



**MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the six months ended March 31, 2017

(Expressed in US dollars)

Majestic Gold Corp.
Management's Discussion and Analysis
For the six months ended March 31, 2017

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 six months ended March 31, 2017 and 2016, (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 May 22, 2017.

This discussion focuses on key statistics from the unaudited condensed consolidated interim financial statements for the period ended March 31, 2017 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.

OVERVIEW

- Gold production from the Songjiagou Gold Mine for the second quarter of 2017 was 5,811 ounces, a 6% increase over the comparative 5,497 ounces produced for the second quarter of 2016. Total ounces produced for the six month period ended March 31, 2017, was 11,653 ounces compared to 12,710 produced in the 2016 comparative six month period. The higher gold production in the prior period can be attributed to approximately 30,000 tonnes of higher grade fine fraction material that was processed during the first quarter of 2016;
- Tonnes milled for the second quarter of 2017 was 413,214 tonnes with an average head grade of 0.54 g/t compared to 442,331 tonnes milled with an average head grade of 0.44 g/t in the 2016 comparative quarter. Tonnes milled for the six months ended March 31, 2017, was 826,524 tonnes with an average head grade of 0.51 g/t compared to 860,881 tonnes milled with an average head grade of 0.51 g/t for the 2016 comparative six month period. The average head grade for the 2016 comparative period was supported by the processing of approximately 30,000 tonnes of higher grade fine fraction material;
- Gold sales revenue for second quarter of 2017 was \$9.5 million from the sale of 7,716 ounces at an average realized gold price of \$1,234 per ounce compared to gold sales revenue for the second quarter of 2016 of \$10.3 million from the sale of 9,259 ounces at an average realized gold price of \$1,115 per ounce. The 8% decrease in gold sales revenue for the current period is due to a 17% drop in the number of ounces and is partially offset by an 11% increase in the average realized gold price over the 2016 comparative quarter. Total gold sales revenue for the first six months of 2017 is \$13.5 million compared to the \$14.7 million for the 2016 comparative period;
- Total cash costs decreased by 24% to \$760 per ounce for the second quarter of 2017 compared to cash costs of \$1,004 per ounce for the second quarter of 2016. Total cash costs for the six months ended March 31, 2017, were \$787, a 22% decrease compared to \$1,012 for the 2016 comparative six month period. The lower total cash costs also lead to a 21% decrease of all-in sustaining costs ("AISC") to \$848 per ounce for the second quarter of 2017. The Company was able achieve lower total cash costs and AISC for the first six months of fiscal 2017 through negotiating an amendment to its mining agreement lower mining and processing fees. See pages 14-15 for calculation of these Non-IFRS measures;
- General and administrative ("G&A") expenses were \$749,978 for second quarter of 2017 compared to \$630,546 for the 2016 comparative quarter;
- On January 31, 2017, the Company issued 72,500,000 units at CAD\$0.135 per unit for total subscription proceeds of CAD\$9,787,500 (USD \$7,521,694). Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase an additional common share at CAD\$0.155 for a period of two years from date of issuance. The Company incurred share issue

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costs of \$35,148 (USD\$27,011). Proceeds from the private placement will be used to partially fund construction of housing for inhabitants of two villages that are being relocated due to their close proximity to the Songjiagou open pit operation and for general working capital purposes; and

- The Company continues its underground development on the Songjiagou North property and has progressed in developing 698 meters of the 2,075 meter ramp. The Company anticipates the development to be completed at Songjiagou North in late fiscal 2018 or early fiscal 2019.

OUTLOOK

The Company's focus for the 2017 fiscal year is:

- the continued optimization of its mining operations at the Songjiagou Gold Mine; and
- the development of underground area at the Songjiagou North property.

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 March 31, 2017, 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 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 a technical report titled "Independent Technical Report of Songjiagou Project, Shandong Province, The People's Republic of China" (the "Report") dated January 19, 2016, as prepared by SRK Consulting (China) Ltd. ("SRK"). The Report is available under the Company's profile on SEDAR at www.sedar.com and on the Company's website www.majesticgold.com.

Resource Estimate*

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.*

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A Preliminary Economic Assessment ("PEA") should not be considered to be a prefeasibility or feasibility study, as the economics and technical viability of the Songjiagou 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.

PRELIMINARY ECONOMIC ASSESSMENT

The Company's Report dated January 19, 2016, is an amendment to the initial technical report in support of the PEA for the Songjiagou Gold Mine, filed on August 21, 2013, and prepared by SRK Consulting (China) Ltd..

A summary of the main sections of the PEA are as follows:

Operating Cost

The following parameters were used to estimate the operating cost in the PEA:

- Mining cost: US\$ 1.79/t (RMB 11.3/t). Mining costs are assumed to increase by US\$ 0.05/t (RMB 0.3/t) annually;
- Stripping cost: US\$ 1.36 (RMB 8.55/t). Stripping costs are assumed to increase by US\$ 0.05/t (RMB 0.3/t) annually;
- Processing cost: US\$ 7.55/t (RMB 47.46/t);
- Administration cost: US\$ 0.72/t (RMB 4.50/t);
- Resource tax: US\$ 0.72/t (RMB 5/t);
- Mineral resource compensation fee: US\$ 31,830/year (RMB 200,000/year);
- Smelting cost: US\$ 15.91/t (RMB 100/t) of dry gold concentrate; and
- Exchange rate: US\$1 = RMB 6.2834 (CDN\$ 1 = RMB 6.2789).

Mining Methods

Mining activities have been outsourced to Dahedong, and mining equipment is also being supplied by the contractor. The PEA is based on conventional open pit mining using excavators to load 40 tonne trucks which haul ore to the processing plant - a distance of about 4 km. Ore break is by self-propelled air track drills. Benches are 12 m high. The overall slope of the pit is 48°. The mine is scheduled to operate 330 days per year, 3 shifts per day and 8 hours per shift.

Recovery Methods

The Songjiagou Gold Mine has three processing plants with capacities of 1,200 tpd, 2000 tpd, and the third a capacity of 6,000 tpd.

All material mined is currently being processed at the 6,000 tpd mill as the 1,200 tpd mill is not being utilized at this time; and the 2,000 tpd mill is being utilized by a third party, YE Zhifan ("Zhifan"), to process waste material from Songjiagou (< 0.30 g/t).

Similar flowsheets are adopted in the 1,200 tpd plant and the 6,000 tpd plant. The flow sheet comprises conventional three-stage crushing and grinding in a closed circuit. The slurry is subjected to a flotation circuit comprising of one stage of roughing, one stage of cleaning, and two stages of scavenging. The gold concentrate is dehydrated and then sent for metallurgical processing at a nearby smelter.

The Company has been unable to realize the full potential of the Songjiagou Gold Mine, due, in a large part, to the lack of consistent grade control of the material entering the mill after being mined in the pit. The Company's management is currently limiting production to the capacity of the 6,000 tpd mill as the Company continues to work on the implementation of its grade control program, and the development of an optimized mine plan at Songjiagou.

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SONGJIAGOU NORTH

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 current plan for Songjiagou North property is the underground development of a 2,075 meter ramp to access at least four of the five identified mineralized vein structures from six different levels. To date, the Company has progressed in developing 698 meters of the 2,075 meter ramp and anticipates the underground development to be completed at Songjiagou North in late fiscal 2018 or early fiscal 2019.

EXPLORATION

On July 11, 2016, the Company entered into a new two year non-binding Letter of Intent ("LOI") with Yantai Baiheng Gold Mining Co. Ltd. ("Baiheng"). The July 11, 2016 LOI supersedes the August 6, 2015 LOI and allows the Company an additional 24 months for due diligence on the Shuang Shan Tun and Xia Yu Cun properties, located in the Muping-Rushan Gold Belt in Shandong Province, China.

The July 11, 2016 LOI is, in principal, a due diligence agreement that allows Majestic an 24 month detailed due diligence period, 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 Shuang Shan Tun and Xia Yu Cun 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 qualified person ("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.

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SELECTED FINANCIAL INFORMATION

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Operating data				
Gold produced (ozs)	5,811	5,497	11,653	12,710
Gold realized net of smelting fees (ozs)	5,363	5,207	10,771	12,183
Gold sold (ozs)	7,716	9,259	10,835	12,796
Average realized gold price (\$/oz sold)	\$ 1,234	\$ 1,115	\$ 1,247	\$ 1,148
Total cash costs (\$/oz sold) ⁽¹⁾	760	1,004	787	1,012
All-in sustaining costs (\$/oz sold) ⁽¹⁾	848	1,075	907	1,114
Financial data				
Total revenues	\$ 9,602,677	\$ 10,434,943	\$ 13,681,497	\$ 14,879,403
Gross profit ⁽²⁾	2,705,984	475,669	3,639,173	379,491
Adjusted EBITDA ⁽¹⁾	3,071,795	516,194	3,883,498	681,261
Net profit (loss)	1,385,856	(1,514,070)	1,705,556	(2,144,926)
Net profit (loss) attributable to shareholders	887,235	(1,454,033)	1,033,726	(2,003,032)
Basic and diluted gain (loss) per share	0.00	(0.00)	0.00	(0.00)

	March 31,	September 30,
	2017	2016
Balance Sheet		
Cash and cash equivalents	\$ 7,556,399	\$ 9,037,258
Total assets	99,071,389	93,305,139
Total debt	29,545,689	33,038,286

(1) See "Additional Non-IFRS Financial Measures" on page 14-15.

(2) "Gross profit" represents total revenues, net of cost of goods sold.

RESULTS OF OPERATIONS

Gold Production

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Production data				
Tonnes mined	383,668	377,867	820,690	918,472
Tonnes milled	413,214	442,331	826,524	860,881
Head grade (g/t)	0.54	0.44	0.51	0.51
Mill recovery	92%	89%	91%	90%
Gold produced (ozs)	5,811	5,497	11,653	12,710
Gold realized, net of smelting fees (ozs)	5,363	5,207	10,771	12,183

Tonnes milled for the second quarter of 2017, was 413,214 tonnes with an average head grade of 0.54 g/t, compared to 442,331 tonnes milled, with an average head grade of 0.44 g/t, for the 2016 comparative quarter. Tonnes milled for the six months ended March 31, 2017, was 826,524 tonnes with an average head grade of 0.51 g/t, compared to 860,881 tonnes milled, with an average head grade of 0.51 g/t, for the 2016 comparative six month period. The average head grade for the 2016 comparative period was supported by the processing of approximately 30,000 tonnes of higher grade fine fraction material.

Total gold realized was 5,363 ounces for the second quarter of 2017, compared to 5,207 ounces realized in the 2016 comparative quarter. Total gold realized for the six months ended March 31, 2017 was 10,771 compared to 12,183 for the 2016 comparative period.

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Revenues

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Gold				
Ounces sold	7,716	9,259	10,835	12,796
Average realized price (\$/oz)	\$ 1,234	\$ 1,115	\$ 1,247	\$ 1,148
Revenues				
Gold	\$ 9,521,556	\$ 10,327,091	\$ 13,513,483	\$ 14,686,316
Other income	81,121	107,852	168,014	193,087
	\$ 9,602,677	\$ 10,434,943	\$ 13,681,497	\$ 14,879,403

Gold sales revenue for second quarter of 2017 was \$9.5 million, from the sale of 7,716 ounces, at an average realized gold price of \$1,234 per ounce, compared to gold sales revenue for the second quarter of 2016, of \$10.3 million from the sale of 9,259 ounces, at an average realized gold price of \$1,115 per ounce. The 8% decrease in gold sales revenue for the current period is due to a 17% drop in the number of ounces and partially offset by an 11% increase in the average realized gold price over the 2016 comparative quarter. Total gold sales revenue for the first six months of fiscal 2017 is \$13.5 million compared to the \$14.7 million for the 2016 comparative period.

Revenues also include other income from a February 1, 2015 agreement to which the Company is a party to. The agreement allows a third party use of the tailings pond for a fee of CNY 5.5 per tonne of ore processed to a maximum of 1,500 tonnes per day.

Cost of Sales

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Ounces sold	7,716	9,259	10,835	12,796
Per ounce of gold sold ⁽¹⁾				
Cash costs	\$ 760	\$ 1,004	\$ 787	\$ 1,012
Production costs	894	1,076	927	1,133
Cost of Goods Sold				
Total cash costs	\$ 5,861,670	\$ 9,298,024	\$ 8,523,510	\$ 12,950,768
Total production costs	6,896,693	9,959,274	10,042,324	14,499,912

(1) See "Additional Non-IFRS Financial Measures" on page 14-15.

Total cash costs decreased by 24% to \$760 per ounce for the second quarter of 2017, compared to cash costs of \$1,004 per ounce for the second quarter of 2016. Cash costs for the six months ended March 31, 2017, were \$787, a 22% decrease compared to \$1,012 per ounce for the 2016 comparative six month period. The Company was able to lower its total cash costs for the first half of fiscal 2017 through entering into an amendment of its mining agreement during the second quarter of 2017, lowering mining and processing fees

Other Items

The Company's G&A expenditures were \$749,978 for the second quarter of 2017, compared to \$630,546 expended in the comparative quarter.

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

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The details of the general and administrative expenses for the three and six months ended March 31, 2017 and 2016 are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	-\$-	-\$-	-\$-	-\$-
Consulting and management fees	161,927	167,576	316,612	325,978
Depreciation	80,766	9,821	160,245	90,542
Office and general	187,180	125,541	324,600	298,810
Professional fees	13,471	9,955	13,981	19,425
Salaries	208,096	198,397	399,201	394,758
Shareholder communications	14,540	11,542	15,101	13,340
Travel	83,998	107,714	204,994	195,063
Total	749,978	630,546	1,434,734	1,337,916

The details of the changes in the consolidated finance expense for the three and six months ended March 31, 2017 and 2016 are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	-\$-	-\$-	-\$-	-\$-
Interest expense	212,398	343,612	425,364	615,307
Accretion of asset retirement obligation	18,118	20,594	36,391	41,682
Total	230,516	364,206	461,755	656,989

Net profit for the six months ended March 31, 2017, was \$1,705,556 (\$0.00 per share) compared to a net loss of \$2,144,926 (\$0.00 per share) for the 2016 comparative six month period.

SUMMARY OF QUARTERLY RESULTS

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

	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Net revenues	\$9,602,677	\$4,078,820	\$6,178,145	\$6,744,418
Net profit (loss)	\$1,385,856	\$319,700	(\$801,897)	(\$330,993)
Per share	\$0.00	\$0.00	(\$0.00)	(\$0.00)
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Net revenues	\$10,434,943	\$4,444,460	\$7,155,148	\$2,787,430
Net profit (loss)	(\$1,482,846)	(\$662,080)	(\$3,990,750)	(\$1,137,335)
Per share	(\$0.00)	(\$0.00)	(\$0.01)	(\$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 profit and loss between periods are primarily due to the volatility of gold prices and variances in gold sales, production costs and G&A expenses and stock-based compensation.

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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.

On January 31, 2017, the Company issued 72,500,000 units at CAD\$0.135 per unit for total subscription proceeds of CAD\$9,787,500 (USD \$7,521,694). Each unit consisted of one common share and one common share purchase warrant, entitling the holder to purchase an additional common share at CAD\$0.155 for a period of two years from date of issuance. The Company applied residual method to account for the issuance of warrants and has recorded \$Nil to the reserve. The Company incurred share issue costs of \$35,148 (USD\$27,011).

At March 31, 2017, the Company had cash and cash equivalents of \$7,556,399 (September 30, 2016 - \$9,037,258) and had a working capital deficit of \$16,414,681 (September 30, 2016 - (\$16,492,256)).

Majestic began the current fiscal year, with \$9,037,258 in cash and cash equivalents. During the six months ended March 31, 2017, the Company had generated \$2,743,435 from its operating activities, net of working capital changes, expended \$12,365,201 on investing activities, for the purchase and development of property, plant and equipment, received \$8,831,842 from financing activities consisting of net proceeds from a private placement, and loan borrowings, net of loan borrowing repayments and cash on deposit, and had a foreign exchange loss of \$690,935, to end at March 31, 2017, with \$7,556,399 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 has achieved a profit for the six months ended March 31, 2017 and is dependent on continuing to achieve 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 consistent 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. In addition the Company has 72,500,000 share purchase warrants at an exercise price of CAD\$0.155. All stock option and share purchase warrants will, if exercised, provide additional cash. At the date of this MD&A, the stock options and share purchase warrants outstanding are "out of the money" and the share purchase warrants are under a four month hold period to May 31, 2017.

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.

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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 March 31, 2017	912,265,216	27,700,000	-
Private placement	-	-	72,500,000
Outstanding at the date of this MD&A	912,265,216	27,700,000	72,500,000

TRANSACTIONS WITH RELATED PARTIES

Related party transactions

The Company incurred the following related party transactions during the three and six months ended March 31, 2017 and 2016:

	Three months ended March		Six months ended March 31,	
	2017	2016	2017	2016
	-\$-	-\$-	-\$-	-\$-
Consulting fees charged by companies controlled by directors and officers of the Company - includes key management	154,087	151,459	304,394	302,285
Stock-based compensation	-	651,541	-	651,541
Mining and milling services charged by Dahedong	3,696,980	4,821,502	7,610,944	10,283,035
Interest charged by Dahedong	23,970	66,290	43,126	133,006
	3,875,037	5,690,792	7,958,464	11,369,867

Compensation of key management personnel

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

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	-\$-	-\$-	-\$-	-\$-
Short-term employee benefits—management fees	58,960	56,816	117,421	115,261
Stock-based compensation	-	164,551	-	164,551
Director fees	41,790	44,505	80,615	81,348
	100,750	265,872	198,036	361,160

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 March 31, 2017, 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. Refer to Note 3 of the Financial Report.

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.

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OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2017, the Company had no material 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.

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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:

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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 March 31, 2017.

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.

Other Price Risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk, price risk or foreign exchange risk.

The Company is exposed to changes in market prices as this can impact the value of its investments.

The Company is exposed to changes in the price of gold which affects its earnings and cash flows. Changes in the price of gold will impact the profits and resulting cash flows of the Company and could potentially impact the classification and amounts of certain liabilities, most notably the asset retirement obligation.

As at March 31, 2017, the Company did not hold any gold futures contracts. The Company does not use derivative instruments to hedge or reduce its price risk to gold.

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.

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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 year ended September 30, 2016.

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 a reconciliation of adjusted EBITDA to the consolidated financial statements for the three and six months ended March 31, 2017 and 2016:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Net Income (loss)	\$ 1,385,856	\$ (1,514,070)	\$ 1,705,556	\$ (2,144,926)
Depreciation and depletion	1,115,789	671,071	1,679,059	1,639,686
Share-based compensation	-	1,054,063	-	1,054,063
Finance expense, net of finance income	195,689	329,807	384,301	211,753
Gain on financial instruments	-	(21,480)	-	(68,434)
Gain on disposal of equipment	-	(1,174)	-	(1,174)
Foreign exchange income (loss)	1,651	9,028	(1,732)	3,833
Income tax expense (recovery)	372,810	(11,051)	116,314	(13,540)
Adjusted EBITDA	\$ 3,071,795	\$ 516,194	\$ 3,883,498	\$ 681,261

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The following table provides details of the primary components of adjusted EBITDA:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Revenue	\$ 9,602,677	\$ 10,434,943	\$ 13,681,497	\$ 14,879,403
Cost of sales, net of depreciation and depletion	(5,861,670)	(9,298,024)	(8,523,510)	(12,950,768)
G&A, net of depreciation	(669,212)	(620,725)	(1,274,489)	(1,247,374)
Adjusted EBITDA	\$ 3,071,795	\$ 516,194	\$ 3,883,498	\$ 681,261

The following tables provide reconciliation to the consolidated financial statements of total cash costs per ounce, total production costs per ounce and all-in sustaining cost per ounce as disclosed in this MD&A to the consolidated financial statements for the three and six months ended March 31, 2017 and 2016:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Gold sold (ozs)	7,716	9,259	10,835	12,796
Total cash costs per ounce				
Contractor costs paid to Dahedong	\$ 3,696,980	\$ 4,821,472	\$ 7,610,944	10,283,035
Smelting costs	147,653	164,450	250,625	342,526
Resource taxes	271,075	273,850	395,904	672,532
Other direct costs	145,967	114,669	385,814	424,991
Changes in ending gold concentrate inventory	1,599,995	3,923,583	(119,777)	1,227,684
Total cash costs	\$ 5,861,670	\$ 9,298,024	\$ 8,523,510	\$ 12,950,768
Per ounce sold	\$ 760	\$ 1,004	\$ 787	\$ 1,012
Total production costs per ounce				
Total cash costs	\$ 5,861,670	\$ 9,298,024	\$ 8,523,510	\$ 12,950,768
Depreciation and depletion	1,035,023	661,250	1,518,814	1,549,144
Total production costs	\$ 6,896,693	\$ 9,959,274	\$ 10,042,324	\$ 14,499,912
Per ounce sold	\$ 894	\$ 1,076	\$ 927	\$ 1,133
All-in sustaining costs per ounce				
Total cash costs	\$ 5,861,670	\$ 9,298,024	\$ 8,523,510	\$ 12,950,768
General and administrative, net of depreciation	669,212	620,725	1,274,489	1,247,374
Sustaining capital expenditures ⁽¹⁾	9,699	30,891	26,499	61,517
All-in sustaining costs	\$ 6,540,581	\$ 9,949,640	\$ 9,824,498	\$ 14,259,659
Per ounce sold	\$ 848	\$ 1,075	\$ 907	\$ 1,114

(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 the three and six months ended March 31, 2017 and 2016:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Additions to property, plant and equipment				
Songjiagou Gold Mine	\$ 2,902,325	\$ 101,812	\$ 6,688,112	\$ 101,812
Songjiagou North	36,599	-	6,650,590	-
Sustaining capital expenditures	9,699	30,891	26,499	61,517
	\$ 2,948,623	\$ 132,703	\$ 13,365,201	\$ 163,329

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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 period ended March 31, 2017, 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.