Majestic Gold Corp.

Condensed Consolidated Interim Financial Statements

For the three months ended December 31, 2012 and 2011
(Presented 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	December 31, 2012 - $ -	September 30, 2012 - $ -
ASSETS			
Current assets			
Cash and cash equivalents	*4*	19,960,657	24,974,244
Receivables	*5*	245,575	590,520
Deposits and prepaid expenses	*6*	860,812	352,521
Inventory	*7*	5,212,617	2,082,493
Investments	*8*	47,970	82,714
		26,327,631	28,082,492
Property, plant and equipment	*9*	82,533,431	81,412,558
Exploration and evaluation assets		2	2
Deferred tax assets		1,014,746	1,011,872
		109,875,810	110,506,924
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	*10*	5,990,715	6,698,951
Income taxes payable		754,539	1,233,877
Loans payable	*11*	14,158,853	13,316,710
		20,904,107	21,249,538
Asset retirement obligations	*12*	2,568,477	2,538,356
Deferred income	*13*	12,684,449	12,710,161
		36,157,033	36,498,055
SHAREHOLDERS' EQUITY			
Share capital	*14*	99,893,830	99,893,830
Reserves	*14, 15*	11,994,856	12,234,469
Deficit		(38,863,771)	(38,766,227)
Equity attributable to owners of parent		73,024,915	73,362,072
Equity attributable to non-controlling interests	*21*	693,862	646,797
Total equity		73,718,777	74,008,869
		109,875,810	110,506,924

Approved by the Directors:

"Rudy Brauer"

"Gurm Sangha"

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)

	Note	Three months ended December 31, 2012 - $ -	2011 - $ -
Gold revenue		4,343,956	6,675,058
Cost of good sold		(2,173,943)	(3,955,414)
Gross profit		2,170,013	2,719,644
Selling and administrative expenses			
General and administrative		1,301,948	1,370,787
		1,301,948	1,370,787
Income (loss) before other items		868,065	1,348,857
Other items			
Distribution of net profit	*13*	473,715	548,910
Finance expense	*10*	332,805	476,798
Finance income		(67,994)	-
Foreign exchange		(5,814)	347,028
		732,712	1,372,736
Net income (loss) before income tax		135,353	(23,879)
Income tax expense		187,355	135,304
Net income (loss) for the period		(52,002)	(159,183)
Other comprehensive income			
Unrealized loss on available-for-sale investments		(36,077)	(44,322)
Exchange differences on translating foreign operations		(202,013)	42,809
Total other comprehensive income (loss) for the period		(238,090)	(1,513)
Total comprehensive loss for the period		(290,092)	(160,696)
Net loss for the period attributable to:			
Owners of the parent		(97,544)	(249,678)
Non-controlling interest		45,542	90,495
		(52,002)	(159,183)
Comprehensive loss for the period attributable to:			
Owners of the parent		(337,157)	(257,685)
Non-controlling interest		47,065	96,989
		(290,092)	(160,696)
Loss per share - basic and diluted		(0.00)	-
Weighted average number of common shares outstanding		839,765,216	598,448,938

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, 2011	566,350,582	56,980,226	9,606,940	10,105,455	38,594	106,068	(36,459,048)	40,378,235	392,409	40,770,644
Comprehensive loss										
Net loss for the period	-	-	-	-	-	-	(249,678)	(249,678)	90,495	(159,183)
Other Comprehensive income (loss)	-	-	-	-	(122,868)	(44,322)	-	(167,190)	6,494	(160,696)
Total comprehensive loss for the period	-	-	-	-	(122,868)	(44,322)	(249,678)	(416,868)	96,989	(319,879)
Share issues:										
Convertible loan	50,914,634	10,532,893	-	(10,105,455)	-	-	-	427,438	-	427,438
Total share issuances	50,914,634	10,532,893	-	(10,105,455)	-	-	-	427,438	-	427,438
Balance, December 30, 2011	668,179,850	67,513,119	9,606,940	-	(84,274)	61,746	(36,708,726)	40,388,805	489,398	40,878,203
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 loss for the period	-	-	-	-	-	-	(97,544)	(97,544)	45,542	(52,002)
Other Comprehensive income (loss)	-	-	-	-	(203,536)	(36,077)	-	(239,613)	1,523	(238,090)
Total comprehensive loss for the period	-	-	-	-	(203,536)	7,793	(38,863,771)	73,024,915	47,065	(290,092)
Share issues:										
Private placement	-	-	-	-	-	-	-	-	-	-
Finders' fees	-	-	-	-	-	-	-	-	-	-
Convertible loan	-	-	-	-	-	-	-	-	-	-
Share issue costs	-	-	-	-	-	-	-	-	-	-
Total share issuances	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2012	839,765,216	99,893,830	10,691,293	-	1,295,770	7,793	(38,863,771)	73,024,915	693,862	73,718,777

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

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

	Three months ended December 31, 2012	2011
	- $ -	- $ -
Cash provided from (used for):		
Operating activities		
Net loss for the period	(52,002)	(159,183)
Items not involving cash:		
Depreciation of property, plant and equipment	423,585	405,955
Amortization of deferred income	(61,903)	(57,413)
Finance expense	332,805	476,798
Income tax expense	187,356	135,304
Changes in non-cash working capital balances:		
Receivables	344,945	(49,793)
Deposits and prepaid expenses	(508,291)	(196,636)
Inventory	(3,130,124)	(893,523)
Accounts payable and accrued liabilities	(708,236)	1,110,008
Interest paid	(174,515)	(29,562)
Incomes taxes paid	(640,968)	(135,430)
Net cash provided by (used in) operating activities	(3,987,348)	606,525
Investing activities:		
Expenditures on property, plant and equipment	(1,319,316)	(6,647,387)
Net cash used in investing activities	(1,319,316)	(6,647,387)
Financing activities		
Issuance of shares for cash, net of issue costs	-	(29,744)
Loan advances	1,080,634	1,671,057
Loan repayments	(523,832)	(942,944)
Net cash provided by financing activities	556,802	698,369
Effect of foreign exchange on cash and cash equivalents	(263,725)	(581,044)
Net increase in cash and cash equivalents	(5,013,587)	(5,923,537)
Cash, beginning of the year	24,974,244	13,536,170
Cash, end of the year	19,960,657	7,612,633

See supplemental disclosure of non-cash transactions in Note 18.

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

1. Nature of operations

Majestic Gold Corp. (the "Company") was 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 consolidated 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 working capital of $5,423,524 at December 31, 2012 which management considers being adequate for its planned exploration, development and operational activities for the next twelve months. 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. Significant accounting policies and basis of preparation

Statement of compliance and conversion to International Financial Reporting Standards

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

Basis of presentation and consolidation

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, 2012.

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 property, plant and equipment.

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

2. Significant accounting policies and basis of preparation (continued)

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's parent and Majestic Yantai Gold Ltd. is Canadian dollar and the functional currency of Company's Chinese subsidiaries is 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. 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 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 foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

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 December 31, 2012, 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

New standard IFRS 10 "Consolidated Financial Statements"
This new standard will replace IAS 27 "Consolidated and Separate Financial Statements", and SIC-12 "Consolidation – Special Purpose Entities". Concurrent with IFRS 10, the IASB issued IFRS 11 "Joint Ventures"; IFRS 12 "Disclosures of Involvement with Other Entities"; IAS 27 "Separate Financial Statements", which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and IAS 28 "Investments in Associates and Joint Ventures", which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12, and requires continuous assessment of control over an investee. The above consolidation standards are effective for annual periods beginning on or after January 1, 2013.

New standard IFRS 11 "Joint Arrangements"
This new standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes lAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

New standard IFRS 12 "Disclosure of Interests in Other Entities"
This new standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

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. IFRS 13 is effect for annual periods beginning on or after January 1, 2013.

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. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

(Unaudited - expressed in US dollars)

3. New standards, interpretations and amendments issued but not yet effective (continued)

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.

Financial statement presentation

In June 2011, the IASB and the Financial Accounting Standards Board ("FASB") issued amendments to standards to align the presentation requirements for other comprehensive income ("OCI"). The IASB issued amendments to IAS 1 "*Presentation of Financial Statements"* to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for fiscal years beginning on or after July 1, 2012.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its consolidated financial statements.

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.

4. Cash and cash equivalents

	December 31, 2012 - $ -	September 30, 2012 - $ -
Cash	5,450,281	5,280,845
Term deposits	14,510,376	19,693,399
Total	19,960,657	24,974,244

5. Receivables

	December 31, 2012 - $ -	September 30, 2012 - $ -
HST and VAT receivable	72,894	472,942
Other receivables	172,681	117,578
Total	245,575	590,520

6. Deposits and prepaid expenses

	December 31, 2012 - $ -	September 30, 2012 - $ -
Prepayment for mining supplies and services	822,148	309,389
Rent deposit	29,984	30,342
Other advances and prepayments	8,680	12,790
Total	860,812	352,521

(Unaudited - expressed in US dollars)

7. Inventory

	December 31, 2012 - $ -	September 30, 2011 - $ -
Gold Concentrate	2,832,512	330,759
Ore stockpile	2,380,105	1,751,734
Total	5,212,617	2,082,493

8. Investment

	Number	December 31, 2012 -$-	Number	September 30, 2012 -$-
Balance, beginning	500,000	82,714	500,000	144,912
Increase (decrease) in fair value	-	(34,744)	-	(62,198)
Balance, ending	500,000	47,970	500,000	82,714

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 December 31, 2012, the closing price was $0.095 per share (September 30, 2012 - $0.165). The cost of this investment was $38,844 (CAD$40,000).

9. Property, plant and equipment

	Heavy machinery and equipment - $ -	Office furniture and equipment - $ -	New Mill - $ -	Mining property - $ -	Construction in progress - $ -	Total - $ -
Cost						
At September 30, 2012	470,688	134,772	44,097,937	34,584,785	4,474,400	83,762,582
Additions	-	28,847	-	112,479	1,177,990	1,319,316
Foreign exchange adjustment	1,337	344	125,272	92,107	11,122	230,182
At December 31, 2012	472,025	163,963	44,223,209	34,789,371	5,663,512	85,312,080
Accumulated depreciation						
At September 30, 2012	(88,934)	(34,250)	(1,018,219)	(1,208,621)	-	(2,350,024)
Depreciation	(5,133)	(20,975)	(209,821)	(187,656)	-	(423,585)
Foreign exchange adjustment	(245)	995	(2,610)	(3,180)	-	(5,040)
At December 31, 2012	(94,312)	(54,230)	(1,230,650)	(1,399,457)	-	(2,778,649)
Net book value						
At September 30, 2012	381,754	100,522	43,079,718	33,376,164	4,474,400	81,412,558
At December 31, 2012	377,713	109,733	42,992,559	33,389,914	5,663,512	82,533,431

9. Property, plant and equipment (continued)

Mining 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:

1. 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 proposed transaction, JVCo will acquire the Mining Permit required to commence mining operations and will commence mining operations.

2. 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, outlines 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.

3. 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 provides 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 increases 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 provides 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.

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:

1. 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.

2. 100% of all revenue received by JVCo will accrue to the sole benefit of JVCo;

3. 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.

(Unaudited - expressed in US dollars)

9. Property, plant and equipment (continued)

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.

4. Dahedong is primarily responsible for dealings with Chinese governmental authorities and interest groups in carrying out mining operations.

As subsequently revised in the addendum 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:

a. 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;

b. 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;
c. 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;
d. Ownership of the New Mill shall be vested in JVCo;
e. Dahedong will be responsible to pay all construction costs in the first instance;
f. 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;
g. 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;
h. 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;
i. 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;
j. 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

For the three ended months December 31, 2012, Dahedong’s share of Net Profits was $437,715 (2011 - $548,910).

10. Accounts payable and accrued liabilities

	December 31, 2012 -$-	September 30, 2012 -$-
Trade and other payables	3,000,677	4,615,439
Amount due to Dahedong	2,722,159	1,685,957
Amounts due to related parties	267,879	397,555
Total	5,990,715	6,698,951

(Unaudited - expressed in US dollars)

11. Loans payable

	December 31, 2012 -$-	September 30, 2012 -$-
Balance, beginning	13,316,710	1,458,162
Accrued interest and fees	383,481	387,073
Loans advances	1,080,634	17,740,149
Loans repayments	(523,832)	(5,989,404)
Foreign exchange adjustment	(98,140)	(279,270)
Balance, ending	14,158,853	13,316,710

At December 31, 2012, the loans outstanding consist of:

- a $4,253,226 (CNY 26,800,000) 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;
- a $1,587,024 (CNY 10,000,000) one year loan bearing an interest repayable of 9.184% per annum. On January 22, 2013, this loan was extended from January 29, 2013 and the new maturity date is January 22, 2014. The loan is guaranteed by certain third parties, including Dahedong.
- a $4,761,073 (CNY 30,000,000) one year loan bearing an interest repayable of 6.6% per annum. The loan is repayable on August 23, 2013. The loan is guaranteed by the owner of Dahedong and the Company that provides gold concentrate refining services to the Company;
- a $3,174,049 (CNY 20,000,000) one year loan bearing an interest repayable of 7.2% per annum. The loan is repayable on September 6, 2013. The loan is guaranteed by Dahedong, the owner of Dahedong and the company that provides gold concentrate refining services to the Company; and
- Accrued interest of $383,481 (CNY 2,416,350) relating to the above loans.

12. Asset retirement obligation

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

	December 31, 2012 -$-	September 30, 2012 -$-
Balance, beginning	2,538,356	2,104,461
Additions and changes in estimates of net present value	-	330,229
Accretion	22,941	82,875
Foreign exchange adjustment	7,180	20,791
Balance, ending	2,568,477	2,538,356

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 3.6% (2012 – 3.6%) and an inflation rate of 3.6% (2012 – 3.6%). The majority of the expenditures are expected to occur in or after 2030.

(Unaudited - expressed in US dollars)

13. Deferred income

	December 31, 2012 -$-	September 30, 2012 -$-
Balance, beginning	12,710,161	12,711,066
Addition	-	102,864
Depreciation	(61,903)	(229,652)
Foreign exchange adjustment	36,191	125,883
Balance, ending	12,684,449	12,710,161

Pursuant to the Agreement and the Addendum between the Company and Dahedong (Note 9), Dahedong is responsible for 25% of the costs incurred in the construction of the New Mill of which 100% of title and use will reside with JVCo. The costs for which Dahedong is responsible for are recorded to deferred income in the consolidated statement of financial position and are amortized to profit and loss using the UOP method on the same basis as the New Mill.

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 December 31, 2012 and September 30, 2012.

See the Consolidated Statement of Changes in Equity for a summary of changes in share capital and reserves for the three months ended December 31, 2012.

Share issuances for the three months ended December 31, 2011:

On November 3, 2011, the $10,105,455 (CAD$10,000,000) convertible loan (Note 15) was converted into 48,780,489 common shares of the Company at a price of CAD$0.205 per share. In addition, deemed interest in the amount of $427,438 (CAD$437,500) was converted into 2,134,145 common shares of the Company at a price of CAD$0.205 per share. A total of 50,914,634 common shares were issued.

c) Share Purchase Warrants

The continuity of share purchase warrants outstanding is as follows:

Expiry date	Exercise price	Balance September 30, 2012	Issued	Exercised	Expired	Balance December 31, 2012
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 December 31, 2012, is 1.47 years.

(Unaudited - expressed in US dollars)

14. Share capital and reserves (continued)

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 three months ended December 31, 2012 is as follows:

Expiry date	Exercise price	Balance September 30, 2012	Issued	Exercised	Expired	Balance December 31, 2012
October 3, 2012	CAD$0.30	2,075,000	-	-	(2,075,000)	-
June 22, 2015	CAD$0.12	19,275,000	-	-	-	19,275,000
September 14, 2016	CAD$0.20	28,550,000	-	-	-	28,550,000
		49,900,000	-	-	(2,075,000)	47,825,000
Weighted average exercise price		CAD$0.17	$ -	$ -	CAD$0.30	CAD$0.17

As at December 31, 2012, the weighted average remaining contractual life of the options outstanding was 3.21 years.

All outstanding stock options are vested and exercisable at December 31, 2012.

e) Reserves

Share-based payment reserve
The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments. The 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.

Convertible loan reserve
The convertible loan reserve records the equity component of convertible instruments with liability and equity components. On conversion, the amount recorded is transferred to share capital.

Foreign currency translation reserve
The foreign currency translation reserve records unrealized exchange differences arising on translation of foreign operations 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.

15. Convertible loan

On July 26, 2011 the Company arranged a $10,539,000 (CAD$10,000,000) convertible loan to advance the Muping Property. The loan had a one-year term and the loan principal was convertible at the option of the lender in whole or in part into common shares of the company until 12 months from the date of the loan advance at the price of CAD$0.205 per share. The loan bore interest at a rate of 7.5% per year, payable on maturity, and accrued and unpaid interest was convertible at the option of the lender in whole or in part into shares of the company until 12 months from the date of the loan advance at market price at the time of conversion.

(Unaudited - expressed in US dollars)

15. Convertible loan (continued)

The borrower also agreed to a 90-day period for reciprocal due diligence reviews and discussions for the possible further involvement of the lender in the Muping Property. In the event that no further agreement was reached between the lender and the company during the 90-day period, then the loan and a minimum of seven months interest automatically converted to shares in the company, the loan at a price of CAD$0.205 per share and the interest at the higher of per CAD$0.205 per share or the market price of the Company's shares at conversion.

As the Company was not obliged to negotiate a further agreement with the lender during the 90-day period it had no obligation to settle the loan in cash or other assets of the Company. As a result of not having an obligation to settle the loan in cash or other assets of the Company, the principal of loan was classified as equity.

As the deemed interest component of the loan was convertible at the higher of per CAD$0.205 per share or the market price of the Company's shares at conversion it did not meet the "fixed-for-fixed" criteria required for equity classification and accordingly was recorded as a liability. Therefore, $433,545 of the proceeds was allocated to liabilities, determined using a discount rate of 25%. During the three months ended December 31, 2011, the Company recorded a loan interest expense of $7,488 relating to the convertible loan.

On November 3, 2011, the convertible loan and interest were converted into common shares of the Company. Accordingly, $10,105,455 previously recorded in equity in the convertible loan reserve and $427,438 recorded as a liability relating to the interest component was transferred to share capital.

16. Related party transactions and balances

Related party transactions

The Company incurred the following related party transactions during the three months ended December 31, 2012 and 2011:

	Three months ended December 31,	
	2012	2011
	-$-	-$-
Consulting fees charged by companies controlled by directors of the Company	240,407	197,569
Rent and administrative fees charged by companies controlled by directors of the Company	-	20,250
Legal fees charge by a law firm jointly controlled by a former Director	30,158	29,367
Mining and milling services charged by Dahedong	4,126,022	3,801,860
	4,396,587	4,049,046

Key management personnel compensation

	Three months ended December 31,	
	2012	2011
	- $ -	- $ -
Short-term employee benefits – management fees	39,844	66,898

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

(Unaudited - expressed in US dollars)

16. Related party transactions and balances (continued)

Related party balances

	December 31, 2012 -$-	September 30, 2011 -$-
Amounts due to companies controlled by Directors of the Company (Note 10)	267,879	397,555
Dahedong (Note 10)	2,722,159	1,685,957
	2,990,038	2,083,512

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

17. 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 $16,144 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

18. Supplemental cash flow information

Supplementary disclosure of cash flow information is provided for the three months ended December 31, 2012 and 2011:

	Three months ended December 31,	
	2012	2011
	- $ -	- $ -
Loan interest on convertible debt	-	427,568

19. Revenue and expenses

Revenue

	Three months ended December 31,	
	2012	2011
	-$-	-$-
Sales if gold bullion	4,105,581	6,675,058
Lease of underground mine	238,375	-
Total	4,343,956	6,675,058

The Company has leased the mining of the underground mine to a third party for a two year period expiring March 25, 2014. The lease is for CNY7,000,000 per annum, subject to adjustment if the price of gold falls below CYN330 per gram.

(Unaudited - expressed in US dollars)

19. Revenue and expenses (continued)

Cost of goods sold

	Three months ended December 31,	
	2012	2011
	-$-	-$-
Contractor costs paid to Dahedong	4,126,022	3,904,831
Depreciation	397,477	446,559
Amortization of deferred income	(61,903)	(57,413)
Smelting costs	51,068	98,313
Resource taxes	95,350	244,293
Other direct costs	70,120	45,564
Changes in ending gold concentrate inventory	(2,504,191)	(726,733)
Total	2,173,943	3,955,414

General and administrative expenses

	Three months ended December 31,	
	2012	2011
	-$-	-$-
Consulting	429,751	241,658
Office and general	322,628	419,880
Professional fees	67,102	40,121
Salaries	162,890	248,314
Shareholder communications, transfer agent and filing fees	22,778	20,762
Travel	270,691	363,990
Depreciation	26,108	36,062
Total	1,301,948	1,370,787

20. Financial and capital risk 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 ensures 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

20. Financial and capital risk management (continued)

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 environmental laws and regulations that may result in unexpected costs.

Market Risk
The significant market risks to which the Company is exposed are interest rate risk, currency risk and other commodity price risk. These are discussed further below:

Interest Rate Risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash held in bank accounts that earn interest at variable interest rates. The Company's loans payable accrues interest at fixed rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as of December 31, 2012.

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 functionalcurrency 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.

(Unaudited - expressed in US dollars)

20. Financial and capital risk management (continued)

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 December 31, 2012, the Company has no contracts or agreements in place to mitigate these price risks.

21. Non-controlling interest

The Company had initially accounted for its interest in Majestic Yantai (Note 9) as an asset acquisition. As a result of the Muping Property commencing production during the year ended September 30, 2010, the Company recognized the non-controlling interest in the subsidiary. The non-controlling interest represents a 6% equity interest in Majestic Yantai held by a minority shareholder.

22. 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 $4,100 per month for rental of the head office premises. Total basic rent over the remaining lease period is $180,000.

	2012	2013	2014	2015	2016	Total
	$	$	$	$	$	$
Operating lease commitments:						
Office premises	12,000	49,000	49,000	49,000	33,000	192,000

23. Subsequent events

As of the date of filing, there are no material subsequent events to report.