursue possible acquisitions and explore the opportunity of a direct financing of its Chinese subsidiary.

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, 2018, 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 75% 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 an amended technical report titled "Independent Technical Report of Songjiagou Project, Shandong Province, The People's Republic of China" (the "Amended Report") dated January 19, 2016, as prepared by SRK Consulting (China) Ltd. ("SRK").

The Amended Report is an amendment of the initial technical report in support of the Preliminary Economic Assessment ("PEA") for the Songjiagou Gold Mine dated August 2, 2013, and prepared by SRK Consulting (China) Ltd. The Amended Report is available under the Company's profile on SEDAR at www.sedar.com and on the Company's website www.majesticgold.com.

Amended Resource Estimate* (in Amended Report dated January 19, 2016)
Global Resource

Open Pit		Underground
Indicated (MT)	**Inferred**	**Inferred**
(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
Indicated (MT)	**Inferred**	**Inferred**
(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.

DEVELOPMENT

SONGJIAGOU NORTH UNDERGROUND

The Songjiagou North project area lies immediately north of the Songjiagou open pit operation, within the project's exploration license boundary. The area underlain by precious metal mineralized vein structures was converted to a five year, 0.414 sq. km. mining license that was granted on February 18, 2016. The mining license area covers a continuation of the gold mineralization that is currently being developed in the adjacent Songjiagou Gold Mine. Previous sporadic exploration completed by No. 3 Brigade between 2001 and 2013 outlined five discrete mineralized vein structures that comprise a non-compliant National Instrument 43-101 resource found in a Brigade No. 3 report titled "*General Exploration Report on the Deep and Peripheral Area in Songjiagou Gold Mine, Muping District, Yantai City, Shandong Province*" and filed with the Bureau of Land and Resources of Shandong Province in 2013.

The Company's underground development plan for Songjiagou North property involves the construction of a 2,075 meter ramp to access four of the five identified mineralized vein structures from six different levels (+49, +9, -40, -80, -120, and -160 meter levels).

Development at Songjiagou North began with ramp construction in September of 2016; the ramp has been advanced 1,700 meters, down to the -80 meter level. Construction of a main auxiliary shaft, air shafts, and inclined shafts connecting the various levels have also been completed. Construction is now focused on development of the +49, +9, -40m and -80 m levels, which will be mined initially. Current progress on the different levels is as follows:

+49 Level: 1,952 meters of development
+9 Level: 3,094 meters of development
-40 Level: 3,931 meters of development
-80 Level: 72 meters of development

Initial production commenced at an average rate of 150 tpd during the latter part of the first quarter of fiscal 2019. It is expected the production will reach 200-250 tpd during fiscal 2019 upon the completion of the initial four levels of underground development.

SRK Consulting (China) Ltd, has been working with the Company to update the Company's NI 43-101 Technical Report and have taken 257 samples from underground that will be incorporated into the updated Technical Report expected to be completed in the late fiscal 2019.

EXPLORATION

Baiheng

On March 6, 2018, the Company entered into a new two year non-binding Letter of Intent ("LOI") with Yantai Baiheng Gold Mining Co. Ltd. ("Baiheng"). The March 8, 2018 LOI supersedes the July 11, 2016 LOI allowing the Company an additional 24 months to complete its due diligence on the Shuang Shan Tun and Xia Yu Cun properties ("Properties"), located in the Muping-Rushan Gold Belt in Shandong Province, China.

The March 6, 2018 LOI is, in principal, a due diligence agreement that allows Majestic until July 11, 2020 to complete its due diligence, 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 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 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,		
		2018		2017
Operating data				
Gold produced (ozs)		8,043		7,050
Gold realized, net of smelting fees (ozs)		7,408		6,497
Gold sold (ozs)		5,807		6,722
Average realized gold price ($/oz sold)	$	1,238	$	1,299
Total cash costs ($/oz sold) (1)		549		654
Total production costs ($/oz sold) (1)		728		790
All-in sustaining costs ($/oz sold) (1)		669		756
Financial data				
Total revenues	$	7,269,247	$	8,819,018
Gross profit (2)		3,038,885		3,508,693
Adjusted EBITDA (1)		3,422,012		3,793,538
Net income		1,637,376		2,337,205
Net income attributable to shareholders		1,065,147		1,562,213
Basic and diluted income per share		0.00		0.00
		December 31, 2018		September 30, 2018
Balance Sheet				
Cash and cash equivalents	$	18,001,751	$	18,842,863
Total assets		119,596,432		123,643,469
Total current liabilities (3)		24,701,367		29,182,046

(1) See "Additional Non-IFRS Financial Measures" on page 13-15.
(2) "Gross profit" represents total revenues, net of cost of goods sold.
(3) "Total current liabilities" does not include deferred income

RESULTS OF OPERATIONS
Gold Production

	Three months ended December 31,	
(Ounces)	2018	2017
Songjiagou Operations		
Songjiagou Gold Mine	6,812	7,050
Sonjiagou North Underground	1,231	-
Total	8,043	7,050

Total gold production for the first quarter of 2019 was 8,043 ounces, an increase of 14% compared to the first quarter 2018 primarily due to improved head grades. During the first quarter of 2019, the Company commenced initial production at the Songjiagou North Underground, producing 1,231 ounces for the period.

	Three months ended December 31, 2018	2017
Songjiagou Operations		
Songjiagou Gold Mine		
Tonnes mined	381,624	441,608
Tonnes milled	324,633	381,911
Head grade (g/t)	0.68	0.61
Mill recovery	96%	95%
Gold produced (ozs)	6,812	7,050
Gold realized, net of smelting fees (ozs)	6,276	6,497
Sonjiagou North Underground		
Tonnes mined	15,202	-
Tonnes milled	15,202	-
Head grade (g/t)	2.52	-
Mill recovery	96%	-
Gold produced (ozs)	1,231	-
Gold realized, net of smelting fees (ozs)	1,132	-
Total Songjiagou Operations		
Tonnes mined	396,826	441,608
Tonnes milled	339,835	381,911
Head grade (g/t)	0.74	0.61
Mill recovery	96%	95%
Gold produced (ozs)	8,043	7,050
Gold realized, net of smelting fees (ozs)	7,408	6,497

Gold production for the first quarter of 2019 was 8,043 ounces, a 14% increase compared to 7,050 ounces produced for the 2018 comparative quarter.

Gold production for the first quarter of 2019, was generated from 339,835 tonnes of ore with an average head grade of 0.74 g/t, compared to 381,911 tonnes milled, with an average head grade of 0.61 g/t, for the 2018 comparative quarter.

The increased gold production is due to the improved head grade of 0.74 g/t, an increase of 21% over the 2018 comparative quarter leading and was partially offset by a 11% decrease in mill throughput. The Company expects its head grade and gold production to experience continued improvement as the mining operations are optimized under the developed mine plan.

Revenues

		Three months ended December 31, 2018		2017
Gold				
Ounces sold		5,807		6,722
Average realized price ($/oz)	$	1,238	$	1,299
Revenues				
Gold	$	7,190,326	$	8,730,422
Other income		78,921		88,596
	$	7,269,247	$	8,819,018

Gold sales revenue was $7.2 million for the first quarter of 2019, from the sale of 5,807 ounces, at an average realized gold price of $1,238 per ounce, compared to gold sales revenue of $8.7 million from the sale of 6,722 ounces, at an average realized gold price of $1,299 per ounce, for the 2018 comparative period. The decrease in gold sales revenue for the first quarter of 2019 is due to a 14% lower volume of gold sold and a 5% decrease in the realized gold price.

Cost of Sales

		Three months ended December 31, 2018		2017
Ounces sold		5,807		6,722
Per ounce of gold sold (1)				
Cash costs	$	549	$	654
Production costs		728		790
Cost of Goods Sold				
Total cash costs	$	3,185,594	$	4,395,056
Total production costs		4,230,362		5,310,325

(1) See "Additional Non-IFRS Financial Measures" on page 13-15.

Total cash costs improved by 16% to $559 per ounce in the first quarter of 2019, compared to $654 for the first quarter of 2018. Production costs per ounce were $728 for the first quarter of 2019, compared to $790 per ounce for the 2018 comparative period. The improvement in the cash costs per ounce was achieved through the increase in the average head grade and mill recovery rate for the current period.

The total cash costs per ounce sold for each of the eight most recently completed quarters are as follows:

	2019	2018				2017		
	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr
Ounces sold	5,807	5,103	7,729	6,030	6,722	5,708	6,430	7,716
Per ounce of gold sold (1)								
Cash costs	$ 549	$ 658	$ 679	$ 605	$ 654	$ 640	$ 690	$ 760
Production costs	728	834	821	804	790	792	816	894

(1) See "Additional Non-IFRS Financial Measures" on page 13-15.

Other Items

The Company's general and administrative expenses ("G&A") expenditures were $726,107 for the first quarter of 2019, compared to $697,331 for the first quarter of 2018.

The G&A details for the three months ended December 31, 2018 and 2017 are as follows:

		Three months ended December 31, 2018		2017
Consulting and management fees	$	144,375	$	123,602
Financial advisory		15,144		-
Depreciation		64,466		66,907
Office and general		133,461		142,793
Professional fees		-		-
Salaries		247,759		246,013
Shareholder communications		1,369		1,197
Travel		119,533		116,819
Total	$	726,107	$	697,331

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

The details of the changes in the consolidated finance expense for the periods ended December 31, 2018 and 2017 are as follows:

	Three months ended December 31,	
	2018	2017
Interest expenses	$ 191,499	$ 206,436
Accretion of asset retirement obligation	21,919	22,724
Total	$ 213,418	$ 229,160

The Company reported net income for the first quarter of 2019, was $1,637,376 ($0.00 per share) compared to $2,337,205 ($0.00 per share) for the first quarter of 2018.

The Company's adjusted EBITDA was $3,422,012 for the first quarter of 2019, (2018 Q1– $3,793,538).

SUMMARY OF QUARTERLY RESULTS

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

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Net revenues	$7,269,247	$6,214,381	$10,520,149	$8,250,650
Net income	$1,673,376	$569,384	$2,341,572	$1,628,257
Income per share	0.00	0.00	$0.00	$0.00
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Net revenues	$8,819,018	$7,603,642	$8,193,464	$9,602,677
Net income	$2,337,205	$494,529	$1,477,267	$1,385,856
Income per share	$0.00	$0.00	$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, 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.

At December 31, 2018, the Company had cash and cash equivalents of $18,001,751 (September 30, 2018 - $18,842,863).

The Company's working capital deficit at December 31, 2018 improved to $752,244 from $2,242,850 at December 31, 2017, of which key components included:

- *Cash* – was $18 million; up $0.8 million from the end of fiscal 2018;
- *Inventories* – was $4.3 million, up $1.2 million from the end of fiscal 2018, due primarily to an increase in gold inventory as a result of the growth in production as well as a lower volume of gold sales;
- *Accounts payable and accrued liabilities* - $9.9 million, down $1.5 million from the end of fiscal 2018, primarily due to payments of the Company's capital expenditures

- *Loans payable* - was $14.1; down $3 million from the end of fiscal 2018, due to the settlement of banker's acceptance notes in the first quarter of 2019.

Majestic began the first quarter ended December 31, 2018, with $18,842,863 in cash and cash equivalents. During the three months ended December 31, 2018, the Company had generated $902,389 in operating activities, net of working capital changes, expended $208,484 on investing activities, which included $207,719 for the purchase and development of property, plant and equipment, and expended $1,142,824 in financing activities, which was attributable to loan borrowing repayments, net of loan borrowings and refunds of restricted cash on deposit, and had a foreign exchange loss of $392,193, to end at December 31, 2018, with $18,001,751 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. All stock options will, if exercised, provide additional cash. At the date of this MD&A, the stock options outstanding are "out of the money".

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, 2018	1,047,726,381	27,700,000	5,000,000
Warrants expired	-	-	(5,000,000)
Outstanding at the date of this MD&A	1,047,726,381	27,700,000	-

TRANSACTIONS WITH RELATED PARTIES

Related party transactions

The Company incurred the following related party transactions during the periods ended December 31, 2018 and 2017:

	Three months ended December 31, 2018	2017
Consulting fees charged by companies controlled by directors and officers of the Company - include key management personnel compensation	$ 155,956	$ 160,268
Interest charged by Dahedong	-	6,173
	$ 155,956	$ 166,441

Compensation of key management personnel

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

	Three months ended December 31, 2018	2017
Short-term employee benefits–management fees	$ 59,038	$ 61,347
Director fees	39,207	40,741
	$ 98,245	$ 102,088

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, 2018, 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.

IFRS 16 Leases

In 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), replacing IAS 17, Leases and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors will continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, Revenue from Contracts with Customers ("IFRS 15") has been adopted.

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, 2018, the Company had no 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.

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.

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, 2018.

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 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.

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 period ended September 30, 2018.

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 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 details of the primary components of adjusted EBITDA:

	Three months ended December 31, 2018	2017
Revenue	$ 7,269,247	$ 8,819,018
Cost of sales, net of depreciation and depletion	(3,185,594)	(4,395,056)
G&A, net of depreciation	(661,641)	(630,424)
Adjusted EBITDA	$ 3,422,012	$ 3,793,538

The following table provides a reconciliation of adjusted EBITDA to the consolidated financial statements for the periods ended December 31, 2018 and 2017:

		Three months ended December 31,		
		2018		2017
Net Income	$	1,637,376	$	2,337,205
Depreciation and depletion		1,109,234		982,176
Finance expense, net of finance income		111,900		193,953
Gain on financial instruments		-		(126,045)
Foreign exchange income		(7,230)		(601)
Income tax expense		570,732		406,850
Adjusted EBITDA	$	3,422,012	$	3,793,538

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 consolidate financial statements for the periods ended December 31, 2018 and 2017:

		Three months ended December 31,		
		2018		2017
Gold sold (ozs)		5,807		6,722
Total cash costs per ounce				
Contractor costs paid to Dahedong	$	3,777,751	$	3,601,356
Smelting costs		276,942		291,734
Resource taxes		247,942		205,215
Other direct costs		185,025		164,715
Changes in ending gold concentrate inventory		(1,302,066)		132,036
Total cash costs	$	3,185,594	$	4,395,056
Per ounce sold	$	549	$	654
Total production costs per ounce				
Total cash costs	$	3,185,594	$	4,395,056
Depreciation and depletion		1,044,768		915,269
Total production costs	$	4,230,362	$	5,310,325
Per ounce sold	$	728	$	790
All-in sustaining costs per ounce				
Total cash costs	$	3,185,594	$	4,395,056
G&A, net of depreciation		661,641		630,424
Sustaining capital expenditures (1)		40,560		57,246
All-in sustaining costs	$	3,887,795	$	5,082,726
Per ounce sold	$	669	$	756

(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 statements for the periods ended December 31, 2018 and 2017:

	Three months ended December 31, 2018	2017
Additions to property, plant and equipment		
Songjiagou Gold Mine	$ 164,919	$ 78,962
Songjiagou North Area	2,300	194,667
Sustaining capital expenditures	40,560	57,246
	$ 207,779	$ 330,875

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 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 year ended September 30, 2018, filed with the applicable securities regulatory authorities and available at SEDAR 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.