CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended March 31, 2017 and 2016

(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)

	Note	March 31, 2017 - $ -	September 30, 2016 - $ -
ASSETS			
Current assets			
Cash and cash equivalents	*4*	7,556,399	9,037,258
Receivables	*5*	600,254	217,024
Deposits and prepaid expenses	*6*	177,694	898,097
Inventory	*7*	1,561,060	1,628,036
Restricted cash	*11*	3,235,601	4,765,615
		13,131,008	16,546,030
Property, plant and equipment	*8*	85,859,683	76,675,736
Exploration and evaluation assets	*9*	2	2
Deferred tax assets		80,696	83,371
		99,071,389	93,305,139
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	*10*	12,202,214	12,841,717
Income taxes payable		370,103	420,641
Loans payable	*11*	16,973,372	19,775,928
		29,545,689	33,038,286
Asset retirement obligation	*13*	2,577,894	2,625,922
Deposit on financial guarantee	*12*	2,176,910	-
		34,300,493	35,664,208
EQUITY			
Share capital	*14*	107,388,513	99,893,830
Reserves	*14*	7,259,356	8,934,872
Deficit		(65,425,243)	(66,458,969)
Equity attributable to owners of parent		49,222,626	42,369,733
Equity attributable to non-controlling interests	*19*	15,548,270	15,271,198
Total equity		64,770,896	57,640,931
		99,071,389	93,305,139
Nature of operations	*1*		
Commitment	*8, 20*		
Subsequent events	*11,21*		

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)

	Note	Three months ended March 31, 2017 - $ -	Three months ended March 31, 2016 - $ -	Six months ended March 31, 2017 - $ -	Six months ended March 31, 2016 - $ -
Gold revenue	*17*	9,602,677	10,434,943	13,681,497	14,879,403
Cost of sales	*17*				
Operating expenses		5,861,670	9,298,024	8,523,510	12,950,768
Depreciation and depletion		1,035,023	661,250	1,518,814	1,549,144
Gross profit		2,705,984	475,669	3,639,173	379,491
Administrative expenses					
General and administrative	*17*	749,978	630,546	1,434,734	1,337,916
Share-based compensation		-	1,054,063	-	1,054,063
Profit (loss) before other items		1,956,006	(1,208,940)	2,204,439	(2,012,488)
Other items					
Finance expense	*17*	230,516	364,206	461,755	656,989
Finance income		(34,827)	(34,399)	(77,454)	(445,236)
Foreign exchange loss (income)		1,651	9,028	(1,732)	3,833
Gain on sales of investment		-	(21,480)	-	(68,434)
Gain on disposal of equipment		-	(1,174)	-	(1,174)
		197,340	316,181	382,569	145,978
Net profit (loss) before income tax		1,758,666	(1,525,121)	1,821,870	(2,158,466)
Income tax expense (recovery)		372,810	(11,051)	116,314	(13,540)
Net profit (loss) for the period		1,385,856	(1,514,070)	1,705,556	(2,144,926)
Other comprehensive income (loss)					
Items that may be subsequently reclassified to profit or loss:					
Exchange differences on translating foreign operations		255,469	590,972	(2,070,274)	(775,852)
Total other comprehensive income (loss) for the period		255,469	590,972	(2,070,274)	(775,852)
Total comprehensive income (loss) for the period		1,641,325	(923,098)	(364,718)	(2,920,778)
Net profit (loss) for the period attributable to:					
Owners of the parent		887,235	(1,454,033)	1,033,726	(2,003,032)
Non-controlling interests		498,621	(28,813)	671,830	(141,894)
		1,385,856	(1,482,846)	1,705,556	(2,144,926)
Comprehensive income (loss) for the period attributable to:					
Owners of the parent		931,595	(968,571)	(641,790)	(2,540,026)
Non-controlling interest		709,730	76,697	277,072	(380,752)
		1,641,325	(891,874)	(364,718)	(2,920,778)
Profit (loss) 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		888,098,549	839,765,216	863,666,315	839,765,216

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

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

		Attributable to owners of the parent							
	Number of shares	Share issue cost -$-	Share capital - $ -	Share-based payment reserve - $ -	Foreign currency translation reserve - $ -	Deficit - $ -	Total - $ -	Non-controlling interest - $ -	Total equity - $ -
Balance, September 30, 2015	839,765,216	-	99,893,830	10,691,293	(630,712)	(63,544,618)	46,409,793	16,402,383	62,812,176
Comprehensive loss									
Net loss for the period	-	-	-	-	-	(2,003,032)	(2,003,032)	(141,894)	(2,144,926)
Other Comprehensive loss	-	-	-	-	(536,994)	-	(536,994)	(238,858)	(775,852)
Total comprehensive loss for the period	-	-	-	-	(536,994)	(2,003,032)	(2,540,026)	(380,752)	(2,920,778)
Share-based compensation	-	-	-	1,054,063	-	-	1,054,063	-	1,054,063
Balance, March 31, 2016	839,765,216	-	99,893,830	11,745,356	(1,167,706)	(65,547,650)	44,923,830	16,021,631	60,945,461
Balance, September 30, 2016	839,765,216	-	99,893,830	11,496,993	(2,562,121)	(66,458,969)	42,369,733	15,271,198	57,640,931
Shares issued	72,500,000	(27,011)	7,521,694	-	-	-	7,494,683	-	7,494,683
Comprehensive income (loss)									
Net profit for the period	-	-	-	-	-	1,033,726	1,033,726	671,830	1,705,556
Other Comprehensive loss	-	-	-	-	(1,675,516)	-	(1,675,516)	(394,758)	(2,070,274)
Total comprehensive income (loss) for the period	-	-	-	-	(1,675,516)	1,033,726	(641,790)	277,072	(364,718)
Balance, March 31, 2017	912,265,216	(27,011)	107,415,524	11,496,993	(4,237,637)	(65,425,243)	49,222,626	15,548,270	64,770,896

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, 2017	2016
	- $ -	- $ -
Cash provided from (used for):		
Operating activities		
Net profit (loss) for the period	1,705,556	(2,144,926)
Items not involving cash:		
Depreciation of property, plant and equipment	1,679,059	1,639,686
Stock-based compensation	-	1,054,063
Finance expense	461,755	656,989
Income tax expense (recovery)	116,314	(13,540)
Gain on sale of investments	-	(68,434)
Changes in non-cash working capital balances:		
Receivables	(383,230)	953,934
Deposits and prepaid expenses	720,403	70,922
Inventory	14,801	865,522
Accounts payable and accrued liabilities	(1,236,810)	891,311
Interest paid	(379,966)	(2,949,897)
Income tax paid	(153,517)	-
Effect of foreign exchange on working capital	199,070	279,746
Net cash provided from operating activities	2,743,435	1,235,376
Investing activities:		
Expenditures on property, plant and equipment	(12,365,201)	(15,226)
Proceeds on sales of investments	-	417,210
Investment in gold futures	-	(157,059)
Net cash provided from (used for) investing activities	(12,365,201)	244,925
Financing activities:		
Restricted cash	1,383,119	(825,973)
Share capital	7,521,694	-
Share issue cost	(27,011)	-
Deposit on loan guarantee	2,176,910	-
Loan advances	9,423,511	10,329,847
Loan repayments	(11,646,381)	(8,043,186)
Net cash provided from financing activities	8,831,842	1,460,688
Effect of foreign exchange on cash and cash equivalents	(690,935)	109,587
Net increase (decrease) in cash and cash equivalents	(1,480,859)	3,050,576
Cash and cash equivalents, beginning	9,037,258	6,981,718
Cash and cash equivalents, ending	7,556,399	10,032,294

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

(Unaudited - expressed in US dollars)

1. Nature of operations

Majestic Gold Corp. ("Majestic" or 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 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 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 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

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 22, 2017, 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 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, 2016.

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, 2017	Percentage as at September 30, 2016
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

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

assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted prospectively in the period in which the estimates are revised.

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

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

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. 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, 2017, 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

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

functional currency of the Company and Majestic Yantai Gold Ltd. is the Canadian dollar and the functional currency of Yantai Zhongjia Mining Inc. ("Zhongjia") 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.

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 effective

A number of new standards, amendments to standards and interpretations are not yet effective as of March 31, 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

IFRS 9 Financial Instruments
IFRS 9 covers the classification and measurement, impairment and hedge accounting of financial assets and financial liabilities and the effective date is for annual periods on or after January 1, 2018, with earlier application permitted. The Company is still assessing the impact of adopting IFRS 9. Amendments to IFRS 9 also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.

IFRS 15 Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted.

(Unaudited - expressed in US dollars)

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

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.

4. Cash and cash equivalents

Cash of $5,752,992 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, 2017 - $ -	September 30, 2016 - $ -
Sales taxes receivable	194,711	198,907
Amount owing from a related party (Note 15)	687	4,891
Other receivables	404,856	13,226
Total	600,254	217,024

6. Deposits and prepaid expenses

	March 31, 2017 - $ -	September 30, 2016 - $ -
Prepayment for mining supplies and services	136,879	820,877
Rent deposit	15,023	8,611
Other advances and prepayments	25,792	68,609
Total	177,694	898,097

7. Inventory

	March 31, 2017 - $ -	September 30, 2016 - $ -
Gold concentrate	213,725	103,741
Ore stockpile	1,347,335	1,524,295
Total	1,561,060	1,628,036

(Unaudited - expressed in US dollars)

8. Property, plant and equipment

	Heavy machinery and equipment	Office furniture and equipment	Mill	Songjiagou Gold Mine	Songjiagou North	Total
	- $ -	- $ -	- $ -	- $ -	- $ -	- $ -
Cost						
At September 30, 2016	1,330,419	485,734	47,184,995	39,605,325	-	88,606,473
Additions	15,112	11,387	105,693	6,582,419	6,650,590	13,365,201
Foreign exchange adjustment	(42,696)	(13,331)	(1,514,516)	(1,295,119)	(24,602)	(2,890,264)
At March 31, 2017	1,302,835	483,790	45,776,172	44,892,625	6,625,988	99,081,410
Accumulated depreciation and depletion						
At September 30, 2016	(579,391)	(372,150)	(5,828,871)	(5,150,325)	-	(11,930,737)
Depreciation and depletion	(126,616)	(33,629)	(709,873)	(808,941)	-	(1,679,059)
Foreign exchange adjustment	19,147	10,012	190,125	168,785	-	388,069
At March 31, 2017	(686,860)	(395,767)	(6,348,619)	(5,790,481)	-	(13,221,727)
Net book value						
At September 30, 2016	751,028	113,584	41,356,124	34,455,000	-	76,675,736
At March 31, 2017	615,975	88,023	39,427,553	39,102,144	6,625,988	85,859,683

The Company's mining properties consist of the Songjiagou Gold Mine and Songjiagou North which are located in the Shandong Province of China.

Songjiagou Gold Mine

The Company's Commercial gold production began 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 75% held subsidiary, Yantai Zhongjia Mining Inc. The remaining 25% of Zhongjia is held by Yantai Dahedong Processing Co. Ltd. ("Dahedong").

On May 1, 2014, the Company began operating under a new mining agreement ("New Mining Agreement") with Dahedong, whereby mining operations will be carried out by Dahedong. Dahedong will be responsible for carrying on mining operations including developing the mine; mining, transporting, and processing ore; and removing waste material for a term of 27 years. Zhongjia will exercise full and final authority for the direction and supervision of the mining operations.

The Company entered into an amendment to the New Mining Agreement ("Amended New Mining Agreement") effective January 1, 2017. Under the terms of the Amended New Mining Agreement, the mining and processing fees been amended such that Dahedong will be paid, for carrying on mining operations including developing the mine, mining, transporting, and processing ore, as follows:

(i) When the grade of ore is less than or equals to 0.4g/t, there will be no contractor fees to be paid to Dahedong;

(ii) When the grade of ore is greater than 0.4g/t, and less than or equals to 0.6g/t, Dahedong will receive CNY60 per tonne for ore mined and processed;

(iii) When the grade of ore is greater than 0.6g/t, and less than or equals to 0.8g/t, Dahedong will receive CNY65 per tonne for ore mined and processed;

(iv) When the grade of ore is greater than 0.8g/t, and less than or equals to 1.0g/t, Dahedong will receive CNY70 per tonne for ore mined and processed;

(v) When the grade of ore is greater than 1.0g/t, Dahedong will receive CNY75 per tonne for ore mined and processed; and

(vi) Dahedong will receive CNY7 per tonne for waste material mined, extracted and removed and disposed of.

(Unaudited - expressed in US dollars)

8. Property, plant and equipment (continued)

At March 31, 2017, the Company had a balance due to Dahedong of $6,050,816 (September 30, 2016 – $5,442,741) (Note 10). The amounts bear no interest, are unsecured, and due on demand. During the six month period ended March 31, 2017, the Company incurred $7,610,944 (2016 - $10,283,035) in mining and processing fees to Dahedong (Note 17).

Songjiagou North

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

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

9. Exploration and evaluation assets

Other properties

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

10. Accounts payable and accrued liabilities

	March 31, 2017 -$-	September 30, 2016 -$-
Trade and other payables	6,151,398	7,398,976
Amount due to Dahedong (Note 8 and 15)	6,050,816	5,442,741
Total	12,202,214	12,841,717

11. Loans payable

	March 31, 2017 -$-	September 30, 2016 -$-
Balance, beginning	19,775,928	20,684,412
Accrued interest and fees	425,364	944,290
Banker's acceptance notes	1,980,988	8,147,659
Loan advances	7,442,523	14,256,579
Loan and interest repayments	(12,026,347)	(23,276,733)
Foreign exchange adjustment	(625,084)	(980,279)
Balance, ending	16,973,372	19,775,928

11. Loans payable (continued)

At March 31, 2017, the loans outstanding consist of:

(i) a $2,902,547 (CNY 20,000,000) (September 30, 2016 - $2,998,771) one year loan bearing an interest at 5.655% per annum and repayable on November 11, 2017. The loan is guaranteed by the company that provides gold concentrate refining services to the Company.

(ii) a $1,451,273 (CNY 10,000,000) (September 30, 2016 - $1,499,385) one year loan bearing an interest at 0.489375% per month and repayable on November 12, 2017. The loan is guaranteed by certain third parties, including Dahedong;

(iii) a $2,902,547 (CNY 20,000,000) (September 30, 2016 - $2,998,771) one year loan bearing an interest at 4.785% per annum and repayable on April 15, 2017. The loan is guaranteed by the owner of Dahedong and the company that provides gold concentrate refining services to the Company. On April 14, 2017, the loan was renewed with an interest rate of 4.785% per annum and a new maturity date is April 13, 2018 (Note 21);

(iv) a $435,382 (CNY 3,000,000) (September 30, 2016 - $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 were repaid on April 20, 2017 (Note 21);

(v) a $580,509 (CNY 4,000,000) (September 30, 2016 - $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 were repaid on May 11, 2017 (Note 21);

(vi) an $870,764 (CNY 6,000,000) (September 30, 2016 - $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 June 2, 2017;

(vii) a $94,333 (CNY 650,000) (September 30, 2016 - $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 September 15, 2017;

(viii) a $4,353,820 (CNY 30,000,000) (September 30, 2016 - $4,498,156) one year loan bearing an interest at 5.655% per annum and repayable on August 25, 2017. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;

(ix) a $1,596,401 (CNY 11,000,000) (September 30, 2016 - $Nil) one year loan with Dahedong bearing an interest rate of 0.5% per month plus 5% if the loan is not repaid at maturity. The loan is repayable on December 27, 2017;

(x) a $1,451,273 (CNY 10,000,000) (September 30, 2016 - $1,499,385) one year loan bearing an interest at 8.5% per annum and repayable on January 4, 2018. The loan is guaranteed by Dahedong, the owner of Dahedong and by certain third parties;

(xi) Accrued interest of $334,522 (CNY 2,305,027) (September 30, 2016 - $298,913) relating to the above loans; and

(xii) At September 30, 2016, the Company had $4,348,217 (CNY 29,000,000) series of banker's acceptance notes. The notes were secured by the restricted cash. The notes were repaid during the six month period ended March 31, 2017.

(Unaudited - expressed in US dollars)

12. Financial guarantee

During the period ended March 31, 2017, 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 pledge its two mining permits to Zhongjia as well as providing a refundable security deposit of CNY 15,000,000 ($2,176,910) to Zhongjia for the duration of the loan. Should Baiheng go into default, the two mining permits will become transferable to Zhongjia and the security deposit will become non-refundable to Baiheng. The Company considers the default risk of the financial guarantee to be minimal.

13. Asset retirement obligation

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

	March 31, 2017 -$-	September 30, 2016 -$-
Balance, beginning	2,625,922	2,570,427
Additions and changes in estimates of net present value	-	98,348
Accretion (Note 17)	36,391	82,513
Foreign exchange adjustment	(84,419)	(125,366)
Balance, ending	2,577,894	2,625,922

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 2.75% (2016 – 2.75%) and an inflation rate of 2.1% (2016 – 2.1%). The majority of the expenditures are expected to occur in or after 2032.

14. Share capital and reserves

a) Authorized

Unlimited number of common shares without par value.

b) Issued share capital

The Company had 912,265,216 common shares issued and outstanding as at March 31, 2017 and 839,765,216 common shares issued and outstanding as at September 30, 2016.

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

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

(Unaudited - expressed in US dollars)

14. Share capital and reserves (continued)

c) Stock Options (continued)

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.

A summary of the Company's outstanding stock options as a March 31, 2017, is as follows:

Exercise Price	Expiry Date	Options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
CAD$0.12	January 28, 2021	27,700,000	CAD$0.12	3.83

The continuity of stock options for the six months ended March 31, 2017, is as follows:

Expiry date	Exercise price	Balance September 30, 2016	Issued	Exercised	Expired/ Cancelled	Balance March 31, 2017
January 28, 2021	CAD$0.12	27,700,000	-	-	-	27,700,000
Weighted average exercise price		CAD$0.12	$ -	$ -	$ -	CAD$0.12

d) Share Purchase Warrants

The continuity for share purchase warrants for the six months ended March 31, 2017 is as follows:

Expiry date	Exercise price	Balance September 30, 2016	Issued	Exercised	Expired/ Cancelled	Balance March 31, 2017
January 31, 2019	CAD$0.155	-	72,500,000	-	-	72,500,000
Weighted average exercise price		$ -	CAD$0.155	$ -	$ -	CAD$0.155

e) Reserves

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

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

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

(Unaudited - expressed in US dollars)

15. Related party transactions and balances

Related party transactions

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

	Three months ended March		Six months ended March 31,	
	2017	2016	2017	2016
	-$-	-$-	-$-	-$-
Consulting fees charged by companies controlled by Directors and Officers of the Company - includes key management personnel compensation	154,087	151,459	304,394	302,285
Stock-based compensation	-	651,541	-	651,541
Mining and milling services charged by Dahedong (Note 8)	3,696,980	4,821,502	7,610,944	10,283,035
Interest charged by Dahedong	23,970	66,290	43,126	133,006
	3,875,037	5,690,792	7,958,464	11,369,867

Key management personnel compensation

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

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

Related party balances

	March 31, 2017	September 30, 2016
	-$-	-$-
Amounts due to companies controlled by Directors and Officers of the Company (Note 5)	(687)	(4,891)
Amounts due to Dahedong (Note 10)	6,050,816	5,442,741
Loan amounts due to Dahedong (Note 11)	1,920,204	1,634,330
	7,970,333	7,072,180

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

16. Segmented information

The Company operates in one industry segment, being the exploration, development and operation of mining properties in China. All of the Company’s capital assets are located in China, except office furniture and equipment with a net book value of $6,958 located in the Company’s head-office in Vancouver, Canada. All of the Company’s revenues are earned in China.

(Unaudited - expressed in US dollars)

17. Revenue and expenses

Revenue

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	-$-	-$-	-$-	-$-
Sales of gold bullion	9,521,556	10,327,091	13,513,483	14,686,316
Other revenue	81,121	107,852	168,014	193,087
Total	9,602,677	10,434,943	13,681,497	14,879,403

In February 2015, the Company became party to an agreement which allows a third party use of the tailings pond for a fee of CNY 5.5 per tonne of ore processed to a maximum of 1,500 tonnes per day. The company recorded revenue of $168,014 under this agreement during the period ended March 31, 2017 (March 31, 2016 - $193,087).

Cost of sales

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	-$-	-$-	-$-	-$-
Contractor costs paid to Dahedong (Note 8 and 15)	3,696,980	4,821,472	7,610,944	10,283,035
Depreciation and depletion (Note 8)	1,035,023	661,250	1,518,814	1,549,144
Smelting costs	147,653	164,450	250,625	342,526
Resource taxes	271,075	273,850	395,904	672,532
Other direct costs	145,967	114,669	385,814	424,991
Changes in ending gold concentrate inventory	1,599,995	3,923,583	(119,777)	1,227,684
Total	6,896,693	9,959,274	10,042,324	14,499,912

General and administrative

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	-$-	-$-	-$-	-$-
Consulting and management fees	161,927	167,576	316,612	325,978
Depreciation (Note 8)	80,766	9,821	160,245	90,542
Office and general	187,180	125,541	324,600	298,810
Professional fees	13,471	9,955	13,981	19,425
Salaries	208,096	198,397	399,201	394,758
Shareholder communications	14,540	11,542	15,101	13,340
Travel	83,998	107,714	204,994	195,063
Total	749,978	630,546	1,434,734	1,337,916

Finance expense

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	-$-	-$-	-$-	-$-
Interest expenses (Note 11)	212,398	343,612	425,364	615,307
Accretion of asset retirement obligation (Note 13)	18,118	20,594	36,391	41,682
Total	230,516	364,206	461,755	656,989

18. Risks and capital management

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada and China. The credit risk associated with cash held in Canada is reduced by management ensuring that the Company uses a major Canadian financial institution with strong investment grade ratings by a primary ratings agency. The credit risk associated with cash held in China is reduced, but not fully mitigated, by management using a financial institution that is operated by the Government of China.

Liquidity Risk

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

Industry Risk

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

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

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

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

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash held in bank accounts that earn interest at variable interest rates. The Company's loans payable accrues interest at fixed rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as of March 31, 2017.

(Unaudited - expressed in US dollars)

18. Risks and capital management (continued)

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the functional currency of the entity completing the transaction or holding the funds. The Company does not manage currency risks through hedging or other currency based derivatives. The Company and its subsidiaries do not have significant transactions or hold significant cash denominated in currencies other than their functional currencies. Therefore, this risk is considered minimal.

Other Price Risk

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

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

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

The Company does not use derivative instruments to hedge or reduce its price risk to gold.

19. Non-controlling interest

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

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

	March 31, 2017 -$-	September 30, 2016 -$-
Current:		
Assets	11,189,967	13,857,389
Liabilities	(23,475,053)	(27,455,142)
Total current net liabilities	(12,285,086)	(13,597,753)
Non-current		
Assets	84,850,231	76,662,223
Liabilities	(5,320,801)	(5,459,760)
Total non-current net assets	79,529,430	71,202,463
Balance, ending	67,244,344	57,604,710

(Unaudited - expressed in US dollars)

19. Non-controlling interest (continued)

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

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	-$-	-$-	-$-	-$-
Revenue	9,602,647	10,434,943	13,681,497	14,879,403
Net income (loss) before income tax	2,059,133	(137,306)	2,388,647	(522,295)
Income tax recovery (expense)	(372,810)	11,051	(116,314)	13,540
Net income (loss)	1,686,323	(126,255)	2,272,333	(508,755)
Other comprehensive income (loss)	(54,257)	(563,823)	2,886,407	3,327,603
Comprehensive income (loss)	1,632,066	(690,078)	5,158,740	2,818,848

20. Commitments

Operating lease commitments

Refer to Note 8 for details of commitments resulting from the agreements with Dahedong.

	2017	2018	Total
	$	$	$
Operating lease commitments:			
Office premises	10,229	8,525	18,754

21. Subsequent events

Subsequent to March 31, 2017, the Company:

(i) repaid a series of banker's acceptance notes for CNY 3,000,000 ($435,382) on April 20, 2017;

(ii) renewed its bank loan for CNY 20,000,000 ($2,902,547) on April 14, 2017, with an interest rate 4.785% per month and a new maturity date is April 13, 2018; and

(iii) repaid a series of banker's acceptance notes for CNY 4,000,000 ($580,509) on May 11, 2017.