



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended June 30, 2017 and 2016

(Expressed in US dollars)

(Unaudited)

Notice to Reader

These condensed consolidated interim financial statements of Majestic Gold Corp. have been prepared by management and approved by the Audit Committee of the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these condensed consolidated interim financial statements, notes to financial statements and the related quarterly Management Discussion and Analysis.

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

| | | June 30 2017 - \$ - | September 30, 2016 - \$ - |
|--|-------------|---------------------------|---------------------------------|
| | <i>Note</i> | | |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 4 | 8,928,130 | 9,037,258 |
| Receivables | 5 | 406,973 | 217,024 |
| Deposits and prepaid expenses | 6 | 696,457 | 898,097 |
| Inventory | 7 | 1,475,396 | 1,628,036 |
| Restricted cash | 11 | 2,109,731 | 4,765,615 |
| | | 13,616,687 | 16,546,030 |
| Property, plant and equipment | 8 | 86,522,505 | 76,675,736 |
| Exploration and evaluation assets | 9 | 2 | 2 |
| Deferred tax assets | | 82,049 | 83,371 |
| | | 100,221,243 | 93,305,139 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 10 | 10,508,803 | 12,841,717 |
| Income taxes payable | | 629,929 | 420,641 |
| Loans payable | 11 | 16,865,101 | 19,775,928 |
| | | 28,003,833 | 33,038,286 |
| Asset retirement obligation | 13 | 2,639,527 | 2,625,922 |
| Security deposit for financial guarantee | 12 | 2,213,401 | - |
| | | 32,856,761 | 35,664,208 |
| EQUITY | | | |
| Share capital | 14 | 107,388,513 | 99,893,830 |
| Reserves | 14 | 8,207,880 | 8,934,872 |
| Deficit | | (64,470,176) | (66,458,969) |
| Equity attributable to owners of parent | | 51,126,217 | 42,369,733 |
| Equity attributable to non-controlling interests | 19 | 16,238,265 | 15,271,198 |
| Total equity | | 67,364,482 | 57,640,931 |
| | | 100,221,243 | 93,305,139 |
| Nature of operations | 1 | | |
| Commitments | 8, 20 | | |
| Subsequent event | 11, 21 | | |

Approved by the Directors:

"John Campbell"

"Stephen Kenwood"

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

Majestic Gold Corp.
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(Unaudited - expressed in US dollars)

| | Note | Three months ended June 30, | | Nine months ended June 30, | |
|---|------|-----------------------------|-------------|----------------------------|-------------|
| | | 2017 | 2016 | 2017 | 2016 |
| | | - \$ - | - \$ - | - \$ - | - \$ - |
| Gold revenue | 17 | 8,193,464 | 6,744,418 | 21,874,961 | 21,623,821 |
| Cost of sales | 17 | | | | |
| Operating expenses | | 4,438,080 | 5,178,474 | 12,961,590 | 18,129,242 |
| Depreciation and depletion | | 811,187 | 651,849 | 2,330,001 | 2,200,993 |
| Gross profit | | 2,944,197 | 914,095 | 6,583,370 | 1,293,586 |
| Administrative expenses | | | | | |
| General and administrative | 17 | 629,091 | 716,261 | 2,063,825 | 2,054,177 |
| Share-based compensation | | - | - | - | 1,054,063 |
| Profit (loss) before other items | | 2,315,106 | 197,834 | 4,519,545 | (1,814,654) |
| Other items | | | | | |
| Finance expense | 17 | 232,123 | 268,827 | 693,878 | 925,816 |
| Finance (income) loss | | (32,586) | 165,868 | (110,040) | (279,368) |
| Foreign exchange loss | | 4,074 | 704 | 2,342 | 4,537 |
| Gain on sales of investment | | - | - | - | (68,434) |
| Gain on disposal of equipment | | - | - | - | (1,174) |
| | | 203,611 | 435,399 | 586,180 | 581,377 |
| Net profit (loss) before income tax | | 2,111,495 | (237,565) | 3,933,365 | (2,396,031) |
| Income tax expense | | 634,228 | 93,428 | 750,542 | 79,888 |
| Net profit (loss) for the period | | 1,477,267 | (330,993) | 3,182,823 | (2,475,919) |
| Other comprehensive income (loss) | | | | | |
| Items that may be subsequently reclassified to profit or loss: | | | | | |
| Exchange differences on translating foreign operations | | 1,116,319 | (1,671,229) | (953,955) | (2,447,081) |
| Total other comprehensive income (loss) for the period | | 1,116,319 | (1,671,229) | (953,955) | (2,447,081) |
| Total comprehensive income (loss) for the period | | 2,593,586 | (2,002,222) | 2,228,868 | (4,923,000) |
| Net profit (loss) for the period attributable to: | | | | | |
| Owners of the parent | | 955,067 | (310,520) | 1,988,793 | (2,313,552) |
| Non-controlling interests | | 522,200 | (20,473) | 1,194,030 | (162,367) |
| | | 1,477,267 | (330,993) | 3,182,823 | (2,475,919) |
| Comprehensive income (loss) for the period attributable to: | | | | | |
| Owners of the parent | | 1,903,591 | (1,510,452) | 1,261,801 | (4,050,478) |
| Non-controlling interest | | 689,995 | (491,770) | 967,067 | (872,522) |
| | | 2,593,586 | (2,002,222) | 2,228,868 | (4,923,000) |
| Profit (loss) per share attributable to owners of the parent- basic and diluted | | 0.00 | (0.00) | 0.00 | (0.00) |
| Weighted average number of common shares outstanding - basic and diluted | | 912,265,216 | 839,765,216 | 879,865,949 | 839,765,216 |

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

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

| | Number of shares | Attributable to owners of the parent | | | | | | Non-controlling interest | Total equity |
|--|------------------|--------------------------------------|---------------|-----------------------------|--------------------------------------|--------------|-------------|--------------------------|--------------|
| | | Share issue cost | Share capital | Share-based payment reserve | Foreign currency translation reserve | Deficit | Total | | |
| | | -\$- | -\$- | -\$- | -\$- | -\$- | -\$- | -\$- | -\$- |
| Balance, September 30, 2015 | 839,765,216 | - | 99,893,830 | 10,691,293 | (630,712) | (63,544,618) | 46,409,793 | 16,402,383 | 62,812,176 |
| Comprehensive loss | | | | | | | | | |
| Net loss for the period | - | - | - | - | - | (2,313,552) | (2,313,552) | (162,367) | (2,475,919) |
| Other Comprehensive loss | - | - | - | - | (1,736,926) | - | (1,736,926) | (710,155) | (2,447,081) |
| Total comprehensive loss for the period | - | - | - | - | (1,736,926) | (2,313,552) | (4,050,478) | (872,522) | (4,923,000) |
| Share-based compensation | - | - | - | 1,054,063 | - | - | 1,054,063 | - | 1,054,063 |
| Balance, June 30, 2016 | 839,765,216 | - | 99,893,830 | 11,745,356 | (2,367,638) | (65,858,170) | 43,413,378 | 15,529,861 | 58,943,239 |
| Balance, September 30, 2016 | 839,765,216 | - | 99,893,830 | 11,496,993 | (2,562,121) | (66,458,969) | 42,369,733 | 15,271,198 | 57,640,931 |
| Shares issued | 72,500,000 | (27,011) | 7,521,694 | - | - | - | 7,494,683 | - | 7,494,683 |
| Comprehensive income (loss) | | | | | | | | | |
| Net profit for the period | - | - | - | - | - | 1,988,793 | 1,988,793 | 1,194,030 | 3,182,823 |
| Other Comprehensive loss | - | - | - | - | (726,992) | - | (726,992) | (226,963) | (953,955) |
| Total comprehensive income (loss) for the period | - | - | - | - | (726,992) | 1,988,793 | 1,261,801 | 967,067 | 2,228,868 |
| Balance, June 30, 2017 | 912,265,216 | (27,011) | 107,415,524 | 11,496,993 | (3,289,113) | (64,470,176) | 51,126,217 | 16,238,265 | 67,364,482 |

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

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

| | Nine months ended June 30, | |
|---|----------------------------|--------------|
| | 2017 | 2016 |
| | - \$ - | - \$ - |
| Cash provided from (used for): | | |
| Operating activities | | |
| Net profit (loss) for the period | 3,182,823 | (2,475,919) |
| Items not involving cash: | | |
| Depreciation of property, plant and equipment | 2,499,839 | 2,396,848 |
| Stock-based compensation | | 1,054,063 |
| Finance expense | 693,878 | 894,984 |
| Income tax expense | 738,491 | 80,414 |
| Gain on sale of investments | - | (68,434) |
| Changes in non-cash working capital balances: | | |
| Receivables | (189,949) | 1,007,940 |
| Deposits and prepaid expenses | 201,640 | 312,125 |
| Inventory | 125,257 | 1,610,648 |
| Accounts payable and accrued liabilities | (4,110,827) | 3,219,527 |
| Interest paid | (573,780) | (1,600,626) |
| Income tax paid | (525,185) | - |
| Effect of foreign exchange on working capital | (278,537) | - |
| Net cash provided from operating activities | 1,763,650 | 6,431,570 |
| Investing activities: | | |
| Expenditures on property, plant and equipment | (11,412,630) | (3,699,565) |
| Proceeds on sales of investments | - | 417,210 |
| Investment in gold futures | - | (157,059) |
| Net cash provided from (used for) investing activities | (11,412,630) | (3,439,414) |
| Financing activities: | | |
| Restricted cash | 2,548,587 | (154,159) |
| Share capital | 7,521,694 | - |
| Share issue cost | (27,011) | - |
| Security deposit for financial guarantee | 2,213,401 | - |
| Loan advances | 15,937,445 | 14,389,221 |
| Loan repayments | (18,568,180) | (14,697,540) |
| Net cash provided from (used for) financing activities | 9,625,936 | (462,478) |
| Effect of foreign exchange on cash and cash equivalents | (86,084) | 819,221 |
| Net increase (decrease) in cash and cash equivalents | (109,128) | 3,348,899 |
| Cash and cash equivalents, beginning | 9,037,258 | 6,981,718 |
| Cash and cash equivalents, ending | 8,928,130 | 10,330,617 |

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

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended June 30, 2017 and 2016
(Unaudited - expressed in US dollars)

1. Nature of operations

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

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

These unaudited condensed consolidated interim financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company has completed its mining and production facilities and is now working towards achieving and maintaining full production and increased positive cash flows from operations. Should this not be achieved, the Company will continue to be dependent on raising sufficient funds to meet operational requirements. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

2. Significant accounting policies and basis of preparation

Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard, *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). The policies applied in these financial statements are based on International Financial Reporting Standards (“IFRS”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) issued and outstanding as at August 24, 2017, the date the audit committee to the board of directors approved these unaudited condensed consolidated interim financial statements for issue.

Basis of preparation

These unaudited condensed consolidated interim financial statements, prepared in conformity with IAS 34, follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements.

Since these unaudited condensed consolidated interim financial statements do not include all disclosures required by the International Financial Reporting Standards (“IFRS”) for annual financial statements, they should be read in conjunction with the Company’s annual consolidated financial statements for the year ended September 30, 2016.

Basis of consolidation

The condensed consolidated interim financial statements include the accounts of the Company and its controlled entities. All inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

The net interest of the Company’s most significant subsidiaries are presented below:

| | Country of incorporation | Percentage as at June 30, 2017 | Percentage as at September 30, |
|-----------------------------|--------------------------|--------------------------------|--------------------------------|
| Majestic Yantai Gold Ltd. | BVI | 94% | 94% |
| Yantai Zhongjia Mining Inc. | China | 70.5% | 70.5% |

Use of estimates

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted prospectively in the period in which the estimates are revised.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended June 30, 2017 and 2016
(Unaudited - expressed in US dollars)

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

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

a) The useful lives of property, plant and equipment

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

b) Asset retirement obligation

The asset retirement obligation is based on projected future costs associated with mine reclamation and closure activities on the Company's Songjiagou Gold Mine. This estimate is based on current Chinese environmental laws and regulations. Future changes to such laws and regulations as well as changes to the Company's intended mining operations could significantly impact this provision.

c) Impairment of the Company's mining assets

When assessing whether there are indicators of impairment of the Company's mining property and related property, plant and equipment, the Company considers internal and external factors, including:

- (i) Market factors such as a decrease in the price of gold or an increase in market interest rates;
- (ii) Whether the carrying value of the Company's net assets exceeding the Company's market capitalization; and
- (iii) The net cash flows generated by the assets being less than expected.

The Company has concluded that, as at June 30, 2017, there are indicators of impairment of the Company's Songjiagou Gold Mine (Note 8) which comprises the Company's sole cash generating unit.

To determine the recoverable amount of the Company's mining assets, the Company makes estimates of the fair value less cost to sell determined based on discounted future cash flows expected to be derived from the Songjiagou Gold Mine. These projected cash flows make assumptions regarding future gold prices, the grade and recovery achieved from the ore mined, life of mine, future operating costs, future capital expenditures, and discount rates. The Company has determined that the recoverable amount exceeds the carrying value; however, significant revisions to these assumptions may result in the recognition of impairment. The resource estimate, grade, recovery, and life of mine that is expected to be achieved, is based on the most recent technical report completed by a firm of independent consulting engineers. To date the Company has not achieved all the assumptions contained in the technical report.

d) Other significant estimates

Other significant estimates where there is significant risk of material adjustments to assets and liabilities in future accounting periods include: determining the fair value measurements for financial instruments, the allocation of production costs to stockpiles of ore inventory and the recoverability of deferred income tax assets.

Use of judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

a) The determination of functional currency

In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates" management determined that the functional currency of the Company and Majestic Yantai Gold Ltd. is the Canadian dollar and the functional currency of Yantai Zhongjia Mining Inc. ("Zhongjia") and all other of the Company's Chinese subsidiaries is the CNY; and

b) The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to a significant uncertainty.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended June 30, 2017 and 2016
(Unaudited - expressed in US dollars)

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

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the reporting date exchange rate.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in profit or loss.

For the purposes of presenting the consolidated financial statements in the presentation currency of US dollars, the companies with functional currencies other than US dollars, the assets and liabilities are translated into US dollars using the period-end exchange rate and the operations and cash flows are translated using the average rates of exchange over the period. Exchange differences arising when the opening net assets and the profit or loss are translated into US dollars are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in profit or loss in the period in which the operation is disposed.

Comparative figures

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

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

A number of new standards, amendments to standards and interpretations are not yet effective as of June 30, 2017, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

IFRS 2 Share-based Payment

On June 20, 2016, the IASB issued amendments to IFRS 2, Share-based Payment, clarifying how to account for certain types of share-based payment transactions. This amendment is effective for annual periods beginning on or after January 1, 2018, and may be applied prospectively.

IFRS 15 Revenue from Contracts with Customers

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the complete IFRS 9, Financial Instruments ("IFRS 9 (2014)", or "IFRS 9"), which will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 provides a new model for the classification and measurement of financial instruments. The IASB has determined the revised effective date for IFRS 9 will be for annual periods beginning on or after January 1, 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC 22, Foreign Currency Transactions and Advance Consideration. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense, income, or a portion thereof, is the date on which an entity initially

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

recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. This interpretation will be effective for annual periods beginning on or after January 1, 2018.

IFRS 16 Leases

In January 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 has been adopted.

4. Cash and cash equivalents

Cash of \$7,329,692 is held in China and is subject to local exchange control regulations. Chinese exchange control regulations provide for restrictions on exporting capital from China, other than through normal dividends.

5. Receivables

| | June 30, 2017 | September 30, 2016 |
|---|------------------|-----------------------|
| | - \$ - | - \$ - |
| Sales taxes receivable | 193,879 | 198,907 |
| Amount owing from a related party (Note 15) | 3,630 | 4,891 |
| Amount receivable from gold sales | 206,510 | - |
| Other receivables | 2,954 | 13,226 |
| Total | 406,973 | 217,024 |

6. Deposits and prepaid expenses

| | June 30, 2017 | September 30, 2016 |
|---|------------------|-----------------------|
| | - \$ - | - \$ - |
| Prepayment for mining supplies and services | 662,774 | 820,877 |
| Rent deposit | 15,031 | 8,611 |
| Other advances and prepayments | 18,652 | 68,609 |
| Total | 696,457 | 898,097 |

7. Inventory

| | June 30, 2017 | September 30, 2016 |
|------------------|------------------|-----------------------|
| | - \$ - | - \$ - |
| Gold concentrate | 112,068 | 103,741 |
| Ore stockpile | 1,363,328 | 1,524,295 |
| Total | 1,475,396 | 1,628,036 |

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended June 30, 2017 and 2016
(Unaudited - expressed in US dollars)

8. Property, plant and equipment

| | Heavy machinery and equipment | Office furniture and equipment | Mill | Songjiagou Gold Mine | Songjiagou North | Total |
|---|-------------------------------|--------------------------------|-------------|----------------------|------------------|--------------|
| | - \$ - | - \$ - | - \$ - | - \$ - | - \$ - | - \$ - |
| Cost | | | | | | |
| At September 30, 2016 | 1,330,419 | 485,734 | 47,184,995 | 39,605,325 | - | 88,606,473 |
| Additions | 20,844 | 23,502 | (285,529) | 7,002,254 | 6,659,385 | 13,420,456 |
| Foreign exchange adjustment | (20,849) | (4,104) | (752,034) | (534,778) | 82,838 | (1,228,927) |
| At June 30, 2017 | 1,330,414 | 505,132 | 46,147,432 | 46,072,801 | 6,742,223 | 100,798,002 |
| Accumulated depreciation and depletion | | | | | | |
| At September 30, 2016 | (579,391) | (372,150) | (5,828,871) | (5,150,325) | - | (11,930,737) |
| Depreciation and depletion | (122,883) | (46,955) | (1,118,359) | (1,211,642) | - | (2,499,839) |
| Foreign exchange adjustment | 7,666 | 2,236 | 78,550 | 66,627 | - | 155,079 |
| At June 30, 2017 | (694,608) | (416,869) | (6,868,680) | (6,295,340) | - | (14,275,497) |
| Net book value | | | | | | |
| At September 30, 2016 | 751,028 | 113,584 | 41,356,124 | 34,455,000 | - | 76,675,736 |
| At June 30, 2017 | 635,806 | 88,263 | 39,278,752 | 39,777,461 | 6,742,223 | 86,522,505 |

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

Songjiagou Gold Mine

The Company's commercial gold production began at the Songjiagou Gold Mine in May 2011. The Company's mining permit for the Songjiagou Gold Mine is valid until May 17, 2020. The Songjiagou Gold Mine is owned by the Company's 75% held subsidiary, Yantai Zhongjia Mining Inc. The remaining 25% of Zhongjia is held by Yantai Dahedong Processing Co. Ltd. ("Dahedong").

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

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

- (i) When the grade of ore is less than or equals to 0.4g/t, there will be no contractor fees to be paid to Dahedong;
- (ii) When the grade of ore is greater than 0.4g/t, and less than or equals to 0.6g/t, Dahedong will receive CNY60 per tonne for ore mined and processed;
- (iii) When the grade of ore is greater than 0.6g/t, and less than or equals to 0.8g/t, Dahedong will receive CNY65 per tonne for ore mined and processed;
- (iv) When the grade of ore is greater than 0.8g/t, and less than or equals to 1.0g/t, Dahedong will receive CNY70 per tonne for ore mined and processed;
- (v) When the grade of ore is greater than 1.0g/t, Dahedong will receive CNY75 per tonne for ore mined and processed; and
- (vi) Dahedong will receive CNY7 per tonne for waste material mined, extracted and removed and disposed of.

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

8. Property, plant and equipment (continued)

At June 30, 2017, the Company had a balance due to Dahedong of \$5,916,371 (September 30, 2016 – \$5,442,741) (Note 10). The amounts bear no interest, are unsecured, and due on demand. During the nine month period ended June 30, 2017, the Company incurred \$11,072,806 (2016 - \$14,293,207) in mining and processing fees to Dahedong (Note 17).

Songjiagou North

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

The Company's current plan for Songjiagou North property is the underground development of a 2,075 meter ramp to access at least four of the five identified mineralized vein structures from six different levels. To date, the Company has progressed in developing 1,000 meters of the 2,075 meter ramp and anticipates the underground development to be completed at Songjiagou North in late fiscal 2018 or early fiscal 2019.

9. Exploration and evaluation assets

Other properties

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

10. Accounts payable and accrued liabilities

| | June 30, 2017 | September 30, 2016 |
|--|-------------------|-----------------------|
| | -\$- | -\$- |
| Trade and other payables | 4,592,432 | 7,398,976 |
| Amount due to Dahedong (Note 8 and 15) | 5,916,371 | 5,442,741 |
| Total | 10,508,803 | 12,841,717 |

11. Loans payable

| | June 30, 2017 | September 30, 2016 |
|------------------------------|-------------------|-----------------------|
| | -\$- | -\$- |
| Balance, beginning | 19,775,928 | 20,684,412 |
| Accrued interest and fees | 639,298 | 944,290 |
| Banker's acceptance notes | 3,541,442 | 8,147,659 |
| Loan advances | 12,396,003 | 14,256,579 |
| Loan and interest repayments | (19,141,960) | (23,276,733) |
| Foreign exchange adjustment | (345,610) | (980,279) |
| Balance, ending | 16,865,101 | 19,775,928 |

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11. Loans payable (continued)

At June 30, 2017, the loans outstanding consist of:

- (i) a \$4,426,803 (CNY 30,000,000) (September 30, 2016 - \$4,498,156) one year loan bearing an interest at 5.655% per annum and repayable on August 25, 2017. The loan is guaranteed by the company that provides gold concentrate refining services to the Company. On August 21, 2017, the loan was renewed with an interest rate of 5.655% per annum and a new maturity date is August 21, 2018 (Note 21);
- (ii) a \$885,361 (CNY 6,000,000) (September 30, 2016 - \$Nil) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due September 15, 2017;
- (iii) a \$737,800 (CNY 5,000,000) (September 30, 2016 - \$Nil) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due October 27, 2017;
- (iv) a \$2,951,202 (CNY 20,000,000) (September 30, 2016 - \$2,998,771) one year loan bearing an interest at 5.655% per annum and repayable on November 11, 2017. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;
- (v) a \$1,475,601 (CNY 10,000,000) (September 30, 2016 - \$1,499,385) one year loan bearing an interest at 0.489375% per month and repayable on November 12, 2017. The loan is guaranteed by certain third parties, including Dahedong;
- (vi) a \$1,601,027 (CNY 10,850,000) (September 30, 2016 - \$Nil) one year loan with Dahedong bearing an interest rate of 0.5% per month plus 5% if the loan is not repaid at maturity. The loan is repayable on December 27, 2017;
- (vii) a \$1,475,601 (CNY 10,000,000) (September 30, 2016 - \$1,499,385) one year loan bearing an interest at 8.5% per annum and repayable on January 4, 2018. The loan is guaranteed by certain third parties, including Dahedong;
- (viii) a \$2,951,202 (CNY 20,000,000) (September 30, 2016 - \$2,998,771) one year loan bearing an interest at 4.785% per annum. The loan was repayable on April 15, 2017. The loan is guaranteed by the owner of Dahedong and the company that provides gold concentrate refining services to the Company. On April 14, 2017, the loan was renewed with an interest rate of 4.785% per annum and a new maturity date is April 13, 2018;
- (ix) Accrued interest of \$360,503 (CNY 2,443,105) (September 30, 2016 - \$298,913) relating to the above loans; and
- (x) At September 30, 2016, the Company had \$4,348,217 (CNY 29,000,000) series of banker's acceptance notes. The notes were secured by the restricted cash. The notes were repaid during the nine month period ended June 30, 2017.

12. Financial guarantee

During the period ended June 30, 2017, Zhongjia entered into a financial guarantee agreement whereby it has provided an unsecured financial guarantee of a CNY 50,000,000 five year unsecured bank loan to Yantai Baiheng Gold Ltd. ("Baiheng"). The nature of the financial guarantee is such that the bank loan will become payable by Zhongjia should Baiheng default on the bank loan. As security, Baiheng has pledge its two mining permits to Zhongjia as well as providing a refundable security deposit of CNY 15,000,000 (\$2,213,401) to Zhongjia for the duration of the loan. Should Baiheng go into default, the two mining permits will become transferable to Zhongjia and the security deposit will become non-refundable to Baiheng. The Company considers the default risk of the financial guarantee to be minimal.

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13. Asset retirement obligation

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

| | June 30, 2017 -\$- | September 30, 2016 -\$- |
|---|--------------------------|-------------------------------|
| Balance, beginning | 2,625,922 | 2,570,427 |
| Additions and changes in estimates of net present value | - | 98,348 |
| Accretion (Note 17) | 54,580 | 82,513 |
| Foreign exchange adjustment | (40,975) | (125,366) |
| Balance, ending | 2,639,527 | 2,625,922 |

The Company's asset retirement obligation consists of costs associated with mine reclamation and closure activities on the Songjiagou Gold Mine (Note 8). These activities, which are site specific, include costs for earthworks, re-contouring, re-vegetation, water treatment and demolition. In calculating the fair value of the Company's asset retirement obligations, the Company used a risk-free rate of 2.75% (2016 – 2.75%) and an inflation rate of 2.1% (2016 – 2.1%). The majority of the expenditures are expected to occur in or after 2032.

14. Share capital and reserves

a) Authorized

Unlimited number of common shares without par value.

b) Issued share capital

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

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

c) Stock Options

The Company has a shareholder approved "rolling" stock option plan (the "Plan") in compliance with the TSX-V's policies. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares at the time of granting. The exercise price of each stock option shall not be less than the discounted market price of the Company's stock at the date of grant. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not, within a twelve month period, exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed, within a twelve month period, two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

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14. Share capital and reserves (continued)

c) Stock Options (continued)

A summary of the Company's outstanding stock options as a June 30, 2017, is as follows:

| Exercise Price | Expiry Date | Options outstanding | Weighted average exercise price | Weighted average remaining contractual life in years |
|----------------|------------------|---------------------|---------------------------------|--|
| CAD\$0.12 | January 28, 2021 | 27,700,000 | CAD\$0.12 | 3.58 |

The continuity of stock options for the nine months ended June 30, 2017, is as follows:

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

d) Share Purchase Warrants

The continuity for share purchase warrants for the nine months ended June 30, 2017 is as follows:

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

e) Reserves

Share-based payment reserve

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

Foreign currency translation reserve

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

Available-for-sale reserve

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

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15. Related party transactions and balances

Related party transactions

The Company incurred the following related party transactions during the three and nine month ended June 30, 2017 and 2016:

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|-----------------------------|-----------|----------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| | -\$- | -\$- | -\$- | -\$- |
| Consulting fees charged by companies controlled by Directors and Officers of the Company - includes key management personnel compensation | 149,150 | 157,140 | 453,544 | 459,425 |
| Stock-based compensation | - | 200,844 | - | 852,385 |
| Mining and milling services charged by Dahedong (Note 8) | 3,461,862 | 4,010,172 | 11,072,806 | 14,293,207 |
| Interest charged by Dahedong | 24,311 | 57,925 | 67,437 | 190,931 |
| | 3,635,323 | 4,426,081 | 11,593,787 | 15,795,948 |

Key management personnel compensation

| | Three months ended June 30, | | Nine months ended June 30, | |
|--|-----------------------------|---------|----------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| | -\$- | -\$- | -\$- | -\$- |
| Short-term employee benefits—management fees | 58,006 | 60,543 | 175,427 | 175,804 |
| Stock-based compensation | - | - | - | 197,875 |
| Director fees | 38,512 | 41,603 | 119,127 | 122,951 |
| | 96,518 | 102,146 | 294,554 | 496,630 |

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

Related party balances

| | June 30, 2017 | September 30, 2016 |
|---|------------------|-----------------------|
| | -\$- | -\$- |
| Amounts due to companies controlled by Directors and Officers of the Company (Note 5) | (3,630) | (4,891) |
| Amounts due to Dahedong (Note 10) | 5,916,371 | 5,442,741 |
| Loan amounts due to Dahedong (Note 11) | 1,952,774 | 1,634,330 |
| | 7,865,515 | 7,072,180 |

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

16. Segmented information

The Company operates in one industry segment, being the exploration, development and operation of mining properties in China. All of the Company's capital assets are located in China, except office furniture and equipment with a net book value of \$7,076 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

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17. Revenue and expenses

Revenue

| | Three months ended June 30, | | Nine months ended June 30, | |
|-----------------------|-----------------------------|------------------|----------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | -\$- | -\$- | -\$- | -\$- |
| Sales of gold bullion | 8,107,699 | 6,684,072 | 21,621,182 | 21,370,388 |
| Other revenue | 85,765 | 60,346 | 253,779 | 253,433 |
| Total | 8,193,464 | 6,744,418 | 21,874,961 | 21,623,821 |

In February 2015, the Company became party to an agreement which allows a third party use of the tailings pond for a fee of CNY 5.5 per tonne of ore processed to a maximum of 1,500 tonnes per day. The company recorded revenue of \$253,779 under this agreement during the period ended June 30, 2017 (June 30, 2016 - \$253,433).

Cost of sales

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|-----------------------------|------------------|----------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | -\$- | -\$- | -\$- | -\$- |
| Contractor costs paid to Dahedong (Note 8 and 15) | 3,461,862 | 4,010,172 | 11,072,806 | 14,293,207 |
| Depreciation and depletion (Note 8) | 811,187 | 651,849 | 2,330,001 | 2,200,993 |
| Smelting costs | 211,987 | 123,007 | 462,612 | 465,533 |
| Resource taxes | 282,871 | 258,435 | 678,775 | 930,967 |
| Other direct costs | 377,399 | 149,298 | 763,213 | 574,289 |
| Changes in ending gold concentrate inventory | 103,961 | 637,562 | (15,816) | 1,865,246 |
| Total | 5,249,267 | 5,830,323 | 15,291,591 | 20,330,235 |

General and administrative

| | Three months ended June 30, | | Nine months ended June 30, | |
|--------------------------------|-----------------------------|----------------|----------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | -\$- | -\$- | -\$- | -\$- |
| Consulting and management fees | 156,758 | 158,083 | 473,370 | 484,061 |
| Depreciation (Note 8) | 9,593 | 105,313 | 169,838 | 195,855 |
| Office and general | 150,359 | 188,258 | 474,959 | 487,068 |
| Professional fees | 236 | 807 | 14,217 | 20,232 |
| Salaries | 211,181 | 199,133 | 610,382 | 593,891 |
| Shareholder communications | 10,937 | (2,997) | 26,038 | 10,343 |
| Travel | 90,027 | 67,664 | 295,021 | 262,727 |
| Total | 629,091 | 716,261 | 2,063,825 | 2,054,177 |

Finance expense

| | Three months ended June 30, | | Nine months ended June 30, | |
|--|-----------------------------|----------------|----------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | -\$- | -\$- | -\$- | -\$- |
| Interest expenses (Note 11) | 213,934 | 248,195 | 639,298 | 863,502 |
| Accretion of asset retirement obligation (Note 13) | 18,189 | 20,632 | 54,580 | 62,314 |
| Total | 232,123 | 268,827 | 693,878 | 925,816 |

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18. Risks and capital management

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

Credit Risk

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

Liquidity Risk

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

Industry Risk

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

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

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

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

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash held in bank accounts that earn interest at variable interest rates. The Company's loans payable accrues interest at fixed rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as of June 30, 2017.

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18. Risks and capital management (continued)

Currency Risk

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

Other Price Risk

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

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

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

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

19. Non-controlling interest

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

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

| | June 30, 2017 | September 30, 2016 |
|-------------------------------|------------------|-----------------------|
| | -\$- | -\$- |
| Current: | | |
| Assets | 11,910,429 | 13,857,389 |
| Liabilities | (22,053,186) | (27,455,142) |
| Total current net liabilities | (10,142,757) | (13,597,753) |
| Non-current | | |
| Assets | 86,513,105 | 76,662,223 |
| Liabilities | (5,428,413) | (5,459,760) |
| Total non-current net assets | 81,084,692 | 71,202,463 |
| Balance, ending | 70,941,935 | 57,604,710 |

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19. Non-controlling interest (continued)

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

| | Three months ended June 30, | | Nine months ended June 30, | |
|-------------------------------------|-----------------------------|-----------|----------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| | -\$- | -\$- | -\$- | -\$- |
| Revenue | 8,193,464 | 6,744,418 | 21,874,961 | 21,623,821 |
| Net income (loss) before income tax | 2,396,680 | 227,312 | 4,785,327 | (294,983) |
| Income tax expense | (634,228) | (93,428) | (750,542) | (79,888) |
| Net income (loss) | 1,762,452 | 133,884 | 4,034,785 | (374,871) |
| Other comprehensive income (loss) | (113,046) | (218,333) | 2,773,361 | 3,109,270 |
| Comprehensive income (loss) | 1,649,406 | (84,449) | 6,808,146 | 2,734,399 |

20. Commitments

Operating lease commitments

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

| | 2017 | 2018 | Total |
|------------------------------|-------|-------|--------|
| | \$ | \$ | \$ |
| Operating lease commitments: | | | |
| Office premises | 5,094 | 8,490 | 13,584 |

21. Subsequent events

Subsequent to June 30, 2017, the Company renewed its bank loan for \$4,426,803 (CNY 30,000,000) on August 21, 2017, with an interest rate 5.655% per month and a new maturity date is August 21, 2018.