Majestic Gold Corp.

Consolidated Financial Statements
September 30, 2011 and 2010

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Majestic Gold Corp:

We have audited the accompanying consolidated financial statements of Majestic Gold Corp., which are comprised of the consolidated balance sheets as at September 30, 2011 and 2010, and the consolidated statements of operations and deficit, comprehensive loss and accumulated other comprehensive income 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 Canadian generally accepted accounting principles, and for such internal control as management determine 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 that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Majestic Gold Corp. as at September 30, 2011 and 2010 and the results of its operations, and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

We draw attention to Note 1 of the consolidated financial statements, which describes certain conditions that give rise to substantial doubt about the entity's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not qualified in respect of this matter.

"DMCL"

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
January 27, 2012

Majestic Gold Corp.
Consolidated Balance Sheets September 30, 2011 and 2010

	2011	2010 (Restated - Note 22)
	- $ -	- $ -
ASSETS		
Current assets		
Cash and cash equivalents	14,062,116	1,791,845
Accounts receivable (Note 4)	-	1,029,388
Other receivables	305,971	69,701
Prepaid expenses and advances	133,906	177,369
Inventory (Note 5)	2,691,250	224,132
Investments (Note 6)	150,543	220,293
	17,343,786	3,512,728
Property, plant and equipment (Note 7)	11,808,068	2,236,849
Mineral properties and deferred exploration costs (Note 8)	20,622,399	20,071,341
	49,774,253	25,820,918
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	4,073,310	1,605,268
Loans payable (Note 10)	1,514,874	2,215,615
Due to related parties (Note 14)	179,288	386,516
	5,767,472	4,207,399
Asset retirement obligations (Note 9)	447,419	-
Future income tax liability (Note 15)	2,819,544	2,719,216
	9,034,435	6,926,615
NON-CONTROLLING INTEREST (Note 20)	283,498	337,763
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	59,355,709	42,363,600
Convertible loan (Note 12)	10,000,000	-
Contributed surplus (Note 13)	9,752,613	4,256,613
Accumulated other comprehensive income	110,542	180,292
Deficit	(38,762,544)	(28,243,965)
	40,456,320	18,556,540
	49,774,253	25,820,918

Nature of business and going concern (Note 1)
Commitments (Notes 8, 9, 10 and 21)
Subsequent events (Note 23)

Approved by the Directors:
"Rudy Brauer"
"Gurm Sangha"

- See accompanying notes -

Majestic Gold Corp.
Consolidated Statements of Operations and Deficit
Years ended September 30, 2011 and 2010

	2011	2010 (Restated - Note 22)
	- $ -	- $ -
Gold revenue	11,230,049	5,692,712
Cost and Expenses		
Operating costs	9,213,065	4,618,686
Depletion	88,902	29,334
Stock-based compensation (Note 11)	5,496,000	2,342,240
General and administrative (Note 18)	5,001,003	1,693,766
Accretion of asset retirement obligations (Note 9)	46,108	-
	19,845,078	8,684,026
Operating loss	8,615,029	2,991,314
Other items		
Write-down of mineral property (Note 8)	-	1,252,183
Write-off accounts receivable on mineral property sale (Notes 4 and 8)	846,453	-
Loan interest and fees (Note 10)	127,540	559,226
Distribution of net profit (Note 8)	683,333	397,284
Loss (gain) on foreign exchange	(14,006)	138,490
	1,643,320	2,347,183
Loss before tax and non-controlling interest	10,258,349	5,338,497
Income tax expense (Note 15)	214,167	-
Future income tax expense (recovery) (Note 15)	100,328	(80,784)
	314,495	(80,784)
Loss before non-controlling interest	10,572,844	5,257,713
Non-controlling interest (Note 20)	(54,265)	24,007
Net loss	10,518,579	5,281,720
Deficit, beginning	28,243,965	22,962,245
Deficit, ending	38,762,544	28,243,965
Basic and deluted loss per share	0.02	0.02
Weighted average common shares outstanding	504,205,272	238,207,223

- See accompanying notes -

Majestic Gold Corp.
Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income
Years ended September 30, 2011 and 2010

Consolidated Statements of Comprehensive Loss

	2011 - $ -	2010 (Restated - Note 22) - $ -
Net Loss	10,518,579	5,281,720
Increase (decrease) in the accumulated unrealized loss (gain) on available-for-sale investments (Note 6)	69,750	(172,198)
Comprehensive Loss	10,588,329	5,109,522

Consolidated Statements of Accumulated Other Comprehensive Income

	2011 - $ -	2010 - $ -
Balance, beginning	180,292	8,094
Unrealized gain (loss) on available-for-sale investments (Note 6)	(69,750)	172,198
Balance, ending	110,542	180,292

- See accompanying notes -

Majestic Gold Corp.
Consolidated Statements of Cash Flows
Years ended September 30, 2011 and 2010

	2011	2010 (Restated - Note 22)
	- $ -	- $ -
Cash from (used in):		
Operating activities		
Net income (loss) from continuing operations	(10,518,579)	(5,281,720)
Items not involving cash:		
Acrued loan interest	127,540	559,226
Depletion	88,902	29,334
Accretion of asset retirement obligations	46,108	-
Foreign exchange gain not related to operating activities	-	93,568
Amortization of property, plant and equipment	232,270	15,463
Non-cash production costs	441,885	
Stock-based compensation	5,496,000	2,342,240
Future income tax expense	100,328	(80,784)
Non-controlling interest	(54,265)	24,007
Write-down of mineral properties	-	1,252,183
Write-off accounts receivable on mineral property sale	846,453	-
Change in non-cash working capital		
Accounts receivable	182,935	(182,935)
Other receivables	(236,270)	(47,306)
Prepaid expenses and advances	43,463	(173,271)
Inventory	(2,467,118)	(224,134)
Accounts payable and accrued liabilities	2,468,042	(1,323,054)
Net cash used in operating activities	(3,202,306)	(2,997,181)
Investing activities		
Expenditures on property, plant and equipment	(9,803,489)	(1,656,945)
Expenditures on mineral properties	(680,534)	(483,100)
Proceeds on sale of mineral property	-	2,127,139
Cash provided by (used in) investing activities	(10,484,023)	(12,908)
Financing activities		
Share capital issued for cash, net of costs	16,992,109	970,000
Advances to (repayment from) related parties	(207,228)	152,020
Advances of loans	11,953,602	-
Repayments of loans	(2,781,883)	-
Cash provided by financing activities	25,956,600	1,122,020
Increase (decrease) in cash from continuing operations	12,270,271	(1,888,069)
Cash, beginning	1,791,845	3,679,914
Cash, ending	14,062,116	1,791,845

Supplemental cash flow information (Note 17)

- See accompanying notes -

1. Nature of Business and Going Concern

Majestic Gold Corp. (the "Company") is incorporated under the Business Corporations Act (British Columbia) and its principal business activity is the acquisition, exploration and mining of precious metals. All activity is currently being conducted in China. The Company's shares trade on the TSX Venture Exchange.

Going Concern

These financial statements are prepared on a going concern basis, which presumes the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The company has working capital of $11,576,314 at September 30, 2011 (deficiency of $694,671 - 2010) which management considers to be adequate for its future planned exploration, development, operational activities, and to settle outstanding debts. The Company has completed its mining and production facilities and is now working towards achieving 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 and ultimately upon achieving profitable operations. The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

2. Significant Accounting Policies

a) Basis of Presentation and Consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars, which is the current functional and reporting currency. They include the accounts of the Company and its subsidiaries. All inter-company transactions have been eliminated upon consolidation.

b) Revenue recognition

Revenue from gold sales is recognized as revenue when there is evidence of a sale arrangement, amounts are determinable, collection is reasonably assured and title to the gold has transferred.

c) Inventory

Inventory consists of gold concentrate and ore stockpile. Inventory is valued at the lower of average production cost or net realizable value.

d) Cash and cash equivalents

Cash consists of cash on deposit with banks and term deposits with a maturity date of less than 90 days.

2. Significant accounting policies (continued)

e) Mineral Properties and Deferred Exploration Costs

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and exploration costs are capitalized and deferred until such time as the property is put into production, or the property is disposed of either through sale or abandonment. If the property is put into commercial production, the deferred exploration expenditures will be depleted based upon the proven reserves available. Proceeds received from the sale or farm-out of any interest in a property will be credited against the carrying value of the property, with any excess over carrying value included in operations for the period. If a property is abandoned, the acquisition and deferred exploration costs will be written off to operations.

The company acquires mineral property interests and conducts exploration activities directly or through corporate joint ventures. The underlying purpose of the corporate entities is to hold title in China and facilitate funding for expenditures. The entities are not true joint ventures under GAAP. The Company accounts for its interests in these entities as direct investments in mineral properties and deferred exploration cost based on expenditures incurred.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to complex title laws, unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

Management reviews capitalized costs on its mineral properties on an annual basis at the balance sheet date and evaluates conditions and changes in circumstances that may indicate impairment in value has occurred. Impairment considerations are also based upon current exploration results and upon management's assessment of project funding availability and the future probability of profitable operations from the property or sale of the property.

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values. The recorded costs are subject to measurement uncertainty and changes in future conditions could require a material change in the carrying amount.

f) Property, plant and equipment

Property, plant and equipment are recorded at cost and amortization begins when the asset is substantially put into service. Amortization of heavy machinery and equipment and office furniture and equipment is calculated on a straight-line basis over their estimated useful lives at annual rates between 5% to 30%. Amortization of leasehold improvements is calculated on a straight-line basis over the term of the lease.

g) Asset Retirement Obligations

Asset retirement obligations ("ARO") are recognized for expected obligations related to the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. A liability for an asset retirement obligation is recognized in the period in which it is incurred or when a reasonable estimate of the fair value of the liability can be made. The corresponding asset retirement cost would be recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated future value. Estimates of ARO's are subject to changes in inflation rates, long term interest rates and the life of the mine. All of these estimates can be significantly impacted by long term commodity prices. Actual cost incurred in ARO's could therefore materially vary from estimates.

2. Significant Accounting Policies (continued)

h) Financial Instruments

The Company follows Canadian Institute of Chartered Accounts ("CICA") Handbook Section 3855 "Financial Instruments – Recognition and Measurement". Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other receivables, investments, accounts payable, loans payable and due to related parties. Cash and cash equivalents are measured at face value, representing fair value, and classified as held-for-trading. Accounts receivable and other receivables, which are measured at amortized cost, are classified as loans and receivables. Investments, which are measured at fair value, are classified as available-for-sale. Accounts payable, loans payable and due to related parties are measured at amortized cost and classified as other financial liabilities. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

During the year ended September 30, 2009, the Company adopted CICA Emerging Issues Committee ("EIC") 173, "Credit Risk and the Fair Value of Financial Assets and Liabilities". This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments.

The Company has determined that it does not have derivatives or embedded derivatives.

The CICA Handbook Section 3862 "Financial Instruments – Disclosure", requires an entity to classify fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value. The levels and inputs which may be used to measure fair value are as follows:

1. Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
2. Level 2 – fair values are based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
3. Level 3 – applies to assets and liabilities for inputs that are not based on observable market data. Generally such inputs are derived from management.

Financial instruments classified as level 1 include cash, cash equivalents and investments.

i) Comprehensive Income

The Company follows CICA Handbook Section 1530 "Comprehensive income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income includes certain gains or losses, which GAAP requires to be recognized in a period, otherwise excluded from net income for that period.

2. Significant Accounting Policies (continued)

j) Foreign Currency Translation

Balances and transactions denominated in foreign currencies have been translated into Canadian dollars as follows: monetary assets and liabilities are translated at year-end exchange rates; other assets and liabilities are translated at the rate prevailing at the date of the transaction; revenue and expense items, except for amortization and the costs of assets used in the determination of gains or losses resulting from the sale or write-down of mineral properties, are translated at the average rate of exchange for the year. Amortization and the costs of assets used in the determination of gains or losses resulting from the sale or write-down of mineral properties are translated using the rates prevailing at the dates of acquisition. Gains and losses from foreign currency translation are included in the consolidated statement of operations.

k) Stock-Based Compensation

The Company accounts for stock options using the fair value method of accounting. The fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation charged to the related operating expense or mineral property over the vesting period, with an offsetting credit to contributed surplus. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

l) Loss per Share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of shares outstanding during the year. The Company computes the dilutive effect of options, warrants and similar instruments using the treasury stock method. The treasury stock method assumes that proceeds received from in-the-money stock options and other dilutive instruments are used to repurchase common shares at the prevailing market rate. Diluted loss per share figures are equal to those of basic loss per share for each year presented since the effects of the stock options and share purchase warrants have been excluded as they are anti-dilutive.

m) Share Issue Costs

Costs directly associated with the issuance of share capital are charged to share capital.

n) Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled. The Company establishes a valuation allowance against future income tax assets if, based on available information, the probability of a realization of a future income tax asset is not considered more likely than not.

2. Significant Accounting Policies (continued)

o) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral property interests, the fair value of financial instruments, allocation of production costs to stockpiles of ore inventory, useful life of property, plant and equipment, the recoverability of future income tax assets, the determination of any ARO obligations and the valuation of stock-based awards and non-cash share capital transactions. Financial results as determined by actual events could differ from those estimates.

p) Impairment of Long-lived Assets

The Company follows the CICA Handbook Section 3063 "Impairment of Long-Lived Assets" and the guidance of EIC 174 "Mining Exploration Costs". Section 3063 requires that long-lived assets and intangibles with finite useful lives be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset or asset group. If the asset is not fully recoverable, an impairment loss would be recognized in that period for the difference between the carrying amount of the asset and the estimated fair value based on discounted net future cash flows or other reliable market values.

Changes in accounting policies

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of fiscal year 2012 when the Company will prepare both the current and comparative financial information using IFRS. Management is currently evaluating the impact of the conversion on the Company's financial statements and is considering accounting policy choices available under IFRS.

Business Combination, Consolidated Financial Statements and Non-controlling interest

For interim and annual financial statements relating to fiscal years commencing on or after January 1, 2011, the Company will be required to adopt new CICA Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Section 1582 replaces existing Section 1581 "Business Combinations", and Sections 1601 and 1602 together replace Section 1600 "Consolidated Financial Statements". The adoption of Sections 1582 and collectively, 1601 and 1602 provides the Canadian equivalent to IFRS 3 "Business Combinations" and International Accounting Standard ("IAS") 27 "Consolidated and Separate Financial Statements" respectively. The impact of adopting these new standards has not yet been assessed.

3. Financial Instruments and Risk Management

The Company's significant risk exposure and the impact on the Company's financial instruments are assessed and summarized below:

(a) 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 cash is held with one Canadian and one Chinese financial institutions giving rise to a concentration of credit risk. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	2011 -$-	2010 -$-
Bank accounts – China	3,224,530	1,788,510
Bank accounts – Canada	10,837,586	3,335
	14,062,116	1,791,845

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.

(b) Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets at any point in time. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due by forecasting cash flows for operations and anticipated investing and financing activities. At September 30, 2011, the Company had accounts payable and accrued liabilities of $4,073,310, loan payable of $1,514,874 and amounts due to related parties of $179,288. The Company believes it has sufficient cash on hand to meet its obligations for the next 12 months.

(c) Industry Risks

The Company is a mining and exploration company with properties and mining operations currently focused in China. Its mining activities involve numerous inherent risks. The Company is subject to various financial, equities markets, operational and political risks that could significantly affect its operations and cash flows. These risks include changes in local laws affecting the mining industry, a decline in the price of commodities, uncertainties inherent in estimating mineral resources and fluctuations in the foreign currencies ("CNY" or ¥ and US dollar) against the Canadian 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.

3. Financial Instruments and Risk Management (continued)

(c) Industry Risks (continued)

The Company operates primarily 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 properties are located in areas that can experience severe winter weather conditions which could adversely affect mining and exploration programs. In addition, the Company is subject to changes in environmental laws and regulations that may result in unexpected costs.

(d) 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 loan payable accrues interest at a fixed rate. 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, 2011.

- **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 Canadian dollar (primarily CNY). The Company does not manage currency risks through hedging or other currency based derivatives.

As at September 30, 2011, the Canadian dollar equivalent of financial instruments denominated in CNY is as follows:

	-$-
Cash and cash equivalents	3,224,530
Other receivables	58,349
Accounts payable	(3,440,427)
Loan payable	(1,514,874)
	(1,672,423)

Based on the above, assuming all other variables remain constant, a 10% weakening or strengthening of the Canadian dollar against CNY would result in an increase/decrease of $167,242 in the Company's loss.

Fluctuations in the US dollar will impact the profits and resulting cash flows of the Company as its gold sales are denominated in US dollars.

At September 30, 2011, the Company has no contracts or agreements in place to mitigate the currency risk.

3. Financial Instruments and Risk Management (continued)

- **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 ARO.

At September 30, 2011, the Company has no contracts or agreements in place to mitigate this price risk.

4. Accounts receivable

Accounts receivable consists of the following:

	2011 -$-	2010 -$-
Sale of mineral property (Note 8)	-	846,453
Gold sales	-	182,935
	-	1,029,388

At September 30, 2011, a provision for the non-recovery of $846,453 from the sale of mineral property was recorded. Any future recovery from this amount will be recorded as income at the date of receipt.

The amount due from gold sales of $182,935 was received during the year.

5. Inventory

Inventory consists of the following:

	2011 -$-	2010 -$-
Gold concentrate	1,185,451	224,132
Ore stockpile	1,505,799	-
	2,691,250	224,132

6. Investments

Investments classified as available-for-sale are reported at fair value (or marked-to-market) based on quoted market prices, with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

The Company's investments consist of the following:

	Number	2011 Fair Value -$-	Number	2010 Fair Value -$-
Central China Goldfields Plc shares:				
Balance, beginning	500,000	220,293	500,000	48,095
Increase (decrease) in fair value	-	(69,750)	-	172,198
Balance, ending	500,000	150,543	500,000	220,293

The valuation of the shares has been determined by reference to the closing price of the shares on the London Stock Exchange on September 30, 2011. At that date, the closing price was $0.30 per share (2010 - $0.44). The cost of this investment was $40,000.

7. Property, plant and equipment

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	-$-	-$-	-$-	-$-	-$-	-$-
Processing plant - Muping mine (Note 8)	11,842,311	(193,993)	11,648,318	2,149,836	-	2,149,836
Office furniture, equipment, vehicles	150,569	(39,219)	111,351	49,760	(13,251)	36,509
Heavy machinery and equipment	62,920	(14,520)	48,400	52,715	(2,211)	50,504
	12,055,800	(247,732)	11,808,068	2,252,311	(15,462)	2,236,849

8. Mineral properties and deferred exploration costs

	2009	Addition	Write-down / Sold	2010	Addition	Write-down / Depletion	2011
	-$-	-$-	-$-	-$-	-$-	-$-	-$-
Muping, China:							
Investigations	6,250	-	-	6,250	-	-	6,250
Acquisition	132,716	11,513,756	-	11,646,472	-	-	11,646,472
Assays and analysis	918,898	-	-	918,898		-	918,898
Exploration work	1,173,017	-	-	1,173,017	75,745	-	1,248,762
Drilling	2,082,842	-	-	2,082,842	224,380	-	2,307,222
Geological and geochemical	2,125,822	275,370	-	2,401,192	380,410	-	2,781,602
Logistics and support	600,130	-	-	600,130	-	-	600,130
Capital equipment	1,256,871	-	-	1,256,871	-	-	1,256,871
Depletion	-	-	(29,334)	(29,334)	-	(88,902)	(118,236)
Recovery of production costs	-	-	-	-		(441,885)	(441,885)
Asset retirement obligation	-	-	-	-	401,311	-	401,311
Future income taxes	15,000	-	-	15,000	-	-	15,000
	8,311,546	11,789,126	(29,334)	20,071,339	1,081,846	(530,787)	20,622,397
Shandong, China:							
Investigations	4,640	-	(4,640)	-	-	-	-
Acquisition	246,044	-	(246,043)	1	-	-	1
Exploration work	182,533	-	(182,533)	-	-	-	-
Geological and geochemical	338,049	-	(338,049)	-	-	-	-
Logistics and support	133,105	48,305	(181,410)	-	-	-	-
Future income taxes	5,000	-	(5,000)	-	-	-	-
	909,371	48,305	(957,675)	1	-	-	1
Jingang, China:							
Assays and analysis	45,055	-	(45,054)	1	-	-	1
Exploration work	136,638	-	(136,638)	-	-	-	-
Drilling	60,000	-	(60,000)	-	-	-	-
Geological and geochemical	46,933	-	(46,933)	-	-	-	-
Logistics and support	5,883	-	(5,883)	-	-	-	-
	294,509	-	(294,508)	1	-	-	1
	9,515,426	11,837,431	(1,281,517)	20,071,341	1,081,846	(530,787)	20,622,399

8. Mineral properties and deferred exploration costs (continued)

Sawayaerdun, China

Pursuant to a joint venture agreement entered into during the year ended September 30, 2004 with a party in China and the completion of the required minimum cumulative exploration expenditures, the Company acquired a 90% interest in the Sawayaerdun Project in the Xinjiang Province, China.

On April 19, 2009, the Company entered into an agreement (the “Agreement”) to sell their interest to the Chinese Co-Venturer (the “Purchaser”) for CNY 45,500,000 (CAD 7,143,530) (the “Purchase Price”). The Company’s share of the proceeds was CNY40,950,000 (CAD 6,429,177). During the year ended September 30, 2009, the Company recognized a loss of $4,683,592 on the sale of this property.

On September 8, 2009, upon the approval of the transaction by the China Xinjiang Bureau of Geology and Mineral Resources (the “Bureau”), the Company received the first installment of the Purchase Price, CNY 25,000,000 (CAD 3,925,016). On July 30, 2010, after the Bureau received all documents required to facilitate the transfer of the exploration and mining permits, the Company received the second installment of the Purchase Price, CNY 15,000,000 (CAD 2,355,010). The Agreement provides for the remainder of the Purchase Price, CNY 5,500,000 (CAD 846,453) (Note 4), to be received within 10 business days after the exploration and mining permits are transferred and registration of the joint venture company with the Industry and Commerce and Tax Bureau is cancelled, which the Company expects to take place in the next financial year. At September 30, 2011, due to uncertainty of collection, a provision for the collectability of $846,453 from the sale of the mineral property was recorded. Any future recovery from this sale will be recorded as income at the date of receipt (Note 4).

Muping, China

In May 2004, the Company, through its 94% owned subsidiary Majestic Yantai Gold Ltd. (“Majestic Yantai”), acquired an interest in thirteen exploration licenses located in the Chinese province of Shandong (the “Muping Mineral Property”). The Company acquired these licenses as part of a Co-operation Contract with Shandong Yantai Muping Gold Mine, China. This agreement provided an option to acquire a 60% interest in Yantai Zhongia Mining Inc. (“JVCo”), a Chinese Co-operation Company that was established to hold the rights to the Muping Mineral Property. In order to secure its rights and interest in the Co-operative company, Majestic Yantai was required to contribute a minimum of CNY 35,000,000 in exploration costs by March 2009 (completed). During the years ended September 30, 2008 and 2007, nine of the thirteen exploration licenses were abandoned. , leaving four exploration licenses that now comprise the Muping, China project.

The costs capitalized to the Muping Mineral Property will be allocated to mining assets upon the completion of a bankable feasibility study. To date the Company has completed only a preliminary economic assessment.

During the year ended September 30, 2010 the Company entered into the following Agreements relating to the Muping Mineral Property:

1. On February 11, 2010 the Company entered into an Acquisition Agreement (“Agreement”) with Yantai Dahedong Processing Co. Ltd ("Dahedong") to acquire the remaining 40% (“Muping JV Interest”) of JVCo. As part of the proposed transaction, JVCo will acquire the Mining Permit required to commence mining operations at Muping and will commence mining operations. Details of the mining operations to be undertaken by Dahedong on behalf of JVCo are outlined below.
2. On September 1, 2010 the Company entered into a Declaration of Trust and Profit Sharing Agreement ("Profit Sharing Agreement") with Dahedong which, among other matters, outlines the basis by which the mining operations and share of profits, as defined in the Agreement, are to be conducted and distributed. The Profit Sharing Agreement was a re-affirmation of essential arrangements as outlined in the original Agreement of February 11, 2010.

8. Mineral properties and deferred exploration costs (continued)

Muping, China (continued)

3. On September 29, 2010 the Company entered into Addendum No. 1 to the Agreement, details of which are outlined below.

The Muping JV Interest was initially transferred from its holders to Dahedong. The agreement then provides for this interest to be transferred to Majestic Yantai. Upon completion of the Muping JV Interest by Majestic Yantai, the Company's interest in JVCo and the Muping Mineral Property increases from 54% to 94%.

As consideration for the Muping JV Interest, the Company issued 160,000,000 common shares of the Company with a fair value of $8,000,000. In addition, the Company paid a finder's fee by the issuance of 8,000,000 common shares of the Company with a fair value of $400,000 (Note 11).

Majestic entered into the Agreement and the Profit Sharing Agreement to facilitate commencement of mining operations at the Muping Mineral Property. The Agreements provides that Dahedong will carry on mining operations on the property. In addition, Dahedong will process ore mined from the property at facilities owned by it.

The Agreement also provides for construction of a new mill and related facilities (collectively the "New Mill") with an output of at least 5,000 tonnes per day. The cost of acquiring the land for the New Mill will be borne entirely by Dahedong if its capacity does not exceed 5,000 tonnes per day. If Majestic designates a larger capacity mill, the costs of the land will be borne as to 75% by JVCo and 25% by Dahedong. In either event, construction costs will be borne as to 75% by JVCo and 25% by Dahedong.

Under the Agreement, mining operations will be carried out by Dahedong. Dahedong will be responsible for mining, transporting and processing ore and tailings and other waste material from the Property for a period of 30 years (the "Mining Term").

Significant terms of the Agreement are as follows:

1. As compensation for the use of Dahedong's mining assets and equipment during the Mining Term, Dahedong will be entitled to 25% of the net profits ("Net Profits"), as defined in the Agreement, of JVCo derived from mining operations during the Mining Term;

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

3. Until the transfer of the Muping JV Interest to Dahedong has received all required Chinese governmental approvals and has been completed, 60% of Net Profits will be distributed to Majestic Yantai and the remaining 40% of Net Profits will be retained by JVCo. As of September 30, 2010, all required Chinese government approvals have been completed.

4. After the transfer of the Muping JV Interest to Dahedong has been completed and before the transfer of the Muping JV Interest to Majestic Yantai is completed, 60% of Net Profits will be distributed to Majestic Yantai, 25% of Net Profits will be distributed to Dahedong to compensate Dahedong for the use of the Mining Assets and the remaining 15% of Net Profits retained by JVCo pending completion of the acquisition of the Muping JV Interest by Majestic Yantai. As of September 30, 2010, the transfer of the Muping JV Interest to Majestic Yantai has been completed.

5. After the transfer of the Muping JV Interest to Majestic Yantai has been completed, and acceptance from the TSX-V has been received, 75% of of Net Profits will be distributed to Majestic Yantai and the remaining 25% of Net Profits will be distributed to Dahedong. As of September 30, 2010, acceptance from the TSX-V has been received.

8. Mineral properties and deferred exploration costs (continued)

Muping, China (continued)

6. To cover Dahedong's operational costs, Dahedong will receive ¥75 per tonnne ("Mining Fee") for all mining, transporting and processing services required to produce concentrate suitable for delivery to a refinery or smelter. The Mining Fee will be paid only from revenue from mining operations so that no cost, expense or liability will accrue to or be payable by JVCo with respect to mining operations, and the Mining fee will be paid to Dahedong from revenue before any revenue is distributed to any participant in JVCo. On August 25, 2010, the Mining Fee was revised resulting in Mining Fees ranging between ¥55 and ¥75 per tonne for open pit operations and ¥92.5 and ¥130 for underground operations. The Mining Fees are based on ranges of ore head grade.

7. Dahedong will be primarily responsible for dealings with Chinese governmental authorities and interest groups in carrying out mining operations.

On September 29, 2010, an Addendum No.1 ("Addendum") to the Agreement was signed with effect from February 11, 2010 outlining specific addenda to the original Agreement as follows:

1. Pursuant to the Profit Sharing Agreement made as of September 1, 2010, it was agreed the Company would advance further funds to JVCo by way of capital contributions to fund the expansion of operations including construction of the New Mill thereby increasing the Company's interest in JVCo from 60% to 75% before any transfer of the Muping JV interest by Dahedong;
2. Parts of the original Agreement were deleted and replaced with the following:
   a. Dahedong will construct one New Mill and related facilities with an output of approximately 6,000 tonnes per day at a budgeted cost of $50,000,000;
   b. Dahedong shall complete the procedures for the acquisition and lease of land to be occupied by the New Mill, obtain necessary approvals, complete filing procedures, and coordinate the supply of utilities such as water and electric power for the New Mill;
   c. Dahedong shall be responsible for 25% of the costs incurred in the construction of the New Mill including permitting, leasing and licensing costs, and JVCo shall be responsible for 75% of construction costs;
   d. Ownership of the New Mill shall be vested in JVCo;
   e. Dahedong will be responsible to pay all construction costs in the first instance;
   f. JVCo will reimburse Dahedong for 100% of JVCo's share of construction costs out of JVCo's share of Net Profits before any Net Profits are paid or distributed by JVCo to the Company;
   g. JVCo's share of construction costs will be paid only from JVCo's share of Net Profits so that no cost, expense or other liability will accrue to or be payable by JVCo otherwise than out of Net Profits;
   h. JVCo will pay to Dahedong a financing fee equal to 10% of JVCo's share of construction costs out of JVCo's share of Net Profits after JVCo's share of construction costs have been paid in full and before any Net Profits are paid or distributed by JVCo to the Company;
   i. Title to the New Mill shall not be transferred to JVCo until JVCo has reimbursed Dahedong for JVCo's share of construction costs out of JVCo's share of Net Profits;
   j. JVCO shall have the right, but not the obligation, to pay or reimburse Dahedong for all or any portion of JVCo's share of construction costs from other sources of funding which may be available to JVCo from time to time. Such payments would offset the agreed minimum payments from revenues

During the year ended September 30, 2011, Dahedong's share of Net Profits was $683,333 (2010 - $397,284).

The Company is accounting for the New Mill acquisition as a stepped acquisition as the Company's is only liable to make payment from Net Profits. Consequently, the Company recorded the asset to the extent that payments have been made to Dahedong.

8. Mineral properties and deferred exploration costs (continued)

Shandong, China

The Shandong project consists of exploration licenses acquired by way of a Co-operation Contract with Yantai Jinze Mining and Technology Ltd. Under this agreement, the Company acquired a 90% interest in Yantai Jinze Gold Inc., a Chinese Cooperation Company that was established to hold the exploration rights to certain properties located in the vicinity of Yantai City in the Province of Shandong. In accordance with an amended agreement dated January 20, 2008, the Company was required to contribute $300,000 in order to secure its interest (completed).

The Company has three additional active licenses in the Yuhuangding, Baima and Xianiantou areas within the Shandong project.

During the year ended September 30, 2010, the Company determined that this property was impaired and therefore recognized a write-down of $957,675.

Jingang, China

In July 2006, the Company entered into a Co-operation Contract with China Shandong No. 3 Mineral and Geological Exploration Institute. The Company has the right to acquire a 70% interest in Yantai Ludi Jingang Gold Mining Inc., a Chinese Co-operation Company established to hold the exploration rights to the Jingang Gold Project in the Shandong Province of China. In order to secure its interest in the co-operation company, the Company is required to contribute a minimum of $567,125 in exploration costs and make a cash payment of CNY 1,750,000 to China Shandong No. 3 Mineral and Geological Exploration Institute. The timetable under the contract for these exploration costs is as follows:

- $170,833 in exploration costs are be contributed within 90 days of the issuance of the business license to the co-operation company;
- $396,292 in exploration costs are to be contributed within 1.5 years of the issuance of the business licenses of the co-operation company in accordance with Chinese laws; and
- make the cash payment of CNY 1,750,000 within one month from when the transfer approval of all mining and exploration licenses is received.

At September 30, 2010, the issuance of the business license and the receipt transfer of all mining and exploration licenses had not occurred. Therefore, to date, the contributions described above are not yet due and have not been made or accrued.

During the year ended September 30, 2010, the Company determined that this property was impaired and therefore recognized a write-down of $294,508.

9. Asset retirement obligations

The Company's asset retirement obligations consist primarily of costs associated with mine reclamation and closure activities. These activities, which are site specific, include costs for earthworks, including detoxification and re-contouring, re-vegetation, water treatment and demolition. In calculating the fair value of the Company's asset retirement obligations, management used a credit adjusted risk-free rate of 12.51% and an inflation rate of 2%. The undiscounted cash flows, before inflation adjustments, estimated to settle the asset retirement obligations was $3,971,285 million at October 1, 2010. The majority of the expenditures are expected to occur in or after 2030.

At September 30, 2011 the balance was determined as follows:

	2011 -$-	2010 -$-
Balance, beginning	-	-
Addition resulting from commencement of mining operations at the Muping Property (Note 8)	401,311	-
Accretion expense	46,108	-
Balance, ending	447,419	-

10. Loans payable

	2011 -$-	2010 -$-
Balance, beginning	2,215,615	1,656,389
Accrued interest and fees	127,540	559,226
Loan received	1,953,602	
Loan repaid	(2,781,883)	-
Balance, ending	1,514,874	2,215,615

In April 8, 2008, the Company issued an unsecured note payable of $2,000,000 as part of obtaining funding for the purpose of making the Company's final capital contribution to JVCo (Note 8). The loan included interest at the rate of 30% per annum on all principal amounts commencing on September 1, 2008. The note matured on September 30, 2008. The Company was required to pay a $25,000 re-commitment fee at the beginning of each month during which the principal of the loan plus any unpaid interest remains outstanding.

On November 3, 2010, the Company repaid the outstanding loan principal balance and accrued interest and fees in the amount of $2,301,432.

During the year ended September 30, 2011, JVCo received $1,953,602 (CNY 12,000,000) and repaid $488,400 (CNY 3,000,000) to a lender that is at arm's length from the Company, to finance the new mill construction. At September 30, 2011, $1,514,874 (CNY 9,305,116) remained outstanding. The loan is unsecured and bears interest when repayable at a rate of 0.7% per month. The loan is repayable in ten months from the date of cash advances making up the total balance outstanding.

11. Share capital

Authorized

An unlimited number of common shares without par value.

Issued

	Number	2011 -$-	Number	2010 -$-
Balance, beginning	399,796,169	42,363,600	228,299,986	33,693,600
Issued:				
For mineral properties	-	-	160,000,000	8,000,000
For mineral properties – finders' fees	-	-	8,000,000	400,000
For cash on private placements	14,000,000	2,800,000	-	-
Warrants exercised	151,979,413	15,197,941	2,700,000	270,000
Stock options exercised	575,000	69,000	-	-
Finders' shares	-	-	796,183	39,809
Share issue costs	-	(1,074,832)	-	(39,809)
Balance, ending	566,350,582	59,355,709	399,796,169	42,363,600

Share capital transactions:

Year ended September 30, 2011:

On August 10, 2011, the Company completed a non-brokered private placement consisting of 14,000,000 common shares at $0.20 per share for gross proceeds of $2,800,000. The Company paid $280,000 in cash as finders' fees for this private placement.

Share purchase warrants totaling 151,979,413 were exercised for proceeds of $15,197,941. The Company incurred $794,832 of finders' fees relating to warrants exercised.

Stock options totaling 575,000 were exercised for proceeds of $69,000.

Year ended September 30, 2010:

On June 10, 2010, the Company issued 796,183 shares at $0.05 per share as finders' fees relating to its non-brokered private placement that closed on October 26, 2008, not issued at the time of the private placement.

On September 13, 2010, the Company issued 160,000,000 shares at $0.05 per share as consideration for the Muping JV Interest (Note 8). The Company also issued 8,000,000 shares at $0.05 per share as finders' fees.

Share purchase warrants totaling 2,700,000 were exercised for proceeds of $270,000.

11. Share capital (continued)

Share Purchase Warrants

The continuity of share purchase warrants outstanding is as follows:

Issue Date	Outstanding 2010	Warrants Exercisied	Warrants Expired/ Cancelled	Outstanding 2011	Exercise Price -$-	Expiry Date
October 14, 2008	95,540,140	(95,540,140)	-	-	0.10	October 15, 2010
July 16, 2009	57,029,197	(56,439,273)	(589,924)	-	0.10	July 16, 2011
	152,569,337	(151,979,413)	(589,924)	-		

Stock Options

The maximum number of common shares issuable under the terms of the Company's Amended Incentive Stock Option Plan, dated February 15, 2005, shall not exceed 10% of the issued and outstanding shares of the Company at the time the stock options are granted, less the number of shares, if any, subject to prior stock options issued.

In September 2011, the Company granted 30,000,000 (2010 – 20,000,000) stock options to directors, senior officers and consultants at a price of $0.20 (2010 - $0.12) per share for a period of five years. The following assumptions were used for the Black-Scholes valuation of these stock options granted: expected dividend yield – 0% (2010 – 0%); expected stock price volatility – 152.87% (2010 - 143%); risk-free interest rate – 1.49% (2010 - 2.47%); expected life of options – 5 years (2010 - 5 years). For year ended September 30, 2011, the Company recorded stock-based compensation expenses of $5,496,000 (2009 – $2,342,240).

A summary of the status of the Company's stock options at September 30, 2011 and 2010, and changes during the year then ended is as follows:

Expiry Date	Exercise Price -$-	Average Remaining Life (years)	Outstanding 2010	Granted	Cancelled, Expired, Excercised	Outstanding 2011	Exercisable 2011
January 9, 2011	$0.30	-	50,000	-	(50,000)	-	-
October 3, 2012	$0.30	1.0	2,075,000	-	-	2,075,000	2,075,000
June 22, 2015	$0.12	3.7	20,000,000	-	(575,000)	19,425,000	19,425,000
September 14, 2016	$0.20	5.0		30,000,000	-	30,000,000	30,000,000
			22,125,000	30,000,000	(625,000)	51,500,000	51,500,000

12. Convertible Loan

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

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

As the Company was not obliged to negotiate to negotiate a further agreement with the lender during the 90-day period it had no obligation to settle the loan in cash or other assets of the Company. As a result of not having an obligation to settle the loan in cash or other assets of the Company, the loan was classified as equity (Note 23).

13. Contributed surplus

Changes to the Company's contributed surplus account are summarized as follows:

	2011 -$-	2010 -$-
Balance, beginning	4,256,613	1,914,373
Stock-based compensation expense recognized in the year (Note 9)	5,496,000	2,342,240
Balance, ending	9,752,613	4,256,613

14. Related Party Transactions

Due to related parties

The following amounts are due to related parties:

	2011 -$-	2010 -$-
Directors of the Company	7,548	168,973
Companies controlled by an officer and director of the Company	171,739	217,543
	179,288	386,516

Amounts due to related parties are unsecured, non-interest bearing and are repayable on demand.

14. Related Party Transactions (continued)

Transactions with related parties

The Company was charged the following amounts by companies controlled by a significant shareholder and directors or companies controlled by directors of the Company for the years ended September 30, 2011 and 2010:

	2011 -$-	2010 -$-
Consulting and management fees	1,152,707	591,732
Rent and administrative services	92,437	127,700
	1,245,144	719,432

These transactions occurred in the normal course of operations and are measured at their exchange amounts, which is the amount of consideration established and agreed to by the parties.

15. Income tax

Income tax expense

	2011 -$-	2010 -$-
Loss before income taxes	(10,258,349)	(5,338,497)
Statutory income tax rate	27%	28.88%
Expected income tax recovery at statutory income tax rate	(2,769,754)	(1,541,492)
Items not recognized for tax purposes	1,483,920	692,058
Future tax benefit of share issue costs not recognized	(268,708)	(9,953)
Expiration of non-capital losses	-	76,264
Items not deductible for tax purposes and other	-	437,364
Tax on unrealized gains not booked to other comprehensive income	(8,719)	20,513
Effect of change in tax rate	124,277	(125,157)
Change in valuation allowance	1,753,479	369,619
Income tax expense (recovery)	314,495	(80,784)

The significant components of the Company's future income tax assets and liabilities are as follows:

	2011 -$-	2010 -$-
Canadian non-capital losses	4,368,473	3,108,595
Canadian capital losses	2,471	2,471
Share issuance costs	293,425	132,011
Investments	309,650	(22,537)
Mineral properties	(2,819,544)	(2,719,216)
	2,154,475	501,324
Valuation allowance	(4,974,019)	(3,220,540)
Net future income tax assets	(2,819,544)	(2,719,216)

15. Income tax (continued)

As at September 30, 2011, the Company had Canadian non-capital losses of $17,088,229 available to reduce future taxable income. These losses expire as follows:

2014	$	759,331
2015		1,202,115
2026		1,171,100
2027		1,987,163
2028		2,506,751
2029		2,189,149
2030		2,372,683
2031		4,899,937
	$	17,088,229

Management has determined that the realization of the potential income tax benefits related to the non-capital losses and other tax pools is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has recorded a valuation allowance for the potential future income tax asset.

16. Segmented information

The Company operates in one industry segment, being exploration and mining operations in China. All of the Company's capital assets are located in China, except office furniture and equipment with a net book value of $10,293 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

17. Supplemental cash flow information

Supplementary disclosure of cash flow information is provided in the table below:

	2011 -$-	2010 -$-
Loan interest and fees paid	998,829	-
Income taxes paid	214,167	-
Accounts payable and accrued liabilities relating to resource property expenditures	122,951	-
Accounts payable and accrued liabilities relating to property, plant & equipment	131,350	595,367
Shares issued on acquisition of mineral property interest	-	8,400,000
Shares issued as finders' fees on private placements	-	39,809

	2011 -$-	2010 -$-
Cash and cash equivalents consists of:		
Cash	10,204,606	1,791,845
Term deposit	3,857,510	-
	14,062,116	1,791,845

18. General and administrative expenses

Additional disclosure of general and administrative expenses is provided in the table below:

	2011 -$-	2010 -$-
Consulting	2,497,278	907,698
Office and general	831,637	211,270
Professional fees	279,538	166,915
Salaries	287,927	175,903
Travel	1,104,623	231,980
Total	5,001,003	1,693,766

19. Capital management

The Company's policy on capital management is to maintain a capital structure that provides financial flexibility, preserves access to capital markets, maintains investor, creditor and market confidence, and that allows the Company to fund future development and mining operations. Management considers capital structure to include share capital, cash, amounts due to and from related parties, and working capital. In order to maintain or adjust capital structure, the Company may from time to time issue shares or enter into debt agreements and adjust its capital spending to manage current and projected cash flows and debt levels.

The company's share capital is not subject to any external restrictions. The Company has not paid or declared any dividends, nor are any contemplated in the foreseeable future. There have been no changes to the Company's capital management strategy during the year ended September 30, 2011.

20. Non-controlling interest

The Company had initially accounted for its interest in Majestic Yantai (Note 8) as an asset acquisition. As a result of the Muping Mineral Property commencing production during the year ended September 30, 2010, the Company recognized the non-controlling interest in the subsidiary. The non-controlling interest represents a 6% equity interest in Majestic Yantai held by a minority shareholder.

21. Commitments

Operating lease commitments

On June 1, 2011, the Company entered into a 5-year lease agreement with RPMG Holdings Ltd., whereby the Company is required to pay $4,078.34 per month for rental of the head office premises. Total basic rent over the remaining lease period is $232,465.

Operating lease commitments	2012 -$-	2013 -$-	2014 -$-	2014 -$-	2015 -$-	Total -$-
Office premises	48,940	48,940	48,940	48,940	36,705	232,465

22. Re-statement

During the year ended September 30, 2010 the Company did not recognize, upon consolidation, a future income tax liability on the acquisition of the remaining 40% share interest in the company holding the Muping Mineral Property interest (Note 8).

These financial statements have been retroactively restated to reflect the correction of this error.

The following presents the effect of the re-statement:

	As Previously Reported -$-	Increase (Decrease) -$-	Restated -$-
Mineral properties	17,271,341	2,800,000	20,071,341
Income tax liability	(280,765)	(280,765)	-
Future income tax liability	-	2,719,216	(2,719,216)
Deficit	28,605,514	361,549	28,243,965

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	As Previously Reported -$-	Decrease -$-	Restated -$-
Net loss	5,643,269	(361,549)	5,281,720
Loss per share – basic and diluted	0.02	0.00	0.02

23. Subsequent events

On November 3, 2011, the $10,000,000 convertible loan (Note 12) was converted into common shares of the Company at a price of $0.205 per share. In addition, loan interest in the amount of $437,500 was converted into common shares of the Company at a price of $0.205 per share.