Majestic Gold Corp.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016 and 2015

(Expressed in US dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Majestic Gold Corp.:

We have audited the accompanying consolidated financial statements of Majestic Gold Corp., which comprise the consolidated statements of financial position as at September 30, 2016 and 2015, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Majestic Gold Corp. as at September 30, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Majestic Gold Corp's ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
January 25, 2017

Majestic Gold Corp.
Consolidated Statements of Financial Position
(Expressed in US dollars)

	Note	September 30, 2016 - $ -	September 30, 2015 - $ -
ASSETS			
Current assets			
Cash and cash equivalents	*4*	9,037,258	6,981,718
Receivables	*5*	217,024	1,216,523
Deposits and prepaid expenses	*6*	898,097	560,116
Inventory	*7*	1,628,036	3,735,154
Investments	*8*	-	196,449
Restricted cash	*12*	4,765,615	3,147,723
		16,546,030	15,837,683
Property, plant and equipment	*9*	76,675,736	79,754,509
Exploration and evaluation assets	*10*	2	2
Deferred tax assets	*21*	83,371	87,512
		93,305,139	95,679,706
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	*11*	12,841,717	9,612,691
Income taxes payable		420,641	-
Loans payable	*12*	19,775,928	20,684,412
		33,038,286	30,297,103
Asset retirement obligation	*13*	2,625,922	2,570,427
		35,664,208	32,867,530
EQUITY			
Share capital	*14*	99,893,830	99,893,830
Reserves	*14*	8,934,872	10,060,581
Deficit		(66,458,969)	(63,544,618)
Equity attributable to owners of parent		42,369,733	46,409,793
Equity attributable to non-controlling interests	*19*	15,271,198	16,402,383
Total equity		57,640,931	62,812,176
		93,305,139	95,679,706
Nature of operations	*1*		
Commitments	*9, 20*		
Subsequent events	*22*		

Approved by the Directors:
"John Campbell"
"Stephen Kenwood"

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

Majestic Gold Corp.
Consolidated Statements of Comprehensive Loss
(Expressed in US dollars)

	Notes	Years ended September 30, 2016 - $ -	2015 - $ -
Gold revenue	*17*	27,801,966	22,595,313
Cost of sales			
Operating expenses	*17*	23,234,500	21,943,538
Depreciation and depletion	*9,17*	2,826,269	2,476,605
Gross profit (loss)		1,741,197	(1,824,830)
Administrative expenses			
General and administrative	*17*	3,036,630	3,335,927
Share-based compensation	*14*	805,700	-
		3,842,330	3,335,927
Loss before other items		(2,101,133)	(5,160,757)
Other items			
Finance expense	*17*	1,057,422	1,170,862
Finance income		(322,436)	(297,047)
Foreign exchange loss (income)		2,465	(20,815)
Realized gain on sale of investments	*8*	(68,434)	(10,347)
Unrealized loss on investment in gold futures	*8*	-	21,575
Gain on disposal of equipment		(1,174)	-
		667,843	864,228
Net loss before income tax		(2,768,976)	(6,024,985)
Income tax expense	*21*	508,840	303,849
Net loss for the year		(3,277,816)	(6,328,834)
Other comprehensive income (loss)			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation of parent		53,464	(780,398)
Items that may be subsequently reclassified to profit or loss:			
Realized gain on investments recognized in net loss		-	(10,347)
Exchange differences on translating foreign operations		(2,752,593)	(2,015,903)
Total other comprehensive loss for the year		(2,699,129)	(2,806,648)
Total comprehensive loss for the year		(5,976,945)	(9,135,482)
Net loss for the year attributable to:			
Owners of the parent		(2,914,351)	(4,855,689)
Non-controlling interests		(363,465)	(1,473,145)
		(3,277,816)	(6,328,834)
Comprehensive loss for the year attributable to:			
Owners of the parent		(4,845,760)	(7,283,773)
Non-controlling interest		(1,131,185)	(1,851,709)
		(5,976,945)	(9,135,482)
Loss per share attributable to owners of the parent- basic and diluted		(0.00)	(0.01)
Weighted average number of common shares outstanding - basic and diluted		839,765,216	839,765,216

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

Majestic Gold Corp.
Consolidated Statements of Changes in Equity
(Expressed in US dollars)

		Attributable to owners of the parent							
	Number of shares	Share capital	Share-based payment reserve	Foreign currency translation reserve	Available-for-sale-reserve	Deficit	Total	Non-controlling interest	Total equity
		- $ -	- $ -	- $ -	- $ -	- $ -	- $ -	- $ -	- $ -
Balance, September 30, 2014	839,765,216	99,893,830	10,691,293	1,786,804	10,568	(58,688,929)	53,693,566	18,254,092	71,947,658
Comprehensive loss							-		
Net loss for the year	-	-	-	-	-	(4,855,689)	(4,855,689)	(1,473,145)	(6,328,834)
Translation to reporting currency	-	-	-	(2,417,516)	(221)	-	(2,417,737)	(378,564)	(2,796,301)
Realized gain on sale of investment classified as available for sale	-	-	-	-	(10,347)	-	(10,347)	-	(10,347)
Total comprehensive loss for the year	-	-	-	(2,417,516)	(10,568)	(4,855,689)	(7,283,773)	(1,851,709)	(9,135,482)
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
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 year	-	-	-	-	-	(2,914,351)	(2,914,351)	(363,465)	(3,277,816)
Translation to reporting currency	-	-	-	(1,931,409)	-	-	(1,931,409)	(767,720)	(2,699,129)
Total comprehensive loss for the year	-	-	-	(1,931,409)	-	(2,914,351)	(4,845,760)	(1,131,185)	(5,976,945)
Share-based compensation	-	-	805,700	-	-	-	805,700	-	805,700
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

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

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

	Years ended September 30, 2016	2015
	- $ -	- $ -
Cash provided from (used for):		
Operating activities:		
Net loss for the year	(3,277,816)	(6,328,834)
Items not involving cash:		
Depreciation and depletion	3,147,120	2,728,801
Stock-based compensation	805,700	-
Finance expense	1,057,422	1,170,862
Income tax expense (recovery)	508,840	303,849
Gain on sale of investments	(68,434)	(10,347)
Loss on fair value adjustment of gold futures	-	21,575
Changes in non-cash working capital balances:		
Receivables	999,499	(993,141)
Deposits and prepaid expenses	(392,396)	183,024
Inventory	1,971,033	173,777
Accounts payable and accrued liabilities	1,652,842	(763,422)
Effect of foreign exchange on working capital	876,380	-
Interest paid	(1,791,078)	(942,266)
Net cash provided from (used for) operating activities	5,489,112	(4,456,122)
Investing activities:		
Expenditures on property, plant and equipment	(2,646,575)	(387,331)
Proceeds on sales of investments	417,210	34,362
Investment in gold futures	(157,059)	(217,382)
Net cash provided from (used for) investing activities	(2,386,424)	(570,351)
Financing activities:		
Restricted cash	(1,804,066)	(3,147,723)
Loan advances	22,404,238	28,699,813
Loan repayments	(21,485,655)	(21,578,393)
Net cash provided from (used for) financing activities	(885,483)	3,973,697
Effect of foreign exchange on cash and cash equivalents	(161,665)	(777,672)
Net increase (decrease) in cash and cash equivalents	2,055,540	(1,830,448)
Cash and cash equivalents, beginning	6,981,718	8,812,166
Cash and cash equivalents, ending	9,037,258	6,981,718

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

1. Nature of operations

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

The head office, principal address and the registered and records office of the Company are located at 306 – 1688 152nd Street, Surrey, British Columbia, Canada, V4A 4N2.

These consolidated financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company has completed its mining and production facilities and is now working towards achieving and maintaining efficient 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 consolidated financial statements have been prepared in accordance with International Accounting Standard 1, Presentation of Financial Statements ("IAS 1") 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 January 25, 2017, the date the board of directors approved these consolidated financial statements for issue.

Basis of preparation
The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in US dollars unless otherwise noted.

Basis of consolidation
The consolidated 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 September 30, 2016	Percentage as at September 30, 2015
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.

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. 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 September 30, 2016, there are indicators of impairment of the Company's Songjiagou Gold Mine (Note 9) 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.

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.

Property, plant and equipment
Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs to repair or enhance are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Depreciation of machinery and mobile equipment, vehicles and office furniture and equipment is calculated on a straight-line basis over a three to ten year life as appropriate. Certain items of property, plant and equipment including the Company's Mill and its related assets are amortized over the estimated life of the mine using the units-of-production ("UOP") method based on the recoverable ounces from the indicated resources.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Mining properties
Mining properties include acquisition costs, costs previously capitalized during the exploration and evaluation stage, and mine development costs. Mining properties are stated at cost less accumulated depreciation and are accounted for on an individual project basis. When production commences, these costs are amortized using the UOP method, based on recoverable ounces from the indicated resources.

Non-recoverable costs for projects determined not to be commercially feasible are expensed in the period in which the determination is made or when the carrying value of the project is determined to be impaired.

Exploration and evaluation expenditures
The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties as exploration and evaluation expenditures until the technical feasibility and commercial viability are established, or the property is abandoned, sold or considered to be impaired in value. When the technical feasibility and commercial viability of a property is established, exploration and evaluation expenditures are reclassified to mining properties. If no minable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value. Exploration costs that do not relate to any specific property are expensed as incurred.

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

Stripping costs
Stripping activity consist of removing mine waste materials to gain access to the mineral ore deposits. To the extent that it is probable that the stripping activity will improve the access to an identifiable ore body, costs incurred that relate to the stripping activity are capitalized to the mining asset, provided that the costs can be measured reliably. Costs that are incurred when performing stripping activity that provides benefit in the form of inventory produced is included in the cost of inventory. To date, all stripping costs have been included in the cost of inventory.

Borrowing costs
Borrowing costs attributable to the acquisition or construction of qualifying assets that take a substantial period of time to make ready for their intended use are added to the cost of the assets, until such time as the assets are substantially complete and ready for their intended use. All other borrowing costs are expensed in the period in which they are incurred.

Inventory
Inventory consists of gold concentrate and ore stockpile. Gold concentrate and ore stockpiles are physically measured or estimated and valued at the lower of average production cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Asset retirement obligations
The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of the asset retirement obligation estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the asset retirement obligation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. Accretion expense, representing the increase in the provision due to the passage of time, is recorded in finance costs in the statement of comprehensive loss.

The Company's estimates of asset retirement obligations could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for mineral property interests

Income taxes
Current income tax:
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and is expected to generate taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

Income taxes (continued)

Deferred income tax:
Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) of the applicable jurisdiction that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Impairment of assets
The carrying amount of the Company's non-financial assets, other than deferred tax assets, is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and its value in use. In assessing fair value or value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Share-based payments
Share-based payments to employees are measured at the fair value of the instruments issued and recorded over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest

Loss per share
Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company.

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

Loss per share (continued)
Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Financial instruments
The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired or issued. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. Financial assets classified as fair value through profit or loss includes derivatives classified under investments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Financial assets classified as loans and receivables include cash and cash equivalents, restricted cash and receivables.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company has no held-to-maturity investments.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to- maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. Financial assets classified as available-for-sale includes marketable securities classified under investments.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date, being the date the Company commits to purchase the asset. The Company's non-derivative financial liabilities include accounts payable and loans payable.

Financial assets are derecognized when the right to receive cash flows from the investment has expired or has been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

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

Financial instruments (continued)

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

(i) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
(ii) Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
(iii) Level 3 – Inputs that are not based on observable market data.

The Company's cash and marketable securities are classified as level 1. The derivative is classified as level 2.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Restricted Cash

Restricted cash consists of deposits held as security for a series of banker's acceptance notes and is held with the financial institution issuing the notes.

Revenue Recognition

Revenue from gold sales is recognized as revenue only when there is evidence of a sale arrangement, amounts are determinable, collection is reasonably assured and the Company no longer retains control over the goods sold.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

(Expressed in US dollars)

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 September 30, 2016, 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.

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

	Year ended September 30,	
	2016	2015
	- $ -	- $ -
Cash	9,037,258	3,507,341
Term deposits	-	3,474,377
Total	9,037,258	6,981,718

Cash of $6,334,709 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

	Year ended September 30,	
	2016	2015
	- $ -	- $ -
Sales taxes receivable	198,907	260,429
Amount owing from Dahedong (Note 9 and 15)	-	952,982
Amount owing from a related party (Note 15)	4,891	-
Other receivables	13,226	3,112
Total	217,024	1,216,523

(Expressed in US dollars)

6. Deposits and prepaid expenses

	Year ended September 30, 2016	2015
	- $ -	- $ -
Prepayment for mining supplies and services	820,877	428,421
Rent deposit	8,611	18,870
Other advances and prepayments	68,609	112,825
Total	898,097	560,116

7. Inventory

	Year ended September 30, 2016	2015
	- $ -	- $ -
Gold concentrate	103,741	2,011,931
Ore stockpile	1,524,295	1,723,223
Total	1,628,036	3,735,154

8. Investments

	Marketable Securities	Derivative	Total
	-$-	-$-	-$-
Balance, September 30, 2014	34,377	-	34,377
Sale of marketable securities (i)	(34,362)	-	(34,362)
Deposit on derivative asset (ii)	-	217,382	217,382
Increase (decrease) in fair value	167	(21,575)	(21,408)
Foreign exchange adjustment	(182)	642	460
Balance, September 30, 2015	-	196,449	196,449
Sale of derivative asset (i)	-	(417,210)	(417,210)
Deposit on derivative asset (ii)	-	157,059	157,059
Realized gain on sale	-	68,434	68,434
Foreign exchange loss	-	(4,732)	(4,732)
Balance, September 30, 2016	-	-	-

(i) Marketable Securities

During the year ended September 30, 2015, the Company sold its 500,000 shares of Bullabulling Gold Limited at an average sale price of $0.069, on the London Stock Exchange, for net proceeds of $34,362 (CAD$38,688). The cost of this investment was $38,844 (CAD$40,000).

(ii) Derivative

During the year ended September 30, 2015, the Company entered into a gold futures contract giving it the right to acquire 1,608 ounces of gold at an average price of $1,176 for a period of one year. The derivative asset of $196,449 at September 30, 2015, reflects a deposit of $217,382 to hold the gold futures, net of an unrealized loss of $21,575 and foreign exchange adjustment of $642. During the year ended September 30, 2016, the company entered into a gold futures contract giving it the right to acquire 1,608 ounces of gold at an average price of $1,148 for a period of one year by making a deposit of $157,059. The Company closed on both gold futures contracts for a total of 3,216 ounces for total proceeds of $417,210, realizing a gain of $68,434 and a foreign exchange loss of $4,732. At September 30, 2016, the Company did not hold any futures gold contracts.

9. Property, plant and equipment

The Company's Mining Property consists of 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 75% owned by the Company's 70.5% held subsidiary, Yantai Zhongjia Mining Inc. ("Zhongjia"). 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.

Significant terms of the New Mining Agreement are as follows:

(i) When the grade of ore is less than or equal to 0.5g/t, Dahedong will receive:

a) CNY27 per tonne for ore mined and extracted and delivered to the mill for processing;
b) CNY38 per tonne for ore processed into concentrate; and
c) CNY7 per tonne for waste material mined, extracted and removed and disposed of.

(ii) When the grade of ore is more than 0.5g/t, Dahedong will receive:

a) CNY37 per tonne for ore mined and extracted and delivered to the mill for processing;
b) CNY38 per tonne for ore processed into concentrate; and
c) CNY7 per tonne for waste material mined, extracted and removed and disposed of.

At September 30, 2016, the Company had a balance due to Dahedong of $5,442,741 (September 30, 2015 – Receivable of $952,982) (Note 5 and 11). The amount bears no interest, unsecured, and due on demand. During the year ended September 30, 2016, the Company incurred $18,782,621 (2015 - $18,838,342) in mining and processing fees to Dahedong (Note 17).

(Expressed in US dollars)

9. Property, plant and equipment (continued)

	Heavy machinery and equipment	Office furniture and equipment	Mill	Mining property	Total
	- $ -	- $ -	- $ -	- $ -	- $ -
Cost					
At September 30, 2014	785,817	480,651	50,368,953	37,724,534	89,359,955
Additions	500,195	59,892	15	1,995,540	2,555,642
Change in asset retirement cost	-	-	-	82,447	82,447
Disposal	-	(5,802)	-	-	(5,802)
Foreign exchange adjustment	(39,685)	(34,752)	(1,588,647)	(1,287,969)	(2,951,053)
At September 30, 2015	1,246,327	499,989	48,780,321	38,514,552	89,041,189
Additions	146,078	1,578	728,010	2,860,768	3,736,434
Change in asset retirement cost	-	-	-	98,348	98,348
Foreign exchange adjustment	(61,986)	(15,833)	(2,323,336)	(1,868,343)	(4,269,498)
At September 30, 2016	1,330,419	485,734	47,184,995	39,605,325	88,606,473
Accumulated depreciation					
At September 30, 2014	(200,099)	(256,204)	(3,382,520)	(3,036,206)	(6,875,029)
Depreciation	(167,649)	(84,547)	(1,385,201)	(1,091,404)	(2,728,801)
Disposal	-	3,827	-	-	3,827
Foreign exchange adjustment	11,306	25,782	147,955	128,280	313,323
At September 30, 2015	(356,442)	(311,142)	(4,619,766)	(3,999,330)	(9,286,680)
Depreciation and depletion	(250,604)	(70,247)	(1,457,792)	(1,368,477)	(3,147,120)
Foreign exchange adjustment	27,655	9,239	248,687	217,482	503,063
At September 30, 2016	(579,391)	(372,150)	(5,828,871)	(5,150,325)	(11,930,737)
Net book value					
At September 30, 2015	889,885	188,847	44,160,555	34,515,222	79,754,509
At September 30, 2016	751,028	113,584	41,356,124	34,455,000	76,675,736

10. Exploration and evaluation assets

Other properties

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

(Expressed in US dollars)

11. Accounts payable and accrued liabilities

	Year ended September 30, 2016	2015
	- $ -	- $ -
Trade and other payables	7,398,976	9,607,572
Amount due to Dahedong (Note 9 and 15)	5,442,741	-
Amount due to related parties	-	5,119
Total	12,841,717	9,612,691

12. Loans payable

	Year ended September 30, 2016	2015
	- $ -	- $ -
Balance, beginning	20,684,412	14,101,270
Accrued interest and fees	944,290	1,064,556
Banker's acceptance notes	8,147,659	6,488,766
Loan advances	14,256,579	22,211,047
Loan and interest repayments	(23,276,733)	(22,520,659)
Foreign exchange adjustment	(980,279)	(660,568)
Balance, ending	19,775,928	20,684,412

At September 30, 2016, the loans outstanding consist of:

(i) a $2,998,771 (CNY 20,000,000) (September 30, 2015 - $3,147,723) one year loan bearing an interest at 5.655% per annum. The loan was repayable on November 12, 2016. The loan is guaranteed by the company that provides gold concentrate refining services to the Company. On November 11, 2016, the loan was renewed with an interest rate of 5.655% per annum and a new maturity date is November 11, 2017 (Note 22);

(ii) a $1,499,385 (CNY 10,000,000) (September 30, 2015 - $1,573,861) one year loan bearing an interest at 0.453125% per month. The loan was repayable on November 15, 2016. The loan is guaranteed by certain third parties, including Dahedong. On November 18, 2016, the loan was renewed, with an interest rate of 0.489375% per month and a new maturity date is November 12, 2017 (Note 22);

(iii) a $1,499,385 (CNY 10,000,000) (September 30, 2015 - $1,573,861) one year loan bearing an interest at 8.5% per annum. The loan was repayable on January 7, 2017. The loan is guaranteed by Dahedong, the owner of Dahedong and by certain third parties. On January 9, 2017, the loan was renewed, with an interest rate of 7.0833% per annum and a new maturity date is January 4, 2018 (Note 22);

(iv) a $899,631 (CNY 6,000,000) (September 30, 2015 - $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 October 16, 2016 (Note 22);

(v) a $899,631 (CNY 6,000,000) (September 30, 2015 - $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 January 5, 2017 (Note 22);

(vi) a $899,631 (CNY 6,000,000) (September 30, 2015 - $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 January 18, 2017(Note 22);

(Expressed in US dollars)

12. Loans payable (continued)

(vii) a $899,631 (CNY 6,000,000) (September 30, 2015 - $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 February 19, 2017;

(viii) a $749,693 (CNY 5,000,000) (September 30, 2015 - $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 March 9, 2017;

(ix) a $2,998,771(CNY 20,000,000) (September 30, 2015 - $3,147,723) 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;

(x) a $4,498,156 (CNY 30,000,000) (September 30, 2015 - $4,721,584) 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;

(xi) a $1,334,453 (CNY 8,900,000) (September 30, 2015 - $1,573,861) 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 August 28, 2017. The Company repaid the loan on December 7, 2016 (Note 22);

(xii) a $299,877(CNY 2,000,000) (September 30, 2015 - $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 was repayable on January 6, 2017. The Company repaid the loan on December 7, 2016 (Note 22); and

(xiii) accrued interest of $298,913 (CNY 1,993,571) (September 30, 2015 - $1,184,270) relating to the above loans.

(xiv) At September 30, 2015, the Company had $3,147,723 (CNY 20,000,000) series of banker's acceptance notes. The notes were secured by the restricted cash. The Company also had a $613,806 one year loan with Dahedong bearing an interest of 1% per month plus 5%if the loan is not repaid at maturity. The notes and loans were repaid during the year ended September 30, 2016.

13. Asset retirement obligation

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

	Year ended September 30,	
	2016	2015
	- $ -	- $ -
Balance, beginning	2,570,427	2,466,708
Additions and changes in estimates of net present value	98,348	82,447
Accretion (Note 17)	82,513	104,646
Foreign exchange adjustment	(125,366)	(83,374)
Balance, ending	2,625,922	2,570,427

The Company's asset retirement obligation consists of costs associated with mine reclamation and closure activities on the Songjiagou Gold Mine (Note 9). 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% (2015 – 3.3%) and an inflation rate of 2.1% (2015 – 3.0%). The majority of the expenditures are expected to occur in or after 2032.

(Expressed in US dollars)

14. Share capital and Reserves

a) Authorized:

Unlimited number of common shares without par value.

b) Issued share capital:

The Company had 839,765,216 common shares issued and outstanding as at September 30, 2016 and September 30, 2015.

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 years ended September 30, 2016 and 2015 are as follows:

Expiry date	Exercise price	Balance September 30, 2014	Issued	Exercised	Expired/ Cancelled	Balance September 30, 2015
November 14, 2014	CAD$0.12	3,025,000	-	-	(3,025,000)	-
June 22, 2015	CAD$0.12	10,300,000	-	-	(10,300,000)	-
September 14, 2016	CAD$0.20	20,500,000	-	-	-	20,500,000
		33,825,000	-	-	(13,325,000)	20,500,000
Weighted average exercise price		CAD$0.17	$ -	$ -	CAD$0.12	CAD$0.20

Expiry date	Exercise price	Balance September 30, 2015	Issued	Exercised	Expired/ Cancelled	Balance September 30, 2016
September 14, 2016	CAD$0.20	20,500,000	-	-	(20,500,000)	-
January 28, 2021	CAD$0.12	-	27,700,000	-	-	27,700,000
		20,500,000	27,700,000	-	(20,500,000)	27,700,000
Weighted average exercise price		CAD$0.20	CAD$0.12	$ -	CAD$0.20	$0.12

On January 28, 2016, the Company granted a total of 27,700,000 stock options to directors, management and employees. These stock options, exercisable at CAD$0.12 per share, vested immediately and have a five year term to expiry.

The fair value of stock options granted was $805,700, which was recorded as an expense to share-based compensation. The fair value of the options granted was determined using the Black-Scholes Stock Pricing Model with the following assumptions: a risk free interest rate of 0.68%, an expected volatility of 73.52%, an expected life of 5 years, and a zero dividend for a weighted average fair value per option of $0.04.

(Expressed in US dollars)

14. Share capital and Reserves (continued)

Details of stock options outstanding as at September 30, 2016, are 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	4.33

As at September 30, 2016, all stock options were exercisable.

c) 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.

15. Related party transactions and balances

Related party transactions

The Company incurred the following related party transactions during the years ended September 30, 2016 and 2015:

	Year ended September 30, 2016	2015
	-$-	-$-
Consulting fees charged by companies controlled by directors and officers of the Company-includes key management personnel compensation	616,428	655,807
Stock-based compensation	651,541	-
Mining and milling services charged by Dahedong (Note 9)	18,782,621	18,838,342
Interest charged by Dahedong	98,452	203,380
	20,149,042	19,697,529

(Expressed in US dollars)

15. Related party transactions and balances (continued)

Key management personnel compensation

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

	Year ended September 30, 2016 -$-	2015 -$-
Short-term employee benefits–management fees	236,371	254,592
Director fees	164,551	169,687
Stock-based compensation	564,280	-
	965,202	424,279

Related party balances

	Year ended September 30, 2016 -$-	2015 -$-
Amounts (owing from) due to companies controlled by Directors and Officers of the Company (Note 5 and 11)	(4,891)	5,119
Amounts (owing from) due to Dahedong (Note 5 and 11)	5,442,741	(952,982)
Loan amounts due to Dahedong (Note 12)	1,634,330	2,391,047
	7,072,180	1,443,184

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 $10,508 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

17. Revenue and Expenses

Revenue

	Year ended September 30, 2016 -$-	2015 -$-
Sales of gold bullion	27,461,704	22,395,034
Other revenue	340,262	200,279
Total	27,801,966	22,595,313

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 $340,262 under this agreement as other revenue during the year ended September 30, 2016 (2015 - $200,279).

(Expressed in US dollars)

17. Revenue and Expenses (continued)

Cost of sales

	Year ended September 30, 2016 -$-	Year ended September 30, 2015 -$-
Contractor costs paid to Dahedong (Note 9 and 15)	18,782,621	18,838,342
Depreciation and depletion (Note 9)	2,826,269	2,476,605
Smelting costs	643,063	533,466
Resource taxes	1,159,166	1,417,552
Other direct costs	798,474	1,007,400
Changes in ending gold concentrate inventory	1,851,176	146,778
Total	26,060,769	24,420,143

General and administrative

	Year ended September 30, 2016 -$-	Year ended September 30, 2015 -$-
Consulting and management fees	651,593	705,174
Depreciation (Note 9)	320,851	252,196
Office and general	604,392	889,706
Professional fees	96,144	109,755
Salaries	977,813	925,938
Shareholder communications	24,915	34,134
Travel	360,922	419,024
Total	3,036,630	3,335,927

Finance expense

	Year ended September 30, 2016 -$-	Year ended September 30, 2015 -$-
Interest expenses (Note 12)	974,909	1,066,216
Accretion of asset retirement obligation (Note 13)	82,513	104,646
Total	1,057,422	1,170,862

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.

18. Risks and capital management (continued)

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 September 30, 2016.

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.

(Expressed in US dollars)

18. Risks and capital management (continued)

Market Risk (continued)

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

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

As at September 30, 2016, the Company did not hold any gold futures contracts (Note 8). 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:

	Year ended September 30,	
	2016	2015
	-$-	-$-
Current:		
Assets	13,857,389	11,894,033
Liabilities	(27,455,142)	(30,078,917)
Total current net liabilities	(13,597,753)	(18,184,884)
Non-current		
Assets	76,662,223	79,733,339
Liabilities	(5,459,760)	(5,545,025)
Total non-current net assets	71,202,463	74,188,314
Balance, ending	57,604,710	56,003,430

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

	Year ended September 30,	
	2016	2015
	-$-	-$-
Revenue	27,801,966	22,595,313
Net loss before income tax	(738,352)	(4,683,601)
Income tax expense	508,840	303,849
Net loss	(1,247,192)	(4,987,450)
Other comprehensive loss	(2,728,167)	(1,945,775)
Comprehensive loss	(3,975,359)	(6,933,225)

(Expressed in US dollars)

20. Commitments

Operating lease commitments

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

	2017 $	2018 $	Total $
Operating lease commitments:			
Office premises	20,722	8,634	29,356

21. Income Tax

The components of the Company's income tax expense are as follows:

	Year ended September 30, 2016 -$-	Year ended September 30, 2015 -$-
Current income tax expense	508,840	164,816
Deferred income tax expense	-	139,033
	508,840	303,849

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	Year ended September 30, 2016 -$-	Year ended September 30, 2015 -$-
Net loss for the year	(2,768,976)	(6,024,985)
Expected income tax recovery at local statutory tax rates	(719,934)	(1,566,496)
Non-deductible items and other permanent differences	948,273	1,941,332
Effect of tax rate changes	703	(777)
Temporary differences not recognized	279,798	(70,210)
Total	508,840	303,849

Deferred tax assets and liabilities consist of the following and all relate to the Company's Chinese operations:

	Year ended September 30, 2016 -$-	Year ended September 30, 2015 -$-
Property, plant and equipment	(929,151)	(578,089)
Finance expense	762,072	799,925
Asset retirement obligation	130,801	116,095
Inventory	(25,896)	(502,983)
Other temporary differences	145,545	252,564
	83,371	87,512

(Expressed in US dollars)

21. Income Tax (continued)

The Company has the following deductible temporary differences that relate to the Canadian parent and for which no deferred asset has been recognized:

	Year ended September 30, 2016 -$-	Year ended September 30, 2015 -$-
Non-capital losses	31,452,818	29,029,779
Share issue costs	-	837,911
Property, plant and equipment	128,027	108,830
Capital loss	16,864	11,227
	31,597,709	29,987,747

These temporary differences can be used to offset taxable income in the future. The non-capital losses expire in the years 2016 through 2035. The share issue costs are amortized into taxable income (loss) over a five year period.

Chinese tax law requires that a withholding tax of 10% is applied to dividends paid by Chinese subsidiaries to foreign parent companies. At September 30, 2016, there was no distributable profit (2015 – $Nil).

22. Subsequent events

Subsequent to September 30, 2016, the Company:

(i) repaid a series of banker’s acceptance notes for CNY 6,000,000 ($891,777) on October 16, 2016;

(ii) entered into a banker’s acceptance agreement for CNY 3,000,000 ($445,154) on October 20, 2016, for 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 April 20, 2017;

(iii) entered into a banker’s acceptance agreement for CNY 4,000,000 ($587,448), on November 11, 2016, for 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 May 11, 2017;

(iv) renewed its bank loan for CNY 20,000,000 ($2,937,241) on November 11, 2016, with an interest rate 5.655% per annum and a new maturity date is November 11, 2017;

(v) renewed its bank loan for CNY 10,000,000 ($1,452,222) on November 18, 2016, with an interest rate of 0.489375% per month and a new maturity date of November 12, 2017;

(vi) entered into a banker’s acceptance agreement for CNY 6,000,000 ($871,547) on December 2, 2016, for 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) repaid its loans with Dahedong for CNY 2,000,000 ($290,640) and CNY 8,900,000 ($1,293,347) on December 7, 2016;

(viii) entered into a one year loan agreement with Dahedong for CNY 11,000,000 ($1,583,116) on December 27, 2016;

(ix) repaid a series of banker’s acceptance notes for CNY 6,000,000 ($869,340) on January 5, 2017;

(x) renewed its bank loan for CNY 10,000,000 ($1,443,497) on January 9, 2017, with an interest rate 0.70833% per month and a new maturity date is January 4, 2018;

(xi) repaid a series of banker’s acceptance notes for CNY 6,000,000 ($873,294) on January 18, 2017; and

22. Subsequent events (continued)

(xii) completed non-brokered private placement financing of 72,500,000 units ("Unit") at CAD$0.135 per Unit to raise total proceeds of CAD$9,787,500. 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 closing.