



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended June 30, 2016 and 2015

(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)

		June 30, 2016 - \$ -	September 30, 2015 - \$ -
	<i>Note</i>		
ASSETS			
Current assets			
Cash and cash equivalents	4	10,330,617	6,981,718
Receivables	5	208,583	1,216,523
Deposits and prepaid expenses	6	193,576	560,116
Inventory	7	1,880,873	3,735,154
Investments	8	-	196,449
Restricted cash	12	3,161,032	3,147,723
		15,774,681	15,837,683
Property, plant and equipment	9	77,574,595	79,754,509
Exploration and evaluation assets	10	2	2
Deferred tax assets		83,697	87,512
		93,432,975	95,679,706
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	11	13,212,208	9,612,691
Income taxes payable		26,477	-
Loans payable	12	18,731,830	20,684,412
		31,970,515	30,297,103
Asset retirement obligation	13	2,519,221	2,570,427
		34,489,736	32,867,530
EQUITY			
Share capital	14	99,893,830	99,893,830
Reserves	14	9,377,718	10,060,581
Deficit		(65,858,170)	(63,544,618)
Equity attributable to owners of parent		43,413,378	46,409,793
Equity attributable to non-controlling interests	19	15,529,861	16,402,383
Total equity		58,943,239	62,812,176
		93,432,975	95,679,706
Nature of operations	1		
Commitment	9, 20		
Subsequent events	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 Loss
(Unaudited - expressed in US dollars)

		Three months ended June		Nine months ended June 30,	
		2016	2015	2016	2015
		- \$ -	- \$ -	- \$ -	- \$ -
	Note				
Gold revenue	17	6,744,418	2,787,430	21,623,821	15,440,165
Cost of sales					
Operating expenses	17	5,178,474	2,903,423	18,129,242	14,228,309
Depreciation and depletion	9, 17	651,849	320,393	2,200,993	1,505,330
Gross profit (loss)		914,095	(436,386)	1,293,586	(293,474)
Administrative expenses					
General and administrative	17	716,261	637,416	2,054,177	2,085,897
Share-based compensation	14	-	-	1,054,063	-
		716,261	637,416	3,108,240	2,085,897
Income (loss) before other items		197,834	(1,073,802)	(1,814,654)	(2,379,371)
Other items					
Finance expense	17	268,827	351,326	925,816	934,268
Finance income		165,868	(48,509)	(279,368)	(152,088)
Foreign exchange loss (income)		704	2,900	4,537	(11,461)
Realized gain on sale of investments	8	-	-	(68,434)	(10,347)
Gain on disposal of equipment	9	-	-	(1,174)	-
		435,399	305,717	581,377	760,372
Net loss before income tax		(237,565)	(1,379,519)	(2,396,031)	(3,139,743)
Income tax expense (recovery)		93,428	(242,184)	79,888	(201,659)
Net loss for the period		(330,993)	(1,137,335)	(2,475,919)	(2,938,084)
Other comprehensive income (loss)					
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		(1,671,229)	285,219	(2,447,081)	94,148
Total other comprehensive income (loss) for the period		(1,671,229)	285,219	(2,447,081)	83,801
Total comprehensive loss for the period		(2,002,222)	(852,116)	(4,923,000)	(2,854,283)
Net loss for the period attributable to:					
Owners of the parent		(310,520)	(903,034)	(2,313,552)	(2,371,478)
Non-controlling interests		(20,473)	(234,301)	(162,367)	(566,606)
		(330,993)	(1,137,335)	(2,475,919)	(2,938,084)
Comprehensive loss for the period attributable to:					
Owners of the parent		(1,510,452)	(662,618)	(4,050,478)	(2,529,440)
Non-controlling interest		(491,770)	(189,498)	(872,522)	(324,843)
		(2,002,222)	(852,116)	(4,923,000)	(2,854,283)
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		839,765,216	839,765,216	839,765,216	839,765,216

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

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

	Number of shares	Attributable to owners of the parent					Total	Non-controlling interest	Total equity
		Share capital	Share-based payment reserve	Foreign currency translation reserve	Available-for-sale-reserve	Deficit			
		- \$ -	- \$ -	- \$ -	- \$ -	- \$ -	- \$ -	- \$ -	- \$ -
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 period	-	-	-	-	-	(2,371,478)	(2,371,478)	(566,606)	(2,938,084)
Other Comprehensive loss	-	-	-	(147,394)	(221)	-	(147,615)	241,763	94,148
Realized gain on sale of investment classified as available for sale	-	-	-	-	(10,347)	-	(10,347)	-	(10,347)
Total comprehensive loss for the period	-	-	-	(147,394)	(10,568)	(2,371,478)	(2,529,440)	(324,843)	(2,854,283)
Balance, June 30, 2015	839,765,216	99,893,830	10,691,293	1,639,410	-	(61,060,407)	51,164,126	17,929,249	69,093,375
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	-	-	-	-	-	(2,313,552)	(2,313,552)	(162,367)	(2,475,919)
Other Comprehensive loss	-	-	-	(1,736,926)	-	-	(1,736,926)	(710,155)	(2,447,081)
Total comprehensive loss for the period	-	-	-	(1,736,926)	-	(2,313,552)	(4,050,478)	(872,522)	(4,923,000)
Share-based compensation	-	-	1,054,063	-	-	-	1,054,063	-	1,054,063
Balance, June 30, 2016	839,765,216	99,893,830	11,745,356	(2,367,638)	-	(65,858,170)	43,413,378	15,529,861	58,943,239

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

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

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
	- \$ -	- \$ -	- \$ -	- \$ -
Cash provided from (used for):				
Operating activities:				
Net loss for the period	(330,993)	(1,137,335)	(2,475,919)	(2,938,084)
Items not involving cash:				
Depreciation and depletion	703,799	685,204	2,396,848	1,988,503
Stock-based compensation	-	-	1,054,063	-
Finance expense	237,995	351,325	894,984	934,268
Income tax expense (recovery)	93,954	(161,134)	80,414	(201,659)
Gain on sale of investments	-	-	(68,434)	(10,347)
Changes in non-cash working capital balances:				
Receivables	54,006	(2,783,336)	1,007,940	(2,851,773)
Deposits and prepaid expenses	241,203	58,097	312,125	308,550
Inventory	745,126	(2,869,718)	1,610,648	(1,673,050)
Accounts payable and accrued liabilities	2,328,216	4,302,251	3,219,527	(415,653)
Interest paid	(197,495)	(236,159)	(1,600,626)	(710,665)
Net cash provided from (used for) operating activities	3,875,811	(1,790,805)	6,431,570	(5,569,910)
Investing activities:				
Expenditures on property, plant and equipment	(3,684,339)	(222,597)	(3,699,565)	(953,603)
Proceeds on sales of investments	-	-	417,210	34,362
Investment in gold futures	-	-	(157,059)	-
Net cash used for investing activities	(3,684,339)	(222,597)	(3,439,414)	(919,241)
Financing activities:				
Restricted cash	671,814	-	(154,159)	-
Loan advances	4,059,374	2,667,612	14,389,221	15,810,767
Loan repayments	(5,107,588)	(3,439,030)	(14,697,540)	(10,443,719)
Net cash used for financing activities	(376,400)	(771,418)	(462,478)	5,367,048
Effect of foreign exchange on cash and cash equivalents	483,251	(24,171)	819,221	(599,468)
Net increase (decrease) in cash and cash equivalents	298,323	(2,808,991)	3,348,899	(1,721,571)
Cash and cash equivalents, beginning	10,032,294	9,899,586	6,981,718	8,812,166
Cash and cash equivalents, ending	10,330,617	7,090,595	10,330,617	7,090,595

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

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended June 30, 2016 and 2015
(Unaudited - expressed in US dollars)

1. Nature of operations

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

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

These unaudited condensed consolidated interim financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company has completed its mining and production facilities and is now working 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 August 26, 2016, 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, 2015.

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 June 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.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
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2. Basis of preparation and significant accounting policies (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) 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 June 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 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.

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

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

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

4. Cash and cash equivalents

	June 30, 2016	September 30, 2015
	- \$ -	- \$ -
Cash	10,330,617	3,507,341
Term deposits	-	3,474,377
Total	10,330,617	6,981,718

Cash of \$7,377,286 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.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended June 30, 2016 and 2015
(Unaudited - expressed in US dollars)

5. Receivables

	June 30, 2016	September 30, 2015
	- \$ -	- \$ -
Sales taxes receivable	190,669	260,429
Amount owing from Dahedong (Note 9 and 15)	-	952,982
Amount due from related party (Note 15)	10,478	-
Other receivables	7,436	3,112
Total	208,583	1,216,523

6. Deposits and prepaid expenses

	June 30, 2016	September 30, 2015
	- \$ -	- \$ -
Prepayment for mining supplies and services	137,951	428,421
Rent deposit	18,724	18,870
Other advances and prepayments	36,901	112,825
Total	193,576	560,116

7. Inventory

	June 30, 2016	September 30, 2015
	- \$ -	- \$ -
Gold concentrate	102,948	2,011,931
Ore stockpile	1,777,924	1,723,223
Total	1,880,873	3,735,154

8. Investment

	Total -\$-
Balance, September 30, 2015	196,449
Proceeds on sale of gold futures	(417,210)
Deposit for gold futures	157,059
Gain on sale of gold futures	68,434
Foreign exchange adjustment	(4,732)
Balance, June 30, 2016	-

(i) Gold Futures

During the nine months ended June 30, 2016, the Company had closed on its gold futures contracts on 3,216 ounces for total proceeds of \$417,210, and a realized net gain of \$68,434. At June 30, 2016, the Company did not hold any gold future contracts.

Majestic Gold Corp.
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(Unaudited - expressed in US dollars)

9. Property, plant and equipment

	Heavy machinery and equipment - \$ -	Office furniture and equipment - \$ -	Mill - \$ -	Mining property - \$ -	Total - \$ -
Cost					
At September 30, 2015	1,246,327	499,989	48,780,321	38,514,552	89,041,189
Additions	873,729	849	763,054	2,061,933	3,699,565
Foreign exchange adjustment	(74,925)	(12,500)	(2,144,426)	(1,709,475)	(3,941,326)
At June 30, 2016	2,045,131	488,338	47,398,949	38,867,010	88,799,428
Accumulated depreciation					
At September 30, 2015	(356,442)	(311,142)	(4,619,766)	(3,999,330)	(9,286,680)
Depreciation and depletion	(142,920)	(52,935)	(1,208,875)	(992,118)	(2,396,848)
Foreign exchange adjustment	24,551	6,537	229,881	197,726	458,695
At June 30, 2016	(474,811)	(357,540)	(5,598,760)	(4,793,722)	(11,224,833)
Net book value					
At September 30, 2015	889,885	188,847	44,160,555	34,515,222	79,754,509
At June 30, 2016	1,570,320	130,798	41,800,189	34,073,288	77,574,595

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 owned by the Company's 75% 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 equals 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 to 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 for waste material mined, extracted and removed and disposed of.

At June 30, 2016, the Company had a balance due to Dahedong of \$3,923,132 (September 30, 2015 – (\$952,982)) (Note 5 and 11). The amount bears no interest, unsecured, and due on demand. During the period ended June 30, 2016, the Company incurred \$14,293,207 (2015 - \$13,393,461) in mining and processing fees to Dahedong (Note 17).

Majestic Gold Corp.
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10. Exploration and evaluation assets

Other properties

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

11. Accounts payable and accrued liabilities

	June 30, 2016	September 30, 2015
	-\$-	-\$-
Trade and other payables	9,104,682	9,607,572
Amount due to Dahedong (Note 9 and 15)	3,923,132	-
Amounts due to related parties (Note 15)	-	5,119
Total	13,027,814	9,612,691

12. Loans payable

	June 30, 2016	September 30, 2015
	-\$-	-\$-
Balance, beginning	20,684,412	14,101,270
Accrued interest and fees	832,670	1,064,556
Banker's acceptance notes	4,717,464	6,488,766
Loan advances	9,671,757	22,211,047
Loan and interest repayments	(16,298,166)	(22,520,659)
Foreign exchange adjustment	(876,307)	(660,568)
Balance, ending	18,731,830	20,684,412

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

- (i) a \$3,010,507 (CNY 20,000,000) (September 30, 2015 - \$3,147,723) one year loan bearing an interest at 5.655% per annum. The loan is repayable on November 12, 2016. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;
- (ii) a \$1,505,253 (CNY 10,000,000) (September 30, 2015 - \$1,573,861) one year loan bearing an interest at 0.453125% per month. The loan is repayable on November 15, 2016. The loan is guaranteed by certain third parties, including Dahedong;
- (iii) a \$1,505,253 (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;
- (iv) a \$1,053,677 (CNY 7,000,000) (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 July 12, 2016;
- (v) a \$1,204,203 (CNY 8,000,000) (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 September 1, 2016;
- (vi) a \$903,152 (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 October 6, 2016;

Majestic Gold Corp.
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(Unaudited - expressed in US dollars)

12. Loans payable (continued)

- (vii) a \$3,010,507 (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;
- (viii) a \$4,515,760 (CNY 30,000,000) (September 30, 2015 - \$4,721,584) one year loan bearing an interest at 5.52% per annum. The loan was repaid on August 26, 2016. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;
- (ix) a \$1,505,523 (CNY 10,000,000) (September 30, 2015 - \$1,573,861) one year loan with Dahedong bearing an of 1.0% per month plus 5% if the loan is not repaid at maturity. The loan is repayable on August 27, 2016;
- (x) a \$301,051 (CNY 2,000,000) (September 30, 2015 - \$Nil) one year loan with Dahedong bearing an of 1.0% per month plus 5% if the loan is not repaid at maturity. The loan is repayable on January 6, 2017;
- (xi) Accrued interest of \$217,214 (CNY 1,443,041) (September 30, 2015 - \$1,184,270) relating to the above loans.

13. Asset retirement obligation

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

	June 30, 2016	September 30, 2015
	-\$-	-\$-
Balance, beginning	2,570,427	2,466,708
Additions and changes in estimates of net present value	-	82,447
Accretion (Note 17)	62,314	104,646
Foreign exchange adjustment	(113,520)	(83,374)
Balance, ending	2,519,221	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 3.3% (2015 – 3.3%) and an inflation rate of 3.0% (2015 – 3.0%). The majority of the expenditures are expected to occur in or after 2023.

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 June 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

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14. Share capital and Reserves (continued)
c) Stock Options (continued)

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 of stock options for the nine months ended June 30, 2016, is as follows:

Expiry date	Exercise price	Balance September 30, 2015	Issued	Exercised	Expired/Cancelled	Balance June 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	-	-	48,200,000
Weighted average exercise price		CAD\$0.20	CAD\$0.12	\$ -	\$ -	CAD\$0.15

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 \$1,054,063, which was recorded as an expense to share-based compensation. The fair value of the options granted was determined using the Black-Scholes pricing model with the following assumptions: a risk free interest rate of 0.61%, an expected volatility of 79%, an expected life of 5 years, and a zero dividend for a weighted average fair value per option of \$0.04.

Details of stock options outstanding as at June 30, 2016, are as follows:

Exercise Price	Expiry Date	Options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
CAD\$0.20	September 14, 2016	20,500,000	CAD\$0.20	0.21
CAD\$0.12	January 28, 2021	27,700,000	CAD\$0.12	4.58
		48,200,000	CAD\$0.15	2.72

As at June 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.

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15. Related party transactions and balances

Related party transactions

The Company incurred the following related party transactions during the three and nine months ended June 30, 2016 and 2015:

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Consulting fees charged by companies controlled by directors and officers of the Company - include key management personnel compensation	157,140	163,077	459,425	500,565
Mining and milling services charged by Dahedong	4,010,172	4,488,204	14,293,207	13,393,461
Interest charged by Dahedong	57,925	43,214	190,931	139,745
	4,225,237	4,694,495	14,943,563	14,033,771

Key management personnel compensation

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

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Short-term employee benefits—management fees	60,543	63,312	175,804	194,992
Stock-based compensation	-	-	197,875	-
Director fees	41,603	42,056	122,951	128,662
	102,146	105,368	496,630	323,654

Related party balances

	June 30, 2016	September 30, 2015
	-\$-	-\$-
Amounts (due from) due to companies controlled by Directors and Officers of the Company (Note 5 and 11)	(10,478)	5,119
Amounts (owing from) due to Dahedong (Note 5 and 11)	3,923,132	(952,982)
Loan amounts due to Dahedong (Note 12)	2,021,671	2,391,047
	5,934,325	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 \$12,424 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

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17. Revenue and Expenses

Revenue

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Sales of gold bullion	6,684,072	2,787,430	21,370,388	15,440,165
Other revenue	60,346	-	253,433	-
Total	6,744,418	2,787,430	21,623,821	15,440,165

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 \$253,433 under this agreement as other revenue during the period ended June 30, 2016.

Cost of sales

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Contractor costs paid to Dahedong (Note 9 and 15)	4,010,172	4,488,204	14,293,207	13,393,461
Depreciation and depletion (Note 9)	651,849	320,393	2,200,993	1,505,330
Smelting costs	123,007	126,302	465,533	376,872
Resource taxes	258,435	719,098	930,967	1,301,878
Other direct costs	149,298	112,705	574,289	546,546
Changes in ending gold concentrate inventory	637,562	(2,542,886)	1,865,246	(1,390,448)
Total	5,830,323	3,223,816	20,330,235	15,733,639

General and administrative

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Consulting and management fees	158,083	154,548	484,061	491,151
Depreciation (Note 9)	105,313	57,131	195,855	175,493
Office and general	188,258	123,900	487,068	427,120
Professional fees	807	4,386	20,232	27,279
Salaries	199,133	203,229	593,891	626,642
Shareholder communications	(2,997)	6,486	10,343	20,934
Travel	67,664	87,736	262,727	317,278
Total	716,261	637,416	2,054,177	2,085,897

Finance expense

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Interest expenses (Note 12)	248,195	324,918	863,502	855,342
Accretion of asset retirement obligation (Note 13)	20,632	26,408	62,314	78,926
Total	268,827	351,326	925,816	934,268

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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 operation 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 June 30, 2016.

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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.

As at June 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:

	June 30, 2016	September 30, 2015
	-\$-	-\$-
Current:		
Assets	9,621,607	11,894,033
Liabilities	(28,262,710)	(30,078,917)
Total current net liabilities	(18,641,103)	(18,184,884)
Non-current		
Assets	77,558,939	79,733,339
Liabilities	(5,364,150)	(5,545,025)
Total non-current net assets	72,194,789	74,188,314
Balance, ending	53,553,686	56,003,430

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19. Non-controlling interest (continued)

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

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Revenue	6,744,418	2,787,430	21,623,821	15,440,165
Net income (loss) before income tax	227,312	(1,565,649)	(294,983)	(2,703,371)
Income tax expense (recovery)	93,428	(242,184)	79,888	(201,659)
Net income (loss)	133,884	(1,323,465)	(374,871)	(2,501,712)
Other comprehensive income (loss)	(218,333)	(113,577)	3,109,270	3,605,805
Comprehensive income (loss)	(84,449)	(1,437,042)	2,734,399	1,104,093

20. Commitments

Operating lease commitments

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

	2016	2017	2018	Total
	\$	\$	\$	\$
Operating lease commitments:				
Office premises	5,261	21,043	8,768	35,071

21. Subsequent events

Subsequent to June 30, 2016, the Company completed the following transactions:

- The Company entered into a banker's acceptance agreement for CNY 6,000,000 (\$899,483) on July 5, 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 January 5, 2017;
- On July 12, 2016, the Company repaid a series of banker's acceptance notes for CNY 7,000,000 (\$897,142);
- The Company entered into a banker's acceptance agreement for CNY 6,000,000 (\$896,807) on July 18, 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 January 18, 2017;
- The Company entered into a banker's acceptance agreement for CNY 6,000,000 (\$901,650) on August 19, 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 February 19, 2016; and
- On August 26, 2016, the Company repaid its bank loan for CNY 30,000,000 due on this date.