



**MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the six months ended March 31, 2018

(Expressed in US dollars)

Majestic Gold Corp.
Management's Discussion and Analysis
For the six months ended March 31, 2018

INTRODUCTION

The following Management Discussion and Analysis ("MD&A") of the financial condition and results of operations of Majestic Gold Corp. ("Majestic" or "the Company") should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements and related notes thereto for the six months ended March 31, 2018 and 2017, (the "Financial Report").

The financial information in this MD&A is derived from the Company's financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in US dollars unless otherwise indicated.

Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website www.majesticgold.com.

This MD&A contains information to May 29, 2018.

This discussion focuses on key statistics from the unaudited condensed consolidated interim financial statements for the period ended March 31, 2018 and up to the date of this MD&A and pertains to known risks and uncertainties relating to the gold exploration and development and mining industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions.

HIGHLIGHTS

- The Company had record gold production of 8,297 ounces for the second quarter of fiscal 2018, a 43% increase in production over the 2017 comparative quarter. The Company also had record gold production of 15,347 ounces for the six months ended March 31, 2018, a 32% increase over the 2017 comparative period;
- Gold revenue for the second quarter of fiscal 2018, was \$8.2 million from sales of 6,030 ounces at an average gold price of \$1,354 per ounce, compared to gold revenue of \$9.5 million from sales of 7,716 ounces at an average realized gold price of \$1,234 per ounce for the 2017 comparative quarter. Gold revenue for the six months ended March 31, 2018 was \$16.9 million (2017 - \$13.5 million);
- Cash operating costs for the second quarter of fiscal 2018 were a record low of \$605 per ounce, \$155 per ounce (or 20%) lower compared to the 2017 comparative quarter. Cash operating costs for the six months ended March 31, 2018, were \$631 per ounce, \$156 per ounce (or 20%) lower compared to the 2017 comparative period;
- All-in sustaining costs ("AISC") for the second quarter of fiscal 2018 were a record low of \$719 per ounce, \$129 per ounce (or 15%) lower compared to the 2017 comparative quarter. AISC for the six months ended March 31, 2018, were a record low \$738 per ounce, \$169 per ounce (or 19%) lower compared to the 2017 comparative period;
- Cash flow from operating activities was \$5,920,218 for the six months ended March 31, 2018, up 116% from \$2,743,435 from the 2017 comparative period;
- Gross profit for the second quarter of fiscal 2018 was \$3,401,579 (2017 Q2- \$2,705,984). Gross profit for the six months ended March 31, 2018, was \$6,910,272 (2017 – \$3,639,173);
- Net income for the second quarter of 2018 was \$1,628,257 (2017 Q2 - \$1,385,856). Net income for the six months ended March 31, 2018, was \$3,965,462 (2017 – \$1,705,556);
- Majestic's adjusted EBITDA was \$3,969,970 for the second quarter of 2018 (2017 Q2 - \$3,071,795). Refer to pages 13-15 for the computation of this Non-IFRS financial measure;
- Tonnes milled for the second quarter of fiscal 2018 were 410,703 tonnes (2017 Q2 – 413,214) with an average head grade of 0.64 g/t (2017 Q2 – 0.54 g/t) and recovery rate of 96% (2017 Q2 – 92%);
- On February 14, 2018, the Company issued 64,724,919 common shares at CAD\$0.15 per common share for total proceeds of CAD\$9,708,738 (USD\$7,729,126) pursuant non-brokered private placement (the "Offering"). In connection with the Offering, the Company paid finder's fees by issuing 3,236,246 common shares with a fair value of CAD\$161,812 (USD\$128,819) and incurred share issue costs of CAD\$34,595 (USD\$27,358).

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OUTLOOK

The Company's priority for 2018 is continued improvement of its mining operations from the implementation of its optimized mine plan. For the first six months of fiscal 2018, the Company achieved record quarterly highs for both its gold head grade and gold production, averaging a head grade of 0.63 g/t and producing 15,347 ounces for the period.

The Company also continues making progress at the Songjiagou North property underground development, with the expected completion scheduled for late fiscal 2018 to early fiscal 2019.

The Company is also pursuing possible property acquisitions and has commenced exploring the opportunity of a direct financing of its Chinese subsidiary through an Asian Market facility, with a possible separate listing of the Chinese subsidiary's shares on an Asian exchange.

DESCRIPTION OF BUSINESS

Majestic is a Vancouver, Canada based gold producer with mining operations in China. The Company's main business involves the acquisition, exploration and development of mineral properties. At March 31, 2018, and at the date of this MD&A, all of the Company's mineral property interests and mining operations are located in China. The Company is a TSX Venture Exchange listed mining company trading under the symbol "MJS".

The Company's principal mining operation is the Songjiagou Gold Mine ("Songjiagou Project" and "Songjiagou"), of the Muping mineral property, located in Shandong province, China. Majestic holds its interest in Muping through its 94% owned subsidiary Majestic Yantai Gold Ltd. ("Majestic Yantai").

SONGJIAGOU GOLD MINE

The Songjiagou Gold Mine is the Company's flagship project. The Company began commercial production in May 2011 using process facilities with a capacity of 6,000 tpd throughput. The Company's joint venture partner Yantai Dahedong Processing Company Ltd., ("Dahedong") has held the contract to mine and process ore since startup.

RESOURCE

The Company filed a technical report titled "Independent Technical Report of Songjiagou Project, Shandong Province, The People's Republic of China" (the "Report") dated January 19, 2016, as prepared by SRK Consulting (China) Ltd. ("SRK").

The Report is an amendment of the initial technical report in support of the Preliminary Economic Assessment ("PEA") for the Songjiagou Gold Mine dated August 2, 2013, and prepared by SRK Consulting (China) Ltd. The Amended Report is available under the Company's profile on SEDAR at www.sedar.com and on the Company's website www.majesticgold.com.

Amended Resource Estimate* (in Amended Report dated January 19, 2016)

Global Resource

Open Pit		Underground
Indicated (MT)	Inferred	Inferred
(0.30 g/t Au) cutoff	(0.30 g/t Au) cutoff	(0.80 g/t Au) cutoff
26.6 MT @ 1.40 g/t Au	23.4 MT @ 1.45 g/t Au	5.6 MT @ 2.60 g/t Au

Within Original Mining License

Open Pit		Underground
Indicated (MT)	Inferred	Inferred
(0.30 g/t Au) cutoff	(0.30 g/t Au) cutoff	(0.80 g/t Au) cutoff
24.1 MT @ 1.44 g/t Au	18.0 MT @ 1.29 g/t Au	4.9 MT @ 2.60 g/t Au

*The resource estimate is categorized as Indicated and Inferred as defined by the CIM guidelines for resource reporting. Mineral resources do not demonstrate economic viability, and there is no certainty that these mineral resources will be converted into mineable reserves once economic considerations are applied.

- The amended resource estimate accounted for depletion by previous underground mining of an amount of 443,555 tonnes at an average grade of 0.85 g/t gold;

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- The Amended Report designated Scenario 1 as a base-case for PEA of the Songjiagou operation. Scenario 1 allows for mining of only Indicated Resources, within the original mining license, at a rate of up to 7,400 tonnes per day. Results of the base-case analysis, using US\$1,355 per ounce gold as the long term price are as follows:
 - Mining Inventory: 17.094MT @ 1.36 g/t gold
 - Stripping Ratio: 3.26:1
 - Mining Recovery: 95%
 - Mining Dilution: 5%
 - Smelting Recovery: 93%
 - After-tax NPV @ 10% discount rate: US\$335 Million
 - Sensitivity analysis for 20% reduction in the base-case average gold price (US\$1,084 per ounce) results in an after-tax NPV of US\$232 Million

A PEA should not be considered to be a prefeasibility or feasibility study, as the economics and technical viability of the Project have not been demonstrated at this time. A PEA is preliminary in nature; it includes inferred mineral resources considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves; there is no certainty that the preliminary assessment will be realized.

DEVELOPMENT

Songjiagou North

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

The Company's underground development plan for Songjiagou North property is the development of a 2,075 meter ramp to access a minimum of four of the five identified mineralized vein structures from six different levels. The Company began the development at Songjiagou North in the first quarter of 2017 and anticipates the underground development to be completed in late fiscal 2018 or early fiscal 2019 with production commencing thereafter.

The underground development has progressed with the completion of 1,100 meters of the 2,075 meter ramp to date; with current emphasis on the development of three of the six identified levels, as well as the construction of an air shaft and a blind inclined shaft.

EXPLORATION

Baiheng

On March 6, 2018, the Company entered into a new two year non-binding Letter of Intent ("LOI") with Yantai Baiheng Gold Mining Co. Ltd. ("Baiheng"). The March 8, 2018 LOI supersedes the July 11, 2016 LOI allowing the Company an additional 24 months to complete its due diligence on the Shuang Shan Tun and Xia Yu Cun properties ("Properties"), located in the Muping-Rushan Gold Belt in Shandong Province, China.

The March 6, 2018 LOI is, in principal, a due diligence agreement that allows Majestic until July 11, 2020 to complete its due diligence, after which the Company has the option to enter into a definitive agreement for the Properties.

The completion of the joint venture is subject to the completion of due diligence on exploration and development work completed on the Properties to date, the completion of a scoping study-level evaluation of the Properties, as well as the approval of the TSX Venture Exchange and all other required regulatory, corporate and security holder approvals. During the due diligence period and prior to entering into a definitive agreement with Baiheng, Majestic does not have any obligations to Baiheng.

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The Properties are both small tonnage, medium-high grade underground gold projects that have been developed as small scale producers. Majestic intends to determine the economic viability of larger scale development of either property on a joint venture basis.

QUALIFIED PERSON

Stephen Kenwood, President and CEO of Majestic, is the Company's QP as defined by National Instrument 43-101 and is the non-independent QP that has read and approved the technical information contained in this MD&A.

SELECTED FINANCIAL INFORMATION

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Operating data				
Gold produced (ozs)	8,297	5,811	15,347	11,653
Gold realized net of smelting fees (ozs)	7,487	5,363	13,985	10,771
Gold sold (ozs)	6,030	7,716	12,753	10,835
Average realized gold price (\$/oz sold)	\$ 1,354	\$ 1,234	\$ 1,325	\$ 1,247
Total cash costs (\$/oz sold) ⁽¹⁾	605	760	631	787
Total production costs (\$/oz sold) ⁽¹⁾	804	894	797	927
All-in sustaining costs (\$/oz sold) ⁽¹⁾	719	848	738	907
Financial data				
Total revenues	\$ 8,250,650	\$ 9,602,677	\$ 17,069,668	\$ 13,681,497
Gross profit ⁽²⁾	3,401,579	2,705,984	6,910,272	3,639,173
Adjusted EBITDA ⁽¹⁾	3,969,970	3,071,795	7,763,508	3,883,498
Net income	1,628,257	1,385,856	3,965,462	1,705,556
Net income attributable to shareholders	1,011,750	887,235	2,573,963	1,033,726
Basic and diluted income per share	0.00	0.00	0.00	0.00
			March 31, 2018	September 30, 2017
Balance Sheet				
Cash and cash equivalents			\$ 18,273,311	\$ 10,227,054
Total assets			122,172,977	105,726,421
Total current liabilities ⁽³⁾			31,549,873	29,040,099

(1) See "Additional Non-IFRS Financial Measures" on page 13-14.

(2) "Gross profit" represents total revenues, net of cost of goods sold.

(3) "Total current liabilities" does not include deferred income

RESULTS OF OPERATIONS

Gold Production

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Production data				
Tonnes mined	375,129	383,668	816,737	820,690
Tonnes milled	410,703	413,214	792,614	826,524
Head grade (g/t)	0.64	0.54	0.63	0.51
Mill recovery	96%	92%	95%	91%
Gold produced (ozs)	8,297	5,811	15,347	11,653
Gold realized net of smelting fees (ozs)	7,487	5,363	13,985	10,771

Tonnes milled for the second quarter of 2018 were 410,703 tonnes with an average head grade of 0.64 g/t, compared to 413,214 tonnes milled, with an average head grade of 0.54 g/t, for the 2017 comparative quarter.

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Total gold production for the second quarter of 2018 was 8,297 ounces (2017 Q2 - 5,811). Total gold realized was 7,487 ounces for the second quarter of 2018 (2017 Q2 – 5,363). For the six month period ended March 31, 2018, total gold production was 15,347 ounces (2017 – 11,653) and total gold realized was 13,985 ounces (2017 – 10,771).

The average head grade increased by 24%, leading to a 32% increase in gold production over the 2017 six month comparative period. The Company expects head grade and gold production to show continued improvement as the optimization of the mining operations continues under the developed mine plan.

Revenues

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Gold				
Ounces sold	6,030	7,716	12,753	10,835
Average realized price (\$/oz)	\$ 1,354	\$ 1,234	\$ 1,325	\$ 1,247
Revenues				
Gold	\$ 8,165,031	\$ 9,521,556	\$ 16,895,453	\$ 13,513,483
Other income	85,619	81,121	174,215	168,014
	\$ 8,250,650	\$ 9,602,677	\$ 17,069,668	\$ 13,681,497

Gold sales revenue was \$8.2 million for the second quarter of 2018, from the sale of 6,030 ounces, at an average realized gold price of \$1,354 per ounce, compared to gold sales revenue of \$9.5 million from the sale of 7,716 ounces, at an average realized gold price of \$1,234 per ounce, for the comparative quarter.

Revenues for the six month periods ended March 31, 2018 and 2017, also include other income from a February 1, 2015 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.

Cost of Goods Sold

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Ounces sold	6,030	7,716	12,753	10,835
Per ounce of gold sold ⁽¹⁾				
Cash costs	\$ 605	\$ 760	\$ 631	\$ 787
Production costs	804	894	797	927
Cost of Goods Sold				
Total cash costs	\$ 3,646,734	\$ 5,861,670	\$ 8,041,790	\$ 8,523,510
Total production costs	4,849,071	6,896,693	10,159,396	10,042,324

(1) See "Additional Non-IFRS Financial Measures" on page 13-14.

The cash costs per ounce were \$605 for the second quarter of 2018, as compared to \$760 per ounce for the 2017 comparative quarter. Production costs per ounce were \$804 for the second quarter of 2018, compared to \$894 per ounce for the 2017 comparative quarter.

Cash costs decreased by 20% in the current quarter over the comparative quarter of 2017. The reduction in costs was achieved through improved head grades, increased recovery rates as well as the lower cost of mining under the new contract of mining agreement.

Other Items

The Company's general and administrative expenditures were \$701,998 for the second quarter of 2018 (2017 Q2 - \$749,978)

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The details of the general and administrative expenses for the three and six months ended March 31, 2018 and 2017 are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Consulting and management fees	\$ 109,186	\$ 161,927	\$ 232,788	\$ 316,612
Depreciation	67,962	80,766	134,869	160,245
Office and general	151,546	187,180	294,339	324,600
Professional fees	9,543	13,471	9,543	13,981
Salaries	256,512	208,096	502,525	399,201
Shareholder communications	13,325	14,540	14,522	15,101
Travel	93,834	83,998	210,653	204,994
Total	\$ 701,908	\$ 749,978	\$ 1,399,239	\$ 1,434,734

G&A expenses recorded in the statement of operations reflect the normal corporate business cycle. The Company strives to provide efficient and cost-effective administrative support to management's ongoing efforts to monitor production costs, and increase shareholder value.

The details of the changes in the consolidated finance expense for the three and six months ended March 31, 2018 and 2017 are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Interest expense	\$ 199,856	\$ 212,398	\$ 406,292	\$ 425,364
Accretion of asset retirement obligation	23,615	18,118	46,339	36,391
Total	\$ 223,471	\$ 230,516	\$ 452,631	\$ 461,755

Net income for second quarter ended March 31 2018, was \$1,628,257 (\$0.00 per share) compared to \$1,385,856 (\$0.00 per share) for the 2017 comparative quarter.

The Company's adjusted EBITDA was \$3,969,970 for the second quarter of 2018 (2017 Q2 – \$3,071,795).

SUMMARY OF QUARTERLY RESULTS

The financial results for each of the eight most recently completed quarters are summarized below:

	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Net revenues	\$8,250,650	\$8,819,018	\$7,603,642	\$8,193,464
Net income	\$1,628,257	\$2,337,205	\$494,529	\$1,477,267
Income per share	\$0.00	\$0.00	\$0.00	\$0.00
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Net revenues	\$9,602,677	\$4,078,820	\$6,178,145	\$6,744,418
Net income (loss)	\$1,385,856	\$319,700	(\$1,854,786)	(\$330,993)
Income (loss) per share	\$0.00	(\$0.00)	\$0.00	(\$0.00)

Significant variations in net revenues between periods are primarily due to variances in gold sales as well as the volatility of gold prices.

Significant variations in the net loss between periods are primarily due to the volatility of gold prices and variances in gold sales, production costs, G&A expenses and stock based compensation.

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LIQUIDITY

The Company's liquidity requirements arise principally from the need for working capital to finance expansion of its mining and processing operations. The Company's principal sources of funds have been proceeds from the borrowing from various financial institutions in China, equity financings, and cash generated from operations. The Company's liquidity depends primarily on its ability to generate cash flow from its operations and to obtain external financing to meet its debt obligations as they become due, as well as the Company's future operating and capital expenditure requirements.

At March 31, 2018, the Company had cash and cash equivalents of \$18,273,311 (September 30, 2017 - \$ 10,227,054) and had a working capital deficit of \$7,709,342 (September 30, 2017 - (\$15,055,756)).

Majestic began the six months ended March 31, 2018, with \$10,227,054 in cash and cash equivalents. During the six months ended March 31, 2018, the Company had generated \$5,920,218 in operating activities, net of working capital changes, expended \$5,317,247 in investing activities, for the purchase and development of property, plant and equipment, and reclamation deposits, net of proceeds from the sale of gold futures, generated \$7,062,106 in financing activities, which was attributable to private placement proceeds, net of share issue costs and loan borrowings, net of loan borrowing repayments, and had a foreign exchange gain of \$381,180, to end at March 31, 2018, with \$18,273,311 in cash and cash equivalents.

Management considers its operating cash flows to be sufficient to cover the next twelve months to meet its planned exploration, development, operational activities, and its current outstanding debts. The Company has completed its mining and production facilities and is now dependent on achieving consistent profitable income from operations. Revenue and expenses should increase as production increases with the mill reaching full capacity. Should this not be achieved, the Company will continue to be dependent on raising additional funds to meet operational requirements and ultimately upon achieving profitable operations.

CAPITAL RESOURCES

At the date of this MD&A, the Company has 27,700,000 stock options at an exercise price CAD\$0.12. In addition, the Company has 72,500,000 share purchase warrants at an exercise price of CAD\$0.155. All stock option and share purchase warrants will, if exercised, provide additional cash. At the date of this MD&A, the stock options and share purchase warrants outstanding are "out of the money".

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

As at the date of this MD&A, other than as described herein and in the Financial Report, the Company has no other arrangements for sources of financing.

In management's view, given the nature of the Company's operations, which consists of exploration, mining and evaluation of mining properties, the most relevant financial information relates primarily to current liquidity, solvency and planned property expenditures. The Company's financial success will be dependent upon the extent to which it can discover mineralization and the economic viability of developing its properties. Such development may take years to complete and the amount of resulting income, if any, is difficult to determine. The sales value of any minerals discovered by the Company is largely dependent upon factors beyond the Company's control, including the market value of the metals to be produced.

OUTSTANDING SHARE DATA AS AT THE DATE OF THIS MD&A

Authorized: an unlimited number of common shares without par value.	Common shares issued and outstanding	Stock options	Warrants
Outstanding at March 31, 2018 and at the date of this MD&A	980,226,381	27,700,000	72,500,000

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TRANSACTIONS WITH RELATED PARTIES

Related party transactions

The Company incurred the following related party transactions during the three and six months ended March 31, 2018 and 2017:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
	-\$-	-\$-	-\$-	-\$-
Consulting fees charged by companies controlled by directors and officers of the Company - include key management personnel compensation	162,882	154,087	323,120	304,394
Mining and milling services charged by Dahedong	4,100,088	3,696,980	7,701,444	7,610,944
Interest charged by Dahedong	-	23,970	-	43,126
	4,262,970	3,875,037	8,024,564	7,958,464

Compensation of key management personnel

The remuneration of directors and other members of key management personnel, which are included in the amounts disclosed above, were as follows:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
	-\$-	-\$-	-\$-	-\$-
Short-term employee benefits—management fees	61,690	58,960	123,037	117,421
Director fees	42,349	41,790	83,090	80,615
	104,039	100,750	206,127	198,036

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

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET APPLIED

A number of new standards, amendments to standards and interpretations are issued but not yet applied as of March 31, 2018, in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

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IFRS 16 Leases

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

COMMITMENT AND CONTINGENCIES

Commitments and contingencies include principal and interest payments of Company's bank loans, expenditure commitments on its mineral properties and future aggregate minimum operating lease payments required under the operating leases as described in the notes to the Financial Report.

OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2018, the Company had no off-balance sheet arrangement such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

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

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

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

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

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

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

Financial assets are derecognized when the right to receive cash flows from the investment has expired or has been

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transferred and the Company has transferred substantially all risks and rewards of ownership.

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

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

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

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

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

Risk Management

Credit Risk

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

Liquidity Risk

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

Industry Risk

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

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

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

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

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Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash held in bank accounts that earn interest at variable interest rates. The Company's loans payable accrues interest at fixed rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as of March 31, 2018.

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.

DIRECTORS

Certain directors of the Company are also directors, officers and/or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploring mineral properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required to act in good faith with a view to the best interests of the Company and to disclose any interest, which they may have, in any project opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any directors in a conflict will disclose their interests and abstain from voting in such matters. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Company's financial statements and the other financial information included in this management report are the responsibility of the Company's management, and have been examined and approved by the Audit Committee of the Board of Directors. The financial statements were prepared by management in accordance with IFRS and include certain amounts based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

Management recognizes its responsibility for conducting the Company's affairs in a manner to comply with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities.

The Board of Directors supervises the financial statements and other financial information through its audit committee, which is comprised of independent directors.

RISKS AND UNCERTAINTIES

Risks and uncertainties information concerning risks specific to the Company and its industry, which are required to be included in this MD&A are incorporated by reference to the Company's annual MD&A for the period ended September 30, 2017.

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ADDITIONAL NON-IFRS FINANCIAL MEASURES

The Company has included additional financial performance measures in this MD&A, such as adjusted EBITDA, total cash costs, total production costs and AISC. The Company reports total cash costs, production costs, and AISC on a per gold ounce sold basis. In the gold mining industry, this is a common performance measure but does not have any standardized meaning. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

"Adjusted EBITDA" represents earnings before interest (including non-cash accretion of financial obligations), income taxes and depreciation and depletion ("EBITDA"), adjusted to exclude impairment charges, allowance for doubtful accounts, gains or losses on asset dispositions, share-based compensation, gains/losses on financial instruments and foreign exchange gains/losses.

"Total cash costs per ounce" is calculated from operation's cash costs, which include resource taxes, and dividing the sum by the number of gold ounces sold. Operations cash costs include mining, milling, smelter and other direct costs.

"Total production costs per ounce" are calculated by adding depreciation and depletion to total cash costs and dividing the sum by the number of ounces of gold sold.

"All-in sustaining cash costs per ounce" includes total cash costs per ounce (as defined above) and adds the sum of G&A, share-based compensation, sustaining capital expenditures and certain exploration and evaluation costs, all divided by the number of ounces sold. As this measure seeks to reflect the full cost of gold production from current operations, new project capital is not included in the calculation of all-in sustaining costs per ounce. Additionally, certain other cash expenditures, including income tax payments and financing costs, are not included.

The following table provides a reconciliation of adjusted EBITDA to the consolidated financial statements for the periods ended March 31, 2018 and 2017:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Net Income	\$ 1,628,257	\$ 1,385,856	\$ 3,965,462	\$ 1,705,556
Depreciation and depletion	1,270,299	1,115,789	2,252,475	1,679,059
Finance expense, net of finance income	158,594	195,689	352,547	384,301
Gain on financial instruments	-	-	(126,045)	-
Foreign exchange income	178,726	1,651	178,125	(1,732)
Income tax expense	734,094	372,810	1,140,944	116,314
Adjusted EBITDA	\$ 3,969,970	\$ 3,071,795	\$ 7,763,508	\$ 3,883,498

The following table provides details of the primary components of adjusted EBITDA:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Revenue	\$ 8,250,650	\$ 9,602,677	\$ 17,069,668	\$ 13,681,497
Cost of sales, net of depreciation and depletion	(3,646,734)	(5,861,670)	(8,041,790)	(8,523,510)
G&A, net of depreciation	(633,946)	(669,212)	(1,264,370)	(1,274,489)
Adjusted EBITDA	\$ 3,969,970	\$ 3,071,795	\$ 7,763,508	\$ 3,883,498

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The following tables provide reconciliation to the consolidated financial statements of total cash costs per ounce, and total production costs per ounce as disclosed in this MD&A to the consolidated financial statements for the periods ended March 31, 2018 and 2017:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Gold sold (ozs)	6,030	7,716	12,753	10,835
Total cash costs per ounce				
Contractor costs paid to Dahedong	\$ 4,100,088	\$ 3,696,980	\$ 7,701,444	\$ 7,610,944
Smelting costs	317,715	147,653	609,449	250,625
Resource taxes	281,624	271,075	486,839	395,904
Other direct costs	121,361	145,967	286,076	385,814
Changes in ending gold concentrate inventory	(1,174,054)	1,599,995	(1,042,018)	(119,777)
Total cash costs	\$ 3,646,734	\$ 5,861,670	\$ 8,041,790	\$ 8,523,510
Per ounce sold	\$ 605	\$ 760	\$ 631	\$ 787
Total production costs per ounce				
Total cash costs	\$ 3,646,734	\$ 5,861,670	\$ 8,041,790	\$ 8,523,510
Depreciation and depletion	1,202,337	1,035,023	2,117,606	1,518,814
Total production costs	\$ 4,849,071	\$ 6,896,693	\$ 10,159,396	\$ 10,042,324
Per ounce sold	\$ 804	\$ 894	\$ 797	\$ 927
All-in sustaining costs per ounce				
Total cash costs	\$ 3,646,734	\$ 5,861,670	\$ 8,041,790	\$ 8,523,510
G&A, net of depreciation	633,946	669,212	1,264,370	1,274,489
Sustaining capital expenditures ⁽¹⁾	53,373	9,699	110,619	26,499
All-in sustaining costs	\$ 4,334,053	\$ 6,540,581	\$ 9,416,779	\$ 9,824,498
Per ounce sold	\$ 719	\$ 848	\$ 738	\$ 907

(1) Sustaining capital expenditures are defined those expenditures which do not increase annual gold ounce production and excludes certain expenditures at the Company's operations which are deemed expansionary in nature. Capital expenditures include unpaid capital expenditures incurred in the period.

The following table reconciles sustaining capital expenditures to the Company's total additions as reported in the interim condensed consolidated statements of cash flows for statements for the periods ended March 31, 2018 and 2017:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Additions to property, plant and equipment				
Songjiagou Gold Mine	\$ 4,406,161	\$ 2,902,325	\$ 4,485,123	\$ 6,688,112
Songjiagou North Area	114,628	36,599	309,295	6,650,590
Sustaining capital expenditures	53,373	9,699	110,619	26,499
	\$ 4,574,162	\$ 2,948,623	\$ 4,905,037	\$ 13,365,201

FORWARD-LOOKING STATEMENTS

This MD&A contains or incorporates by reference "forward-looking statements" within the meaning of applicable Canadian securities legislation. Except for statements of historical fact relating to the Company, information contained herein constitutes forward-looking statements, including any information as to the Company's strategy, plans or future financial or operating performance. Forward-looking statements are characterized by words such as "plan", "expect", "budget", "target", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions, assumptions and estimates of management considered reasonable at the date the statements are made, and are inherently subject to a variety of risks and uncertainties and other known and unknown factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the impact of general business and economic conditions, global liquidity and credit availability on the timing of cash flows and the values of assets and liabilities based on projected future conditions, fluctuating gold prices, currency exchange rates, possible

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variations in ore grade or recovery rates, changes in accounting policies, changes in the Company's corporate resources, changes in project parameters as plans continue to be refined, changes in project development, construction, production and commissioning time frames, risk related to joint venture operations, the possibility of project cost overruns or unanticipated costs and expenses, higher prices for fuel, steel, power, labour and other consumables contributing to higher costs and general risks of the mining industry, failure of plant, equipment or processes to operate as anticipated, unexpected changes in mine life, unanticipated results of future studies, seasonality and unanticipated weather changes, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of pending litigation and labour disputes, as well as those risk factors discussed or referred to in the Company's Management's Discussion and Analysis for the year ended September 30, 2017, filed with the applicable securities regulatory authorities and available at SEDAR www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates, assumptions or opinions should change, except as required by applicable law. The reader is cautioned not to place undue reliance on forward-looking statements. The forward-looking information contained herein is presented for the purpose of assisting investors in understanding the Company's expected financial and operational performance and results as at and for the periods ended on the dates presented in the Company's plans and objectives, and may not be appropriate for other purposes.