CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended March 31, 2014 and 2013

(Expressed in US dollars)

(Unaudited)

Notice to Reader

These interim financial statements of Majestic Gold Corp. have been prepared by management and approved by the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these interim financial statements, notes to financial statements and the related quarterly Management Discussion and Analysis.

Majestic Gold Corp.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited - expressed in US dollars)

	Note	March 31, 2014 - $ -	September 30, 2013 - $ -
ASSETS			
Current assets			
Cash and cash equivalents	*4*	10,678,892	16,365,423
Receivables	*5*	107,619	541,233
Deposits and prepaid expenses	*6*	406,870	404,466
Inventory	*7*	4,049,386	3,962,213
Investments	*8*	24,889	26,243
		15,267,656	21,299,578
Property, plant and equipment	*9*	82,927,924	83,570,664
Exploration and evaluation assets	*10*	2	2
Deferred tax assets		368,724	370,256
		98,564,306	105,240,500
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	*11*	4,288,437	6,599,394
Income taxes payable		170,129	67,889
Loans payable	*12*	14,788,408	15,879,791
		19,246,974	22,547,074
Asset retirement obligations	*13*	2,582,117	2,535,792
		21,829,091	25,082,866
SHAREHOLDERS' EQUITY			
Share capital	*14*	99,893,830	99,893,830
Reserves	*14*	12,548,667	13,180,353
Deficit		(54,652,818)	(52,378,998)
Equity attributable to owners of parent		57,789,679	60,695,185
Equity attributable to non-controlling interests	*19*	18,945,536	19,462,449
Total equity		76,735,215	80,157,634
		98,564,306	105,240,500
Nature of operations	*1*		
Commitments	*20*		

These condensed consolidated interim financial statements are approved for issue by the Audit Committee of the Board of Directors on May 30, 2014.

They are signed on the Company's behalf by:

"John Campbell", Director *"Stephen Kenwood", Director*

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Majestic Gold Corp.

Condensed Consolidated Interim Statements of Comprehensive Loss

(Unaudited -expressed in US dollars)

		Three months ended March 31,		Six months ended March 31,	
		2014	2013	2014	2013
		- $ -	- $ -	- $ -	- $ -
	Note				
Gold revenue	*17*	7,614,531	8,681,386	11,485,724	13,025,342
Cost of goods sold	*17*	5,951,922	6,266,084	8,823,884	8,440,027
Gross profit		1,662,609	2,415,302	2,661,840	4,585,315
Selling and administrative expenses					
General and administrative	*17*	1,175,127	2,382,255	3,948,638	3,684,203
		1,175,127	2,382,255	3,948,638	3,684,203
Income (loss) before other items		487,482	33,047	(1,286,798)	901,112
Other items					
Distribution of net profit	*9*	-	555,268	-	1,028,983
Finance expense	*17*	460,779	410,561	967,322	743,366
Finance income		(28,393)	(217,895)	(72,733)	(285,889)
Foreign exchange		(43,325)	37,435	(40,153)	31,621
		389,061	785,369	854,436	1,518,081
Net income (loss) before income tax		98,421	(752,322)	(2,141,234)	(616,969)
Income tax expense		113,897	207,544	246,863	394,899
Net loss for the period		(15,476)	(959,866)	(2,388,097)	(1,011,868)
Other comprehensive income					
Unrealized loss on investments		5,250	(16,347)	(1,354)	(52,424)
Exchange differences on translating foreign operations		(1,014,931)	191,804	(1,032,968)	(10,209)
Total other comprehensive income (loss) for the period		(1,009,681)	175,457	(1,034,322)	(62,633)
Total comprehensive loss for the period		(1,025,157)	(784,409)	(3,422,419)	(1,074,501)
Net income (loss) for the period attributable to:					
Owners of the parent		(134,218)	(1,021,783)	(2,273,820)	(1,119,327)
Non-controlling interests		118,742	61,917	(114,277)	107,459
		(15,476)	(959,866)	(2,388,097)	(1,011,868)
Comprehensive income (loss) for the period attributable to:					
Owners of the parent		(617,322)	(835,408)	(2,905,506)	(1,172,565)
Non-controlling interest		(407,835)	50,999	(516,913)	98,064
		(1,025,157)	(784,409)	(3,422,419)	(1,074,501)
Loss per share - basic and diluted		(0.00)	(0.00)	(0.00)	(0.00)
Weighted average number of common shares outstanding		839,765,216	839,765,216	839,765,216	839,765,216

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Majestic Gold Corp.
Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited - expressed in US dollars)

		Attributable to owners of the parent								
	Number of shares	Share capital	Share-based payment reserve	Convertible loan reserve	Foreign currency translation reserve	Available-for-sale-reserve	Deficit	Total	Non-controlling interest	Total equity
Balance, September 30, 2012	839,765,216	99,893,830	10,691,293	-	1,499,306	43,870	(38,766,227)	73,362,072	646,797	74,008,869
Comprehensive loss										
Net income (loss) for the period	-	-	-	-	-	-	(1,119,327)	(1,119,327)	107,459	(1,011,868)
Other Comprehensive loss	-	-	-	-	(814)	-	-	(814)	(9,395)	(10,209)
Unrealized loss on investments classified as available for sale	-	-	-	-	-	(52,424)	-	(52,424)	-	(52,424)
Total comprehensive income (loss) for the period	-	-	-	-	(814)	(52,424)	(1,119,327)	(1,172,565)	98,064	(1,074,501)
Balance, March 31, 2013	839,765,216	99,893,830	10,691,293	-	1,498,492	(8,554)	(39,885,554)	72,189,507	744,861	72,934,368
Balance, September 30, 2013	839,765,216	99,893,830	10,691,293	-	2,489,060	-	(52,378,998)	60,695,185	19,462,449	80,157,634
Comprehensive loss								-		
Net loss for the period	-	-	-	-		-	(2,273,820)	(2,273,820)	(114,277)	(2,388,097)
Other Comprehensive loss	-	-	-	-	(630,332)	-	-	(630,332)	(402,636)	(1,032,968)
Unrealized loss on investments classified as available for sale	-	-	-	-	-	(1,354)	-	(1,354)	-	(1,354)
Total comprehensive loss for the period	-	-	-	-	(630,332)	(1,354)	(2,273,820)	(2,905,506)	(516,913)	(3,422,419)
Balance, March 31, 2014	839,765,216	99,893,830	10,691,293	-	1,858,728	(1,354)	(54,652,818)	57,789,679	18,945,536	76,735,215

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Majestic Gold Corp.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - expressed in US dollars)

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	2014	2013
	- $ -	- $ -	- $ -	- $ -
Cash provided from (used for):				
Operating activities				
Net loss for the period	(15,476)	(959,866)	(2,388,097)	(1,011,868)
Items not involving cash:				
Depreciation of property, plant and equipment	520,347	384,435	935,099	808,020
Amortization of deferred income	-	(60,147)	-	(122,050)
Finance expense	460,793	176,969	967,322	509,774
Income tax expense	174,860	207,543	307,826	394,899
Changes in non-cash working capital balances:				
Receivables	31,062	(56,381)	433,614	288,564
Deposits and prepaid expenses	(224,413)	286,274	(2,404)	(222,017)
Inventory	2,324,569	2,158,248	(104,246)	(971,876)
Accounts payable and accrued liabilities	(3,003,241)	(971,987)	(2,701,880)	(1,680,223)
Interest paid	(215,627)	(119,272)	(412,263)	(293,787)
Incomes taxes paid	(72,185)	(550,382)	(204,635)	(1,191,350)
Net cash provided by (used in) operating activities	(19,311)	495,434	(3,169,664)	(3,491,914)
Investing activities:				
Expenditures on property, plant and equipment	(256,280)	(275,372)	(655,176)	(1,594,688)
Net cash used in investing activities	(256,280)	(275,372)	(655,176)	(1,594,688)
Financing activities				
Loan advances	2,289,271	478,142	5,553,831	1,558,776
Loan repayments	(3,269,486)	(303,272)	(6,705,435)	(827,104)
Net cash provided by (used in) financing activities	(980,215)	174,870	(1,151,604)	731,672
Effect of foreign exchange on cash and cash equivalents	(431,382)	(99,398)	(710,087)	(363,123)
Net (decrease) increase in cash and cash equivalents	(1,687,188)	295,534	(5,686,531)	(4,718,053)
Cash and cash equivalents, beginning	12,366,080	19,960,657	16,365,423	24,974,244
Cash and cash equivalents, ending	10,678,892	20,256,191	10,678,892	20,256,191

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. Nature of operations

Majestic Gold Corp. (the "Company") is incorporated under the laws of the province of British Columbia, Canada. The Company's shares trade on the TSX Venture Exchange ("TSX-V") under the symbol MJS. The Company is a mining company focused on the exploration, development and operation of mining properties in China.

The head office, principal address and the registered and records office of the Company are located at 535 Thurlow Street, Suite 502, Vancouver, British Columbia, Canada, V6E 3L2.

These unaudited condensed consolidated interim financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company has completed its mining and production facilities and is now working towards achieving and maintaining full production and increased positive cash flows from operations. Should this not be achieved, the Company will continue to be dependent on raising sufficient funds to meet operational requirements. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

2. Basis of preparation and significant accounting policies

Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard IAS 34 – *Interim Financial Reporting*.

Basis of preparation

These unaudited condensed consolidated interim financial statements, prepared in conformity with IAS 34, follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements.

Since these unaudited condensed consolidated interim financial statements do not include all disclosures required by the International Financial Reporting Standards ("IFRS") for annual financial statements, they should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2013.

Basis of consolidation

The unaudited condensed consolidated interim financial statements include the accounts of the Company and its controlled entities. All inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

Use of estimates

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include:

a) The useful lives of property, plant and equipment

The useful lives of the Company's mining property and related property, plant and equipment is based on indicated gold resource estimates based on a certain grade cut-off level. Assumptions that influenced cut-off grade include the expected future price of gold, projected operating costs and discount rates. Changes to these assumptions and further analysis of the Company's gold resource estimates could significantly impact the expected useful lives of the Company's mineral property and related property, plant and equipment.

2. Basis of preparation and significant accounting policies (continued)

b) Asset retirement obligation

The asset retirement obligation is based on projected future costs associated with mine reclamation and closure activities on the Company's Muping Property. This estimate is based on current Chinese environmental laws and regulations. Future changes to such laws and regulations as well as changes to the Company's intended mining operations could significantly impact this provision.

c) Other significant estimates

Other significant estimates where there is significant risk of material adjustments to assets and liabilities in future accounting periods include: determining the fair value measurements for financial instruments, the allocation of production costs to stockpiles of ore inventory and the recoverability of deferred income tax assets.

Use of judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

a) The determination of functional currency

In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates" management determined that the functional currency of the Company and Majestic Yantai Gold Ltd. is the Canadian dollar and the functional currency of Yantai Zhongjia Mining Inc. and all other of the Company's Chinese subsidiaries is the CNY.

b) The determination of control

Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits generally accompanying a shareholding of more than one half of the voting rights. Control can also be impacted by agreements and other arrangements made with other investors. Management has determined that the Company has control over all subsidiaries consolidated in these financial statements.

c) The determination of whether certain items of property, plant and equipment meet the definition of an asset

Substantial components of the Company's property, plant and equipment were constructed by a third party and legal title does not transfer until the Company has paid its share of the costs in full. An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. The Company has concluded the noted property, plant and equipment does meet this definition and accordingly has recognized this as an asset in its financial statements.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the reporting date exchange rate.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in profit or loss.

For the purposes of presenting the consolidated financial statements in the presentation currency of US dollars, the group companies with functional currencies other than US dollars, the assets and liabilities are translated into US dollars using the period-end exchange rate and the operations and cash flows are translated using the average rates of exchange over the period. Exchange differences arising when the opening net assets and the profit or loss are translated into US dollars are recognized in other comprehensive income and recorded in the Company's

(Unaudited - expressed in US dollars)

2. Basis of preparation and significant accounting policies (continued)

foreign currency translation reserve in equity. These differences are recognized in profit or loss in the period in which the operation is disposed.

Comparative figures

Certain comparative figures have been reclassified to conform to the current period presentation.

New standards adopted during the period

New standard IFRS 13 "Fair value measurement"
This new standard replaces the fair value measurement guidance currently included in various other IFRS standards with a single definition of fair value and extensive application guidance. IFRS 13 provides guidance on how to measure fair value and does not introduce new requirements for when fair value is required or permitted. It also establishes disclosure requirements to provide users of the financial statements with more information about fair value measurements.

New interpretation IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"
This new IFRIC clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

3. 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, 2014, and have not been applied in preparing these condensed consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

New standard IFRS 9 "Financial Instruments"
This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effect date of this new standard has not been specified.

Amendments to IAS 32 "Financial Instruments: Presentation"
These amendments address inconsistencies when applying the offsetting requirements, and are effective for annual periods beginning on or after January 1, 2014.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.
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4. Cash and cash equivalents

	March 31, 2014 - $ -	September 30, 2013 - $ -
Cash	3,811,236	7,478,931
Term deposits	6,867,656	8,886,492
Total	10,678,892	16,365,423

Cash of $4,002,954 is held in China and is subject to local exchange control regulations. Chinese exchange control regulations provide for restrictions on exporting capital from China, other than through normal dividends.

(Unaudited - expressed in US dollars)

5. Receivables

	March 31, 2014 - $ -	September 30, 2013 - $ -
Trade receivables	87,882	444,885
HST and VAT receivable	12,935	24,440
Other receivables	6,802	71,908
Total	107,619	541,233

6. Deposits and prepaid expenses

	March 31, 2014 - $ -	September 30, 2013 - $ -
Prepayment for mining supplies and services	334,207	306,200
Rent deposit	26,626	26,223
Other advances and prepayments	46,037	72,043
Total	406,870	404,466

7. Inventory

	March 31, 2014 - $ -	September 30, 2013 - $ -
Gold concentrate	2,761,132	2,249,545
Ore stockpile	1,288,254	1,712,668
Total	4,049,386	3,962,213

8. Investment

	Number	March 31, 2014 -$-	Number	September 30, 2013 -$-
Balance, beginning	500,000	26,243	500,000	82,714
Decrease in fair value	-	(1,354)	-	(56,471)
Balance, ending	500,000	24,889	500,000	26,243

The investment consists of 500,000 shares of Bullabulling Gold Limited:

The valuation of the shares has been determined by reference to the closing price of the shares on the London Stock Exchange. At March 31, 2014, the closing price was $0.05 per share (September 30, 2013 - $0.052). The cost of this investment was $38,844 (CAD$40,000).

(Unaudited - expressed in US dollars)

9. Property, plant and equipment

	Heavy machinery and equipment	Office furniture and equipment	Mill	Mining property	Construction in progress (CIP)	Total
	- $ -	- $ -	- $ -	- $ -	- $ -	- $ -
Cost						
At September 30, 2013	544,756	422,663	48,527,774	37,958,388	333,212	87,786,793
Additions	(16,825)	50,738	161,503	418,628	41,131	655,175
Foreign exchange adjustment	(2,145)	(26,589)	(201,874)	(159,802)	(1,646)	(392,056)
At March 31, 2014	525,786	446,812	48,487,403	38,217,214	372,697	88,049,912
Accumulated depreciation						
At September 30, 2013	(124,590)	(141,693)	(1,964,901)	(1,984,945)	-	(4,216,129)
Depreciation	(41,467)	(87,125)	(454,356)	(352,151)	-	(935,099)
Foreign exchange adjustment	788	6,868	11,083	10,501		29,240
At March 31, 2014	(165,269)	(221,950)	(2,408,174)	(2,326,595)	-	(5,121,988)
Net book value						
At September 30, 2013	420,166	280,970	46,562,873	35,973,443	333,212	83,570,664
At March 31, 2014	360,517	224,862	46,079,229	35,890,619	372,697	82,927,924

Muping Property

In May 2004, the Company, through its 94% owned subsidiary Majestic Yantai Gold Ltd. (“Majestic Yantai”), acquired an interest in thirteen exploration licenses located in the Chinese province of Shandong (the “Muping Property”). The Company acquired these licenses as part of a co-operation contract with Shandong Yantai Muping Gold Mine, China. This agreement provided an option to acquire a 60% interest in Yantai Zhongjia Mining Inc. (“JVCo”), a Chinese co-operation company that was established to hold the rights to the Muping Property. In order to secure its rights and interest in JVCo, Majestic Yantai was required to contribute a minimum of CNY 35,000,000 in exploration costs by March 2009 (completed). During the years ended September 30, 2008 and 2007, nine of the thirteen exploration licenses were abandoned, leaving four exploration licenses that now comprise the Muping Property.

During the year ended September 30, 2010, the Company entered into the following Agreements relating to the Muping Property:

(i) On February 11, 2010, the Company entered into an Acquisition Agreement (“Agreement”) with Yantai Dahedong Processing Co. Ltd ("Dahedong") to acquire the remaining 40% (“Muping JV Interest”) of JVCo. As part of the transaction, JVCo acquired the Mining Permit required to commence mining operations;

(ii) On September 1, 2010, the Company entered into a Declaration of Trust and Profit Sharing Agreement ("Profit Sharing Agreement") with Dahedong, which, among other matters, outlined the basis by which the mining operations and share of profits, as defined in the Agreement, are to be conducted and distributed. The Profit Sharing Agreement was a re-affirmation of essential arrangements as outlined in the original Agreement of February 11, 2010; and

(iii) On September 29, 2010, the Company entered into Addendum No. 1 to the Agreement.

The Muping JV Interest was initially transferred from its holders to Dahedong. The agreement then provided for this interest to be transferred to Majestic Yantai. Upon completion of the acquisition of the Muping JV Interest by Majestic Yantai, the Company’s interest in JVCo and the Muping Mineral Property increased from 54% to 94%.

The Company entered into the Agreement and the Profit Sharing Agreement to facilitate commencement of mining operations at the Muping Property. The Agreements provided that Dahedong will carry on mining operations on the Muping Property. In addition, Dahedong will process ore mined from the property at facilities owned by it.

9. Property, plant and equipment (continued)

Under the Agreement, mining operations will be carried out by Dahedong. Dahedong will be responsible for mining, transporting and processing ore and tailings and other waste material from the Muping Property for a period of 30 years (the "Mining Term").

Significant terms of the Agreement are as follows:

(i) As compensation for the use of Dahedong's mining assets and equipment during the Mining Term, Dahedong will be entitled to 25% of the net profits ("Net Profits"), as defined in the Agreement, of JVCo derived from mining operations during the Mining Term. Net Profits is determined based on revenues less mining and processing costs, refining costs, royalties and production taxes, income taxes and costs to fund future reclamation work;
(ii) 100% of all revenue received by JVCo will accrue to the sole benefit of JVCo;
(iii) To cover Dahedong's operational costs, Dahedong will receive CNY75 per tonne ("Mining Fee") for all mining, transporting and processing services required to produce concentrate suitable for delivery to a refinery or smelter.
The Mining Fee will be paid only from revenue from mining operations so that no cost, expense or liability will accrue to or be payable by JVCo with respect to mining operations, and the Mining Fee will be paid to Dahedong from revenue before any revenue is distributed to any participant in JVCo. On October 5, 2011, the Mining Fee was revised resulting in Mining Fees ranging between CNY40 and CNY75 per tonne for open pit operations and CNY92.5 and CNY130 for underground operations, subject to achieving specified recovery rates. The Mining Fees are based on ranges of ore head grade; and
(iv) Dahedong is primarily responsible for dealings with Chinese governmental authorities and interest groups in carrying out mining operations.

As subsequently revised in the Addendum No.1 to the Agreement, the Agreement also provides for construction of a new mill and related facilities (collectively the "New Mill") in accordance with the following terms:

(i) Dahedong will construct one New Mill with an output of approximately 6,000 tonnes per day at a budgeted cost of CAD$50,000,000;
(ii) Dahedong shall complete the procedures for the acquisition and lease of land to be occupied by the New Mill, obtain necessary approvals, complete filing procedures, and coordinate the supply of utilities such as water and electric power for the New Mill;
(iii) Dahedong shall be responsible for 25% of the costs incurred in the construction of the New Mill including permitting, leasing and licensing costs, and JVCo shall be responsible for 75% of construction costs;
(iv) Ownership of the New Mill shall be vested in JVCo;
(v) Dahedong will be responsible to pay all construction costs in the first instance;
(vi) JVCo will reimburse Dahedong for 100% of JVCo's share of construction costs out of JVCo's share of Net Profits before any Net Profits are paid or distributed by JVCo to the Company;
(vii) JVCo's share of construction costs will be paid only from JVCo's share of Net Profits so that no cost, expense or other liability will accrue to or be payable by JVCo otherwise than out of Net Profits;
(viii) JVCo will pay to Dahedong a financing fee equal to 10% of JVCo's share of construction costs out of JVCo's share of Net Profits after JVCo's share of construction costs have been paid in full and before any Net Profits are paid or distributed by JVCo to the Company;
(ix) Title to the New Mill shall not be transferred to JVCo until JVCo has reimbursed Dahedong for JVCo's share of construction costs out of JVCo's share of Net Profits; and
(x) JVCO shall have the right, but not the obligation, to pay or reimburse Dahedong for all or any portion of JVCo's share of construction costs from other sources of funding which may be available to JVCo from time to time. Such payments would offset the agreed minimum payments from revenues.

9. Property, plant and equipment (continued)

During the year ended September 30, 2013, the Company entered into the following Addendum Agreements relating to the Muping Property:

1. On October 1, 2012, the Company entered into Addendum No. 2 to the Agreement.

Significant terms of Addendum No. 2 are as follows:

Loan Financing
(i) JVCo is authorized to enter into certain loan arrangements (the “Loans”);
(ii) The Loan proceeds will be applied first to eliminate the construction debts, and any Loan proceeds remaining after elimination of the construction debts will be retained by JVCo for working capital;
(iii) JVCo will be solely responsible for payment of the Loans and interest thereon, and other costs associated with the Loans, and all costs of any other borrowings by JVCo to fund construction debts, including Village Relocation Costs (collectively the “Borrowing Costs”), such that none of Dahedong, Majestic or Majestic Yantai will be responsible for payment of any portion of the Loans or Borrowing Costs;
(iv) Sales proceeds will hereafter be applied first to pay Mining Fees and second to pay JVCo expenses, so that the amount of sales proceeds remaining after such payments have been made will constitute Net Profits of JVCo;
(v) JVCo’s unpaid share of construction costs will be paid only from the 75% share of Net Profits of JVCo otherwise payable to Majestic Yantai, unless otherwise agreed in writing by the Company;

Village Relocation
(vi) The Village Relocation Project is acknowledged to be an addition to the New Mill project and the Village Relocation Costs are acknowledged to be additional construction costs to be borne as to 75% by JVCo and as to 25% by Dahedong;
(vii) Dahedong will pay 100% of Village Relocation Costs in the first instance, including JVCo’s 75% share of Village Relocation Costs;
(viii) JVCo’s share of Village Relocation Costs will be repaid or reimbursed to Dahedong only from Net Profits of JVCo otherwise payable to Majestic Yantai;
(ix) JVCo will have the right, but not the obligation, to pay or reimburse Dahedong for all or any portion of JVCo’s share of Village Relocation Costs from other sources of funding which may be available to JVCo from time to time;
(x) For greater certainty, to the extent that Village Relocation Costs incurred by Dahedong prior to the date of the Addendum No. 2 constitute JVCo construction debts, such Village Relocation Costs may be repaid or reimbursed using Loan proceeds; and
(xi) Until such time as JVCo has reimbursed Dahedong for 100% of JVCo’s share of construction costs out of JVCo’s share of Net Profits, the 75% of Net Profits which would otherwise be paid to Majestic Yantai pursuant to the Agreement will be paid to Dahedong and applied towards JVCo’s share of construction costs (including Village Relocation Costs).

2. On December 31, 2012, the Company entered into Addendum No. 3 to the Agreement.

Significant terms of Addendum No. 3 are as follows:

(i) Commencing from and after January 1, 2013, JVCo will use sale proceeds first to pay the Mining Fee to Dahedong, debt obligations of JVCo to third parties and JVCo expenses (collectively “JVCo Expenses and Loan Obligations”);
(ii) From and after January 1, 2013, after payment of JVCo Expenses and Loans, the remaining sales proceeds of JVCo will be distributed as follows:
    (a) first, 75% which belongs to Majestic Yantai to Dahedong until the Dahedong debt has been paid in full, together with interest on the unpaid balance of the Dahedong debt at the rate of 10% per annum; 25% to Dahedong, and
    (b) thereafter, 75% to Majestic Yantai and 25% to Dahedong; and
(iii) From and after January 1, 2013, all capital expenses agreed to be incurred on or in respect of the Muping Property will be paid as to 75% by JVCo and 25% by Dahedong for so long as Dahedong is entitled to receive at least 25% of Net Profits.

(Unaudited - expressed in US dollars)

9. Property, plant and equipment (continued)

3. On May 30, 2013, the Company entered into an Equity Exchange Agreement ("Exchange Agreement").

Significant terms of the Exchange Agreement are as follows:

(i) the Profit Sharing Agreement will be terminated effective as at, and from and after, January 1, 2013, and, as consideration therefor, Majestic Yantai will transfer a 25% beneficial interest in JVCo to Dahedong, effective as at January 1, 2013;
(ii) Dahedong and JVCo will continue with the mining arrangement; and
(iii) from and after January 1, 2013, Dahedong will continue to provide the use of facilities it owns to JVCo as provided in the Agreement, but at no cost to JVCo, and at no cost Majestic Yantai or the Company.

The Exchange Agreement was approved by the TSX-V on July 25, 2013. As a result, Dahedong's interest in JVCo has been accounted for as a non-controlling interest commencing July 25, 2013 (Note 21).

At March 31, 2014, the Company had a balance owing to Dahedong of $2,079,544 (2013 - $2,698,884) (Note 11).

10. Exploration and evaluation assets

Other properties

The Company has interests in certain other exploration and evaluation assets in China. No exploration or evaluation work is currently being pursued on these assets and the carrying value was previously impaired to $2.

11. Accounts payable and accrued liabilities

	March 31, 2014 -$-	September 30, 2013 -$-
Trade and other payables	2,177,806	3,786,022
Amount due to Dahedong (Note 9 and 15)	2,079,544	2,698,884
Amounts due to related parties (Note 15)	31,087	114,488
Total	4,288,437	6,599,394

12. Loans payable

	March 31, 2014 -$-	September 30, 2013 -$-
Balance, beginning	15,879,791	13,316,710
Accrued interest and fees	531,496	1,319,656
Loans advances	5,553,831	13,549,484
Loans and interest repayments	(7,117,698)	(12,737,066)
Foreign exchange adjustment	(59,012)	431,007
Balance, ending	14,788,408	15,879,791

At March 31, 2014, the loans outstanding consist of:

(i) a $3,245,752 (CNY 20,000,000) (September 30, 2013 - $3,259,240) one year loan bearing an interest repayable of 6.6% per annum. The loan is repayable on August 18, 2014. The loan is guaranteed by Dahedong, the owner of Dahedong and the company that provides gold concentrate refining services to the Company; and

(Unaudited - expressed in US dollars)

12. Loans payable (continued)

(ii) a $1,622,876 (CNY 10,000,000) (September 30, 2013 - $1,629,620) one year loan bearing an interest repayable of 9.184% per annum. The loan is repayable on January 21, 2014. The loan is guaranteed by certain third parties, including Dahedong. On January 9, 2014, the loan was renewed, with an interest rate of 6% per annum and a new maturity date is January 9, 2015;

(iii) a $4,868,628 (CNY 30,000,000) (September 30, 2013 - $4,888,860) one year loan bearing an interest repayable of 6.6% per annum. The loan is repayable on August 23, 2014. The loan is guaranteed by the owner of Dahedong and the company that provides gold concentrate refining services to the Company;

(iv) a $3,245,752 (CNY 20,000,000) (September 30, 2013 - $Nil) one year loan bearing an interest repayable of 6.6% per annum. The loan is repayable on November 25, 2014. The loan is guaranteed by the owner of Dahedong and the company that provides gold concentrate refining services to the Company;

(v) a series of banker's acceptance notes for $1,633,480 (CNY 10,000,000) (September 30, 2013 - $977,772) were settled during the period ended March 31, 2014;

(vi) a $738,409 (CNY 4,550,000) (September 30, 2013 - $4,171,827) series of loans bearing an interest rate payable of 0.7% per month. The loans are repayable in ten months from the date of cash advances. The loans are secured by gold sales revenue generated by JVCo;

(vii) Accrued interest of $1,066,990 (CNY 6,366,056) relating to the above loans.

13. Asset retirement obligation

The following table shows the movement for the asset retirement obligation:

	March 31, 2014 -$-	September 30, 2013 -$-
Balance, beginning	2,535,792	2,538,356
Additions and changes in estimates of net present value	-	169,437
Accretion	57,190	92,591
Foreign exchange adjustment	(10,865)	(264,592)
Balance, ending	2,582,117	2,535,792

The Company's asset retirement obligation consists primarily of costs associated with mine reclamation and closure activities on the Muping Property. These activities, which are site specific, include costs for earthworks, re-contouring, re-vegetation, water treatment and demolition. In calculating the fair value of the Company's asset retirement obligations, the Company used a risk-free rate of 4.5% (2013 – 4.5%) and an inflation rate of 3.0% (2013 – 3.0%). The majority of the expenditures are expected to occur in or after 2021.

14. Share capital and Reserves

a) Authorized:

Unlimited number of common shares without par value.

b) Issued share capital:

The Company had 839,765,216 common shares issued and outstanding as at March 31, 2014 and September 30, 2013.

(Unaudited - expressed in US dollars)

14. Share capital and reserves (continued)

c) Share Purchase Warrants

The continuity of share purchase warrants for the six months ended March 31, 2014, is as follows:

Expiry date	Exercise price	Balance September 30, 2013	Issued	Exercised	Expired	Balance March 31, 2014
June 22, 2014	CAD$0.20	222,500,000	-	-	-	222,500,000
Weighted average exercise price		CAD$0.20	$ -	$ -	$ -	CAD$0.20

The weighted average remaining contractual life of the warrants outstanding as at March 31, 2014, is 0.23 years.

d) Stock Options

The maximum number of common shares issuable under the terms of the Company's Amended Incentive Stock Option Plan, dated February 15, 2005, shall not exceed 10% of the issued and outstanding shares of the Company at the time the stock options are granted, less the number of shares, if any, subject to prior stock options issued.

The continuity of stock options for the six months ended March 31, 2014, is as follows:

Expiry date	Exercise price	Balance September 30, 2013	Issued	Exercised	Expired/ Cancelled	Balance March 31, 2014
November 13, 2014	CAD$0.12	1,625,000	-	-	-	1,625,000
June 22, 2015	CAD$0.12	15,000,000	-	-	(3,300,000)	11,700,000
September 14, 2016	CAD$0.20	24,700,000	-	-	(4,200,000)	20,500,000
		41,325,000	-	-	(7,500,000)	33,825,000
Weighted average exercise price		CAD$0.17	$ -	$ -	CAD$0.16	CAD$0.17

Details of stock options outstanding as at March 31, 2014 is as follows:

Exercise Price	Expiry Date	Options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
CAD$0.12	November 13, 2014	1,625,000	CAD$0.12	0.62
CAD$0.12	June 22, 2015	11,700,000	CAD$0.12	1.23
CAD$0.20	September 14, 2016	20,500,000	CAD$0.20	2.46
		33,825,000	CAD$0.17	1.95

e) Reserves

Share-based payment reserve
The share-based payment reserve records items recognized as stock-based compensation expense and other share- based payments. This reserve also includes the value attributed to warrants on unit private placements. At the time that the stock options or warrants are exercised, the corresponding amount will be transferred to share capital.

Foreign currency translation reserve
The foreign currency translation reserve records unrealized exchange differences arising on translation of group companies that have a functional currency other than the Company's reporting currency.

Available-for-sale reserve
The available-for-sale reserve records unrealized gains and losses arising on available-for-sale financial assets, except for impairment losses and foreign exchange gains and losses on monetary items.

(Unaudited - expressed in US dollars)

15. Related party transactions and balances

Related party transactions

The Company incurred the following related party transactions during the six months ended March 31, 2014 and 2013:

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	2014	2013
	-$-	-$-	-$-	-$-
Consulting fees charged by companies controlled by directors and officers of the Company	37,984	262,961	1,347,786	503,368
Director fees	66,260	-	76,260	-
Rent charged by companies controlled by directors of the Company	-	16,330	-	16,330
Legal fees charged by a law firm jointly controlled by a former Director	-	42,325	-	72,483
Mining and milling services charged by	2,996,637	4,295,683	7,301,773	8,421,705
Interest charged by Dahedong	184,559	-	378,636	-
	3,285,440	4,617,299	9,104,455	9,013,886

Key management personnel compensation

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	2014	2013
	$	$	$	$
Management fees	62,025	76,609	130,700	116,453
Director fees	66,260	-	76,260	-
	128,285	76,609	206,960	116,453

Key management included the Company's directors, executive officers and senior management.

Related party balances

	March 31, 2014	September 30, 2013
	-$-	-$-
Amounts due to Dahedong (Note 11)	2,079,544	2,698,884
Amounts due to companies controlled by Directors and Officers of the Company (Note 11)	31,087	114,488
	2,110,631	2,813,372

Dahedong is a related party on the basis that it is controlled by a significant shareholder of the Company.

16. Segmented information

The Company operates in one industry segment, being the exploration, development and operation of mining properties in China. All of the Company's capital assets are located in China, except office furniture and equipment with a net book value of $31,335 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

(Unaudited - expressed in US dollars)

17. Revenue and Expenses

Revenue

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	2014	2013
	$	$	$	$
Sales of gold bullion	7,469,447	8,363,055	11,123,280	12,468,636
Lease of underground mine	145,084	318,331	362,444	556,706
Total	7,614,531	8,681,386	11,485,724	13,025,342

The Company leased the mining of the underground mine to a third party for a two-year period expiring March 25, 2014. The lease is for $1,122,442 (CNY 7,000,000) per annum, subject to adjustment if the price of gold falls below CNY 330 per gram. The mining lease agreement terminated during the period ended March 31, 2014.

Cost of goods sold

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	2014	2013
	$	$	$	$
Contractor costs paid to Dahedong	2,996,637	4,295,683	7,301,773	8,421,705
Depreciation	437,623	353,126	806,505	750,603
Amortization of deferred income	-	(60,147)	-	(122,050)
Smelting costs	122,773	128,276	256,689	179,344
Resource taxes	498,760	214,815	710,952	310,165
Other direct costs	108,161	251,267	272,265	321,387
Changes in ending gold concentrate inve	1,787,968	1,083,064	(524,300)	(1,421,127)
Total	5,951,922	6,266,084	8,823,884	8,440,027

General and administrative

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	2014	2013
Consulting and management fees	297,051	571,692	1,755,124	976,443
Depreciation	77,278	31,308	128,594	57,416
Financial Advisory Services	12,364	324,733	39,364	349,733
Office and general	465,153	380,507	743,326	703,134
Professional fees	143,852	158,347	483,282	225,449
Salaries and benefits	64,801	165,588	216,666	328,478
Shareholder communications	79,792	109,829	124,934	132,608
Travel	34,836	640,251	457,348	910,942
Total	1,175,127	2,382,255	3,948,638	3,684,203

(Unaudited - expressed in US dollars)

17. Revenue and Expenses (continued)

Finance expense

	Three months ended March 31,		Six months ended March 31,	
	2014	2013	2014	2013
Interest on loans (Note 12)	247,620	261,175	531,496	509,773
Finance fee on construction of New Mill (Note 9&11)	-	126,404	-	187,670
Interest on amount due to Dahedong (Note 11)	184,545	-	378,636	-
Accretion of asset retirement obligation (Note 13)	28,614	22,982	57,190	45,923
Total	460,779	410,561	967,322	743,366

18. Financial risks and capital management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

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
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 and exploration company with properties and mining operations focused 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 CNY 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 and exploration programs. In addition, the Company is subject to changes in

(Unaudited - expressed in US dollars)

18. Financial risks and capital management (continued)

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 March 31, 2014.

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, 2014, the Company has no contracts or agreements in place to mitigate these price risks.

19. Non-controlling interest

The Company's 75% equity interest in JVCo is held by Majestic Yantai. The non-controlling interest represents the 25% equity interest in JVCo held by Dahedong and the 6% equity interest in Majestic Yantai held by another minority shareholder.

The following is the summarized consolidated statement of financial position of Majestic Yantai:

	March 31, 2014 -$-	September 30, 2013 -$-
Current		
Assets	8,563,684	10,756,624
Liabilities	(18,636,425)	(22,115,553)
Total current net liabilities	(10,072,741)	(11,358,929)
Non-current		
Assets	82,896,591	83,487,213
Liabilities	(5,675,204)	(5,615,774)
Total non-current net assets	77,221,387	77,871,439
	67,148,646	66,512,510

(Unaudited - expressed in US dollars)

19. Non-controlling interest (continued)

The following is the summarized consolidated statement of comprehensive income of Majestic Yantai:

	March 31, 2014 -$-
Revenue	11,485,724
Net income (loss) before income tax	848,413
Income tax expense	(246,863)
Net income	601,550
Other comprehensive income (loss)	2,214,340
Comprehensive income	2,815,890

In the fiscal year 2013, pursuant to the Exchange Agreement dated May 31, 2013 (Note 9), Majestic Yantai transferred a 25% beneficial interest in JVCo to Dahedong in exchange for the termination of the Profit Sharing Agreement. This transaction resulted in the reversal of deferred income of $13,590,989, an increase of the deferred tax asset of $126,765, the recognition of a non-controlling interest of $19,291,007 and an increase in the amount owing to Dahedong of $3,706,430 offset by a reversal of a Net Profit share owing to Dahedong of $1,114,720. The excess of $8,164,963 was charged to deficit.

20. Commitments

Operating lease commitments

Refer to Note 9 for details of commitments resulting from the agreements with Dahedong.

On June 1, 2011, the Company entered into a 5-year lease agreement, whereby the Company is required to pay $8,157 per month for rental of the head office premises. Total basic rent over the remaining lease period is $261,013.

	2014 $	2015 $	2016 $	Total $
Operating lease commitments:				
Office premises	97,880	97,880	65,253	261,013