



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended March 31, 2019 and 2018

(Expressed in US dollars)

(Unaudited)

Notice to Reader

These condensed consolidated interim financial statements of Majestic Gold Corp. have been prepared by management and approved by the Audit Committee of 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 condensed consolidated 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)

| | | March 31, 2019 - \$ - | September 30, 2018 - \$ - |
|--|-------------|-----------------------------|---------------------------------|
| | <i>Note</i> | | |
| ASSETS | | | |
| Current assets | | | |
| Cash | 4 | 22,623,822 | 18,842,863 |
| Receivables | 5 | 698,072 | 517,542 |
| Deposits and prepaid expenses | 6 | 115,188 | 528,707 |
| Inventory | 7 | 3,000,140 | 3,117,950 |
| Restricted cash | 10 | 4,470,206 | 3,932,134 |
| | | 30,907,428 | 26,939,196 |
| Reclamation deposits | 6 | 1,461,412 | 1,427,168 |
| Property, plant and equipment | 8 | 95,537,615 | 95,277,103 |
| Exploration and evaluation assets | | - | 2 |
| | | 127,906,455 | 123,643,469 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 9 | 9,360,291 | 11,325,568 |
| Income taxes payable | | 1,030,118 | 798,519 |
| Loans payable | 10 | 17,559,722 | 17,057,959 |
| | | 27,950,131 | 29,182,046 |
| Asset retirement obligation | 12 | 2,553,791 | 2,451,862 |
| Security deposit for financial guarantee | 11 | 745,034 | 1,456,346 |
| Deferred tax liabilities | | 1,732,478 | 1,693,269 |
| | | 32,981,434 | 34,783,523 |
| EQUITY | | | |
| Share capital | 13 | 123,005,743 | 123,005,743 |
| Reserves | 13 | 8,359,550 | 7,055,486 |
| Deficit | | (56,996,496) | (59,836,126) |
| Equity attributable to owners of parent | | 74,368,797 | 70,225,103 |
| Equity attributable to non-controlling interests | 18 | 20,556,224 | 18,634,843 |
| Total equity | | 94,925,021 | 88,859,946 |
| | | 127,906,455 | 123,643,469 |
| Nature of operations | 1 | | |
| Commitments | 8, 19 | | |
| Contingency | 10 | | |
| Subsequent events | 10, 20 | | |

Approved by the Directors:

"John Campbell"

"Stephen Kenwood"

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

Majestic Gold Corp.
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(Unaudited - expressed in US dollars)

| | | Three months ended March 31, | | Six months ended March 31, | |
|--|-------|------------------------------|-------------|----------------------------|-------------|
| | | 2019 | 2018 | 2019 | 2018 |
| | | - \$ - | - \$ - | - \$ - | - \$ - |
| | Notes | | | | |
| Gold revenue | 16 | 11,114,761 | 8,250,650 | 18,384,008 | 17,069,668 |
| Cost of sales | | | | | |
| Operating expenses | 16 | 5,673,159 | 3,646,734 | 8,858,753 | 8,041,790 |
| Depreciation and depletion | 8,17 | 1,064,946 | 1,202,337 | 2,109,714 | 2,117,606 |
| Gross profit | | 4,376,656 | 3,401,579 | 7,415,541 | 6,910,272 |
| Administrative expenses | | | | | |
| General and administrative | 16 | 746,953 | 701,908 | 1,473,060 | 1,399,239 |
| Profit before other items | | 3,629,703 | 2,699,671 | 5,942,481 | 5,511,033 |
| Other items | | | | | |
| Finance expense | 16 | 215,315 | 223,471 | 428,733 | 452,631 |
| Finance income | | (155,128) | (64,877) | (256,646) | (100,084) |
| Foreign exchange loss (income) | | 3,321 | 178,726 | (3,909) | 178,125 |
| Gain on sales of investment | | - | - | - | (126,045) |
| | | 63,508 | 337,320 | 168,178 | 404,627 |
| Net income before income tax | | 3,566,195 | 2,362,351 | 5,774,303 | 5,106,406 |
| Income tax expense | | 901,646 | 734,094 | 1,472,378 | 1,140,944 |
| Net income for the period | | 2,664,549 | 1,628,257 | 4,301,925 | 3,965,462 |
| Other comprehensive income | | | | | |
| Items that may be subsequently reclassified to profit or loss: | | | | | |
| Exchange differences on translation of parent | | 131,700 | (50,379) | (224,705) | (145,293) |
| Items that may be subsequently reclassified to profit or loss: | | | | | |
| Exchange differences on translating foreign operations | | 2,122,031 | 2,416,338 | 1,987,855 | 4,085,305 |
| Total other comprehensive income for the period | | 2,253,731 | 2,365,959 | 1,763,150 | 3,940,012 |
| Total comprehensive income for the period | | 4,918,280 | 3,994,216 | 6,065,075 | 7,905,474 |
| Net income for the period attributable to: | | | | | |
| Owners of the parent | | 1,774,483 | 1,011,750 | 2,839,630 | 2,573,963 |
| Non-controlling interests | | 890,066 | 616,507 | 1,462,295 | 1,391,499 |
| | | 2,664,549 | 1,628,257 | 4,301,925 | 3,965,462 |
| Comprehensive income for the period attributable to: | | | | | |
| Owners of the parent | | 3,544,840 | 2,726,736 | 4,143,694 | 5,468,160 |
| Non-controlling interest | | 1,373,440 | 1,267,480 | 1,921,381 | 2,437,314 |
| | | 4,918,280 | 3,994,216 | 6,065,075 | 7,905,474 |
| Income per share attributable to owners of the parent- basic and diluted | | 0.00 | 0.00 | 0.00 | 0.00 |
| Weighted average number of common shares outstanding - basic and diluted | | 1,047,726,381 | 947,000,923 | 1,047,726,381 | 929,442,214 |

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)

| | | Number of shares | Share capital - \$ - | Share-based payment reserve - \$ - | Foreign currency translation reserve - \$ - | Deficit - \$ - | Total - \$ - | Non- controlling interest - \$ - | Total equity - \$ - |
|---|------|---------------------|----------------------------|---|---|-------------------|-----------------|---|------------------------|
| | Note | | | | | | | | |
| Balance, September 30, 2017 | | 912,265,216 | 105,995,607 | 12,889,899 | (2,325,507) | (64,233,216) | 52,326,783 | 16,792,542 | 69,119,325 |
| Shares issued on financing | 13 | 64,724,919 | 7,729,126 | - | - | - | 7,729,126 | - | 7,729,126 |
| Shares issued as finder's fee | 13 | 3,236,246 | 128,819 | - | - | - | 128,819 | - | 128,819 |
| Share issue costs | 13 | - | (156,177) | - | - | - | (156,177) | - | (156,177) |
| Comprehensive income | | | | | | | | | |
| Net profit for the period | | - | - | - | - | 2,573,963 | 2,573,963 | 1,391,499 | 3,965,462 |
| Other comprehensive income | | - | - | - | 2,894,197 | - | 2,894,197 | 1,045,815 | 3,940,012 |
| Total comprehensive income for the period | | - | - | - | 2,894,197 | 2,573,963 | 5,468,160 | 2,437,314 | 7,905,474 |
| Balance, March 31, 2018 | | 980,226,381 | 113,697,375 | 12,889,899 | 568,690 | (61,659,253) | 65,496,711 | 19,229,856 | 84,726,567 |
| Balance, September 30, 2018 | | 1,047,726,381 | 123,005,743 | 11,593,055 | (4,537,569) | (59,836,126) | 70,225,103 | 18,634,843 | 88,859,946 |
| Comprehensive income | | | | | | | | | |
| Net profit for the period | | - | - | - | - | 2,839,630 | 2,839,630 | 1,462,295 | 4,301,925 |
| Other comprehensive income | | - | - | - | 1,304,064 | - | 1,304,064 | 459,086 | 1,763,150 |
| Total comprehensive income for the period | | - | - | - | 1,304,064 | 2,839,630 | 4,143,694 | 1,921,381 | 6,065,075 |
| Balance, March 31, 2019 | | 1,047,726,381 | 123,005,743 | 11,593,055 | (3,233,505) | (56,996,496) | 74,368,797 | 20,556,224 | 94,925,021 |

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)

| | Six months ended March 31, | |
|---|----------------------------|--------------------|
| | 2019 | 2018 |
| | - \$ - | - \$ - |
| Cash provided from (used for): | | |
| Operating activities: | | |
| Net income for the period | 4,301,925 | 3,965,462 |
| Items not involving cash: | | |
| Depreciation and depletion | 2,241,123 | 2,252,475 |
| Finance expense | 428,731 | 452,631 |
| Income tax expense | 1,472,378 | 1,133,803 |
| Gain on sale of gold futures | - | (126,045) |
| Write-down of exploration and evaluation assets | 2 | - |
| Changes in non-cash working capital balances: | | |
| Receivables | (180,530) | 1,536,918 |
| Deposits and prepaid expenses | 380,452 | 95,357 |
| Inventory | 186,714 | (1,242,584) |
| Accounts payable and accrued liabilities | (2,073,345) | 3,576,857 |
| Deferred revenue | - | (2,009,575) |
| Effect of foreign exchange on working capital | (29,127) | (1,540,178) |
| Income tax paid | (1,262,964) | (1,378,029) |
| Interest paid | (381,932) | (796,874) |
| Net cash provided from operating activities | 5,083,427 | 5,920,218 |
| Investing activities: | | |
| Expenditures on property, plant and equipment | (342,519) | (4,905,037) |
| Proceeds on sales of gold futures | - | 128,514 |
| Reclamation deposit | (1,177) | (540,724) |
| Net cash provided from (used for) investing activities | (343,696) | (5,317,247) |
| Financing activities: | | |
| Restricted cash | (439,271) | - |
| Share capital (net of share issue costs) | - | 7,701,768 |
| Payment of loan guarantee | (732,118) | - |
| Loan advances | 9,912,878 | 9,533,278 |
| Loan repayments | (9,810,381) | (10,172,940) |
| Net cash provided from (used for) financing activities | (1,068,892) | 7,062,106 |
| Effect of foreign exchange on cash and cash equivalents | 110,120 | 381,180 |
| Net increase in cash and cash equivalents | 3,780,959 | 8,046,257 |
| Cash, beginning | 18,842,863 | 10,227,054 |
| Cash, ending | 22,623,822 | 18,273,311 |

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

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the six months ended March 31, 2019 and 2018
(Unaudited - expressed in US dollars)

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 306 – 1688 152nd Street, Surrey, British Columbia, Canada, V4A 4N2.

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 on the underground development as well maintaining efficient production and increasing its 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. At March 31, 2019, the Company has a working capital of \$2,957,297. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. These condensed consolidated interim 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, *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). The policies applied in these financial statements are based on International Financial Reporting Standards (“IFRS”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) issued and outstanding as at May 28, 2019, the date the audit committee to the board of directors approved these unaudited condensed consolidated interim financial statements for issue.

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 audited 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, 2018.

Basis of consolidation

The 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.

The net interest of the Company’s most significant subsidiaries are presented below:

| | Country of incorporation | Percentage as at March 31, 2019 | Percentage as at September 30, 2018 |
|-----------------------------|-----------------------------|------------------------------------|--|
| Majestic Yantai Gold Ltd. | BVI | 94% | 94% |
| Yantai Zhongjia Mining Inc. | China | 70.5% | 70.5% |

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.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the six months ended March 31, 2019 and 2018
(Unaudited - expressed in US dollars)

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

Use of estimates (continued)

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.

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 Songjiagou Gold Mine ("Songjiagou"). 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) Impairment of the Company's mining assets

When assessing whether there are indicators of impairment of the Company's mining property and related property, plant and equipment, the Company considers internal and external factors, including:

- (i) Market factors such as a decrease in the price of gold or an increase in market interest rates;
- (ii) Whether the carrying value of the Company's net assets exceeding the Company's market capitalization; and
- (iii) The net cash flows generated by the assets being less than expected.

The Company has concluded that, as at March 31, 2019, there are indicators of impairment of the Company's Songjiagou Gold Mine (Note 8) which comprises the Company's sole cash generating unit.

To determine the recoverable amount of the Company's mining assets, the Company makes estimates of the fair value less cost to sell determined based on discounted future cash flows expected to be derived from the Songjiagou Gold Mine. These projected cash flows make assumptions regarding future gold prices, the grade and recovery achieved from the ore mined, life of mine, future operating costs, future capital expenditures, and discount rates. The Company has determined that the recoverable amount exceeds the carrying value; however, significant revisions to these assumptions may result in the recognition of impairment. The resource estimate, grade, recovery, and life of mine that is expected to be achieved is based on the most recent technical report completed by a firm of independent consulting engineers. To date the Company has not achieved all the assumptions contained in the technical report.

d) 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; and

b) The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to a significant uncertainty.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the six months ended March 31, 2019 and 2018
(Unaudited - expressed in US dollars)

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

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 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's presentation.

3. New standards, interpretations and amendments issued but not yet applied

A number of new standards, amendments to standards and interpretations are issued but not yet applied as of March 31, 2019, in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

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

IFRIC 23 Uncertainty over Income Tax Treatments: New standard to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS12 "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on January 1, 2019.

4. Cash

At March 31, 2019, cash of \$16,233,207 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.

5. Receivables

| | March 31, 2019 | September 30, 2018 |
|---|-------------------|-----------------------|
| Sales taxes receivable | \$ 10,830 | \$ 21,753 |
| Amount owing from a related party (Note 14) | 1,965 | - |
| Amount receivable from gold sales | 447,021 | - |
| Other receivables | 238,256 | 495,789 |
| Total | \$ 698,072 | \$ 517,542 |

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the six months ended March 31, 2019 and 2018
(Unaudited - expressed in US dollars)

6. Deposits and prepaid expenses

| | March 31, 2019 | September 30, 2018 |
|---|---------------------|-----------------------|
| Current: | | |
| Prepayment for mining supplies and services | \$ 81,424 | \$ 502,659 |
| Rent deposit | 8,885 | 12,950 |
| Other advances and prepayments | 24,879 | 13,098 |
| | <u>115,188</u> | <u>528,707</u> |
| Non-current: | | |
| Reclamation deposits | 1,461,412 | 1,427,168 |
| Total | \$ 1,576,600 | \$ 1,955,875 |

Reclamation Deposits

The Company is required to make reclamation deposits in respect of its expected rehabilitation obligations at the Songjiagou Gold Mine and Songjiagou North Area.

7. Inventory

| | March 31, 2019 | September 30, 2018 |
|------------------|---------------------|-----------------------|
| Gold concentrate | \$ 1,026,835 | \$ 1,099,097 |
| Ore stockpile | 960,958 | 939,210 |
| Raw material | 1,012,347 | 1,079,643 |
| Total | \$ 3,000,140 | \$ 3,117,950 |

8. Property, plant and equipment

| | Heavy machinery and equipment | Office furniture and equipment | Mill | Songjiagou Gold Mine | Songjiagou North Underground | Total |
|---------------------------------|--|---|----------------------|-------------------------|------------------------------------|----------------------|
| Cost | | | | | | |
| At September 30, 2018 | \$ 1,481,139 | \$ 506,985 | \$ 45,728,656 | \$ 52,343,458 | \$ 14,278,050 | \$ 114,338,288 |
| Additions | 59,131 | 9,198 | - | 274,190 | - | 342,519 |
| Foreign exchange adjustment | 35,340 | 10,741 | 1,058,877 | 1,203,680 | 330,621 | 2,639,259 |
| At March 31, 2019 | <u>1,575,610</u> | <u>526,924</u> | <u>46,787,533</u> | <u>53,821,328</u> | <u>14,608,671</u> | <u>117,320,066</u> |
| Accumulated depreciation | | | | | | |
| At September 30, 2018 | (947,991) | (364,060) | (8,937,409) | (8,811,725) | - | (19,061,185) |
| Depreciation and depletion | (106,776) | (24,633) | (822,018) | (483,210) | (804,486) | (2,241,123) |
| Foreign exchange adjustment | (23,835) | (8,092) | (221,456) | (212,567) | (14,193) | (480,143) |
| At March 31, 2019 | <u>(1,078,602)</u> | <u>(396,785)</u> | <u>(9,980,883)</u> | <u>(9,507,502)</u> | <u>(818,679)</u> | <u>(21,782,451)</u> |
| Net book value | | | | | | |
| At September 30, 2018 | \$ 533,148 | \$ 142,925 | \$ 36,791,247 | \$ 43,531,733 | \$ 14,278,050 | \$ 95,277,103 |
| At March 31, 2019 | <u>\$ 497,008</u> | <u>\$ 130,139</u> | <u>\$ 36,806,650</u> | <u>\$ 44,313,826</u> | <u>\$ 13,789,992</u> | <u>\$ 95,537,615</u> |

The Company's principal mining property is the Songjiagou Gold Mine located in the Shandong Province of China. The Company commenced commercial gold production at the Songjiagou Gold Mine in May 2011. The Company's mining permit for the Songjiagou Gold Mine is valid until May 17, 2020. The Songjiagou Gold Mine is owned by the Company's subsidiary, Yantai Zhongjia Mining Inc. ("Zhongjia"). The Company's interest in Zhongjia is held through its 94% owned subsidiary Majestic Yantai Gold Ltd. ("Majestic Yantai"). Majestic Yantai holds 75% of the shares of Zhongjia. The remaining 25% of Zhongjia is held by Yantai Dahedong Processing Co. Ltd. ("Dahedong").

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
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(Unaudited - expressed in US dollars)

8. Property, plant and equipment (continued)

Songjiagou North Underground Area

The Songjiagou North project area lies immediately north of the Songjiagou open pit operation, within the project's exploration license boundary. The area underlain by precious metal mineralized vein structures was converted to a five year, 0.414 sq. km. mining license that was granted on February 18, 2016. The mining license area covers a continuation of the gold mineralization that is currently being mined in the adjacent Songjiagou Gold Mine.

9. Accounts payable and accrued liabilities

| | March 31, 2019 | September 30, 2018 |
|---|---------------------|-----------------------|
| Trade and other payables | \$ 3,540,543 | \$ 5,645,366 |
| Amount owing to a related party (Note 14) | 8,017 | - |
| Amount due to Dahedong (Note 14) | 5,811,731 | 5,680,202 |
| Total | \$ 9,360,291 | \$ 11,325,568 |

The balance due to Dahedong of \$ 5,811,731 (September 30, 2018 –\$5,680,202) bears no interest, is unsecured, and due on demand.

10. Loans payable

| | March 31, 2019 | September 30, 2018 |
|------------------------------|----------------------|-----------------------|
| Balance, beginning | \$ 17,057,959 | \$ 16,944,078 |
| Accrued interest and fees | 384,358 | 796,164 |
| Banker's acceptance notes | 4,127,490 | 7,114,250 |
| Loan advances | 5,785,388 | 14,123,131 |
| Loan and interest repayments | (10,192,313) | (21,364,517) |
| Foreign exchange adjustment | 396,840 | (555,147) |
| Balance, ending | \$ 17,559,722 | \$ 17,057,959 |

At March 31, 2019, the loans outstanding consist of:

- (i) a \$2,980,137 (CNY 20,000,000) (September 30, 2018 - \$2,912,692) one year loan bearing an interest at 5.0025% per annum and repayable on April 2, 2019. The loan is guaranteed by Dahedong, the owner of Dahedong and the company that provides gold concentrate refining services to the Company. On April 2, 2019, the loan was renewed with an interest rate of 4.9925% per annum and a new maturity date is April 4, 2020 (note 21);
- (ii) a \$4,470,206 (CNY 30,000,000) (September 30, 2018 - \$4,369,038) one year loan bearing an interest at 5.655% per annum and repayable on September 13, 2019. The loan is guaranteed by a third party;
- (iii) a \$2,980,137 (CNY 20,000,000) (September 30, 2018 - \$2,912,692) one year loan bearing an interest at 5.655% per annum and repayable on November 6, 2019. The loan is guaranteed by a third party;
- (iv) a \$1,490,069 (CNY 10,000,000) (September 30, 2018 - \$1,456,346) one year loan bearing an interest at 0.525625% per month and repayable on November 13, 2019. The loan is guaranteed by certain third parties, including Dahedong;
- (v) a \$1,490,069 (CNY 10,000,000) (September 30, 2018 - \$1,456,346) one year loan bearing an interest at 7.63% per annum. The loan is guaranteed by Dahedong, the owner of Dahedong and by certain third parties. The loan is repayable on December 9, 2019;
- (vi) a \$1,490,069 (CNY 10,000,000) (September 30, 2018 - \$Nil) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due on June 4, 2019;

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10. Loans payable (continued)

- (vii) a \$1,490,069 (CNY 10,000,000) (September 30, 2018 - \$Nil) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due on July 3, 2019;
- (viii) a \$1,147,353 (CNY 7,700,000) (September 30, 2018 - \$Nil) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due on August 21, 2019;
- (ix) accrued interest of \$21,613 (CNY 145,049) (September 30, 2018 - \$18,710) relating to the above loans.

11. Financial guarantee

On December 28, 2016, Zhongjia entered into a financial guarantee agreement whereby it has provided an unsecured financial guarantee of a CNY 50,000,000 five year unsecured bank loan to Yantai Baiheng Gold Ltd. ("Baiheng"). The nature of the financial guarantee is such that the bank loan will become payable by Zhongjia should Baiheng default on the bank loan. As security, Baiheng has pledged its two mining permits to Zhongjia as well as Zhongjia having on deposit a refundable security deposit of CNY 5,000,000 (\$745,034) (September 30, 2018 - CNY 10,000,000 (\$1,456,346)). Should Baiheng go into default, the two mining permits will become transferable to Zhongjia and the security deposit will become non-refundable to Baiheng. Further, in the event of default, Dahedong will become liable for the entire amounts that Zhongjia will make on behalf of Baiheng. If Dahedong is not able to repay the liabilities, it will transfer 5% out of its 25% interest in Zhongjia to Majestic Yantai.

12. Asset retirement obligation

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

| | March 31, 2019 | September 30, 2018 |
|---|-------------------|-----------------------|
| Balance, beginning | \$ 2,451,862 | \$ 2,442,059 |
| Additions and changes in estimates of net present value | - | (2,367) |
| Accretion (Note 16) | 44,373 | 91,966 |
| Foreign exchange adjustment | 57,556 | (79,796) |
| Balance, ending | \$ 2,553,791 | \$ 2,451,862 |

The Company's asset retirement obligation consists of costs associated with mine reclamation and closure activities on the Songjiagou Gold Mine (Note 8). 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 3.70% (2018 – 3.70%) and an inflation rate of 1.6% (2018 – 1.6%). The majority of the expenditures are expected to occur in or after 2032.

13. Share capital and Reserves

a) Authorized:

Unlimited number of common shares without par value.

b) Issued share capital:

The Company had 1,047,726,381 common shares issued and outstanding as at March 31, 2019 and September 30, 2018 .

Six months ended March 31, 2018

On February 14, 2018, the Company issued 64,724,919 common shares at CAD\$0.15 per common share for total proceeds of CAD\$9,708,738 (USD \$7,729,126) pursuant non-brokered private placement (the "Offering"). In connection with the Offering, the Company paid finder's fees by issuing 3,236,246 common shares with a fair value of CAD\$161,812 (USD\$128,819) and incurred share issue costs of CAD\$34,595 (USD\$27,358).

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13. Share capital and Reserves (continued)

c) Stock Options

The Company has a shareholder approved "rolling" stock option plan (the "Plan") in compliance with the TSX-V's policies. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares at the time of granting. The exercise price of each stock option shall not be less than the discounted market price of the Company's stock at the date of grant. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not, within a twelve month period, exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed, within a twelve month period, two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

The continuity for stock options for the six months ended March 31, 2019 is as follows:

| Expiry date | Exercise price | Balance September 30, 2018 | Issued | Exercised | Expired/Cancelled | Balance March 31, 2019 |
|---------------------------------|----------------|----------------------------|--------|-----------|-------------------|------------------------|
| January 28, 2021 | CAD\$0.12 | 27,700,000 | - | - | - | 27,700,000 |
| Weighted average exercise price | | CAD\$0.12 | \$ - | \$ - | \$ - | CAD\$0.12 |

The weighted average life of stock options outstanding at March 31, 2019 was 1.83 year.

c) Share purchase warrants

The continuity for share purchase warrants for the six months ended March 31, 2019 is as follows:

| Expiry date | Exercise price | Balance September 30, 2018 | Issued | Exercised | Expired/Cancelled | Balance March 31, 2019 |
|---------------------------------|----------------|----------------------------|--------|-----------|-------------------|------------------------|
| January 31, 2019 | CAD\$0.155 | 5,000,000 | - | - | (5,000,000) | - |
| Weighted average exercise price | | CAD\$0.155 | \$ - | \$ - | \$ - | \$ - |

d) 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.

14. Related party transactions and balances

Related party transactions

The Company incurred the following related party transactions during the six months ended March 31, 2019 and 2018:

| | Three months ended March 31, | | Six months ended March 31, | |
|---|------------------------------|------------|----------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Consulting fees charged by companies controlled by directors and officers of the Company-includes key management personnel compensation | \$ 156,703 | \$ 162,882 | \$ 312,659 | \$ 323,120 |

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14. Related party transactions and balances (continued)

Key management personnel compensation

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

| | Three months ended March 31, | | Six months ended March 31, | |
|--|------------------------------|------------|----------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Short-term employee benefits—management fees | \$ 58,680 | \$ 61,690 | \$ 117,718 | \$ 123,037 |
| Director fees | 40,290 | 42,349 | 79,497 | 83,090 |
| | \$ 98,970 | \$ 104,039 | \$ 197,215 | \$ 206,127 |

Related party balances

| | March 31, | September 30, |
|--|--------------|---------------|
| | 2019 | 2018 |
| Amounts due to (from) companies controlled by Directors and Officers of the Company (Note 5 and 9) | \$ 6,052 | \$ 4,966 |
| Amounts due to Dahedong (Note 9) | 5,811,731 | 5,680,202 |
| | \$ 5,817,783 | \$ 5,685,168 |

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

15. 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 \$5,875 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

16. Revenue and Expenses

Revenue

| | Three months ended March 31, | | Six months ended March 31, | |
|-----------------------|------------------------------|--------------|----------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Sales of gold bullion | \$ 11,036,295 | \$ 8,165,031 | \$ 18,226,621 | \$ 16,895,453 |
| Other revenue | 78,466 | 85,619 | 157,387 | 174,215 |
| Total | \$ 11,114,761 | \$ 8,250,650 | \$ 18,384,008 | \$ 17,069,668 |

Cost of sales

| | Three months ended March 31, | | Six months ended March 31, | |
|--|------------------------------|--------------|----------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Mining and Milling fees | \$ 3,623,629 | \$ 4,100,088 | \$ 7,401,380 | \$ 7,701,444 |
| Depreciation and depletion (Note 8) | 1,064,946 | 1,202,337 | 2,109,714 | 2,117,606 |
| Smelting costs | 252,092 | 317,715 | 529,034 | 609,449 |
| Resource taxes | 331,974 | 281,624 | 579,916 | 486,839 |
| Other direct costs | 67,380 | 121,361 | 252,405 | 286,076 |
| Changes in ending gold concentrate inventory | 1,398,084 | (1,174,054) | 96,018 | (1,042,018) |
| Total | \$ 6,738,105 | \$ 4,849,071 | \$ 10,968,467 | \$ 10,159,396 |

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16. Revenue and Expenses (continued)

General and administrative

| | Three months ended March 31, | | Six months ended March 31, | |
|--------------------------------|------------------------------|-------------------|----------------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Consulting and management fees | \$ 104,588 | \$ 109,186 | \$ 248,963 | \$ 232,788 |
| Financial advisory | 1,244 | - | 16,388 | - |
| Depreciation (Note 8) | 66,943 | 67,962 | 131,409 | 134,869 |
| Office and general | 134,594 | 151,546 | 268,055 | 294,339 |
| Professional fees | 51,027 | 9,543 | 51,027 | 9,543 |
| Salaries | 265,349 | 256,512 | 513,108 | 502,525 |
| Shareholder communications | 14,578 | 13,325 | 15,947 | 14,522 |
| Travel | 108,630 | 93,834 | 228,163 | 210,653 |
| Total | \$ 746,953 | \$ 701,908 | \$ 1,473,060 | \$ 1,399,239 |

Finance expense

| | Three months ended March 31, | | Six months ended March 31, | |
|--|------------------------------|-------------------|----------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Interest expenses (Note 10) | \$ 192,859 | \$ 199,856 | \$ 384,358 | \$ 406,292 |
| Accretion of asset retirement obligation (Note 12) | 22,454 | 23,615 | 44,373 | 46,339 |
| Total | \$ 215,313 | \$ 223,471 | \$ 428,731 | \$ 452,631 |

17. 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 and reclamation deposits held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada and China. The credit risk associated with cash held in Canada is reduced by management ensuring that the Company uses a major Canadian financial institution with strong investment grade ratings by a primary ratings agency. The credit risk associated with cash held in China is reduced, but not fully mitigated, by management using a financial institution that is operated by the Government of China.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company plans to ensure that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in interest bearing accounts which are available on demand. Management believes the Company has sufficient cash on hand to finance operations for the next twelve months.

Industry Risk

The Company is a mining company with a property and mining operations in China. Its mining activities involve numerous inherent risks. The Company is subject to various financial, equities markets, operational and political risks that could significantly affect its operations and cash flows. These risks include changes in local laws affecting the mining industry, a decline in the price of commodities, uncertainties inherent in estimating mineral resources and fluctuations in the foreign currencies against the US dollar. The Company does not use derivatives or hedging to mitigate the risk of changes in the price of gold or currency fluctuations.

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17. Risks and capital management (continued)

The Company's business is highly dependent on the price of gold and venture capital markets, which are impacted by volatility factors the Company cannot control. A decrease in the price of gold could adversely affect the Company's financial condition, results of operations and cash flows. Lower gold prices may result in asset impairment, write-downs of mineral property carrying values and limitations in access to capital.

The Company operates in China and is exposed to the laws governing the mining industry in China. The Chinese government is currently supportive of the mining industry but there is uncertainty in future changes to government policies and regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance and expropriation. These factors could adversely affect the Company's exploration efforts and production plans.

The Company's property is located in an area that can experience severe winter weather conditions which could adversely affect mining operations. In addition, the Company is subject to changes in environmental laws and regulations that may result in unexpected costs.

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash and reclamation deposits 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, 2019.

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.

18. Non-controlling interest

The Company's 75% equity interest in Zhongjia is held by Majestic Yantai. The non-controlling interest represents the 25% equity interest in Zhongjia 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, 2019 | September 30, 2018 |
|-------------------------------|-------------------|-----------------------|
| Current: | | |
| Assets | \$ 23,369,783 | \$ 18,362,235 |
| Liabilities | (22,128,807) | (23,370,780) |
| Total current net liabilities | 1,240,976 | (5,008,545) |
| Non-current | | |
| Assets | 96,992,297 | 96,694,976 |
| Liabilities | (7,102,499) | (6,897,626) |
| Total non-current net assets | 89,889,798 | 89,797,350 |
| Balance, ending | \$ 91,130,774 | \$ 84,788,805 |

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18. Non-controlling interest (continued)

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

| | Three months ended March 31, | | Six months ended March 31, | |
|------------------------------|------------------------------|--------------|----------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | \$ 11,114,761 | \$ 8,250,650 | \$ 18,384,008 | \$ 17,069,668 |
| Net income before income tax | 3,886,159 | 2,820,744 | 6,400,259 | 5,851,919 |
| Income tax expense | (901,646) | (734,094) | (1,472,378) | (1,140,944) |
| Net income | 2,984,513 | 2,086,650 | 4,927,881 | 4,710,975 |
| Other comprehensive income | 2,045,480 | (162,800) | 1,955,002 | 4,902,644 |
| Comprehensive income | \$ 5,029,993 | \$ 1,923,850 | \$ 6,882,883 | \$ 9,613,619 |

19. Commitments

Operating lease commitments

| | 2019 | 2020 | 2021 | Total |
|------------------------------|-----------|-----------|-----------|-----------|
| Operating lease commitments: | | | | |
| Office premises | \$ 12,203 | \$ 25,198 | \$ 10,734 | \$ 48,135 |

20. Subsequent events

Subsequent to March 31, 2019, the Company:

- (i) renewed its bank loan for CNY 20,000,000 (\$2,980,137) on April 2, 2019 with an interest rate 4.9925% per annum and a new maturity date is April 4, 2020.