



## **CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the three months ended December 31, 2016 and 2015**

*(Expressed in US dollars)*

**(Unaudited)**

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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.

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

|  |             | December 31,<br>2016<br>- \$ - | September 30,<br>2016<br>- \$ - |
|--|-------------|--------------------------------|---------------------------------|
|  | <i>Note</i> |                                |                                 |
| <b>ASSETS</b>                                    |             |                                |                                 |
| Current assets                                   |             |                                |                                 |
| Cash and cash equivalents                        | 4           | 5,274,060                      | 9,037,258                       |
| Receivables                                      | 5           | 200,320                        | 217,024                         |
| Deposits and prepaid expenses                    | 6           | 182,311                        | 898,097                         |
| Inventory  | 7           | 3,249,785                      | 1,628,036                       |
| Restricted cash                                  | 11          | 5,658,718                      | 4,765,615                       |
|  |             | 14,565,194                     | 16,546,030                      |
| Property, plant and equipment                    | 8           | 83,344,815                     | 76,675,736                      |
| Exploration and evaluation assets                | 9           | 2                              | 2                               |
| Deferred tax assets                              |             | 80,078                         | 83,371                          |
|  |             | 97,990,089                     | 93,305,139                      |
| <b>LIABILITIES</b>                               |             |                                |                                 |
| Current liabilities                              |             |                                |                                 |
| Accounts payable and accrued liabilities         | 10          | 12,408,208                     | 12,841,717                      |
| Income taxes payable                             |             | 78,785                         | 420,641                         |
| Loans payable                                    | 11          | 20,038,312                     | 19,775,928                      |
|  |             | 32,525,305                     | 33,038,286                      |
| Asset retirement obligation                      | 12          | 2,540,166                      | 2,625,922                       |
|  |             | 35,065,471                     | 35,664,208                      |
| <b>EQUITY</b>                                    |             |                                |                                 |
| Share subscriptions received in advance          | 13          | 7,289,730                      | -                               |
| Share capital                                    | 13          | 99,893,830                     | 99,893,830                      |
| Reserves   | 13          | 7,214,996                      | 8,934,872                       |
| Deficit  |             | (66,312,478)                   | (66,458,969)                    |
| Equity attributable to owners of parent          |             | 48,086,078                     | 42,369,733                      |
| Equity attributable to non-controlling interests | 18          | 14,838,540                     | 15,271,198                      |
| Total equity                                     |             | 62,924,618                     | 57,640,931                      |
|  |             | 97,990,089                     | 93,305,139                      |
| Nature of operations                             | 1           |                                |                                 |
| Commitment                                       | 8, 19       |                                |                                 |
| Subsequent events                                | 20          |                                |                                 |

Approved by the Directors:

"John Campbell"

"Stephen Kenwood"

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

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

|  |             | Three months ended December 31, |             |
|--|-------------|---------------------------------|-------------|
|  |             | 2016                            | 2015        |
|  |             | - \$ -                          | - \$ -      |
|  | <i>Note</i> |                                 |             |
| Gold revenue   | 16          | 4,078,820                       | 4,444,460   |
| Cost of sales  | 16          |                                 |             |
| Operating expenses   |             | 2,661,840                       | 3,652,744   |
| Depreciation and depletion   |             | 483,791                         | 887,894     |
| Gross profit (loss)  |             | 933,189                         | (96,178)    |
| Administrative expenses  |             |                                 |             |
| General and administrative   | 16          | 684,756                         | 707,370     |
| Profit (loss) before other items   |             | 248,433                         | (803,548)   |
| Other items  |             |                                 |             |
| Finance expense  | 16          | 231,239                         | 292,783     |
| Finance income   |             | (42,627)                        | (410,837)   |
| Foreign exchange income  |             | (3,383)                         | (5,195)     |
| Gain on sales of investment  |             | -                               | (46,954)    |
| Loss on investment in gold futures                                       |             | -                               | 31,224      |
|  |             | 185,229                         | (138,979)   |
| Net profit (loss) before income tax                                      |             | 63,204                          | (664,569)   |
| Income tax (recovery)  |             | (256,496)                       | (2,489)     |
| Net profit (loss) for the period   |             | 319,700                         | (662,080)   |
| Other comprehensive loss   |             |                                 |             |
| Items that may be subsequently reclassified to profit or loss:           |             |                                 |             |
| Exchange differences on translating foreign operations                   |             | (2,325,743)                     | (1,366,824) |
| Total other comprehensive loss for the period                            |             | (2,325,743)                     | (1,366,824) |
| Total comprehensive loss for the period                                  |             | (2,006,043)                     | (2,028,904) |
| Net profit (loss) for the period attributable to:                        |             |                                 |             |
| Owners of the parent   |             | 146,491                         | (548,999)   |
| Non-controlling interests  |             | 173,209                         | (113,081)   |
|  |             | 319,700                         | (662,080)   |
| Comprehensive loss for the period attributable to:                       |             |                                 |             |
| Owners of the parent   |             | (1,573,385)                     | (1,571,455) |
| Non-controlling interest   |             | (432,658)                       | (457,449)   |
|  |             | (2,006,043)                     | (2,028,904) |
| Loss per share attributable to owners of the parent- basic and diluted   |             | 0.00                            | (0.00)      |
| Weighted average number of common shares outstanding - basic and diluted |             | 839,765,216                     | 839,765,216 |

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

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

|   | Attributable to owners of the parent |   |                         |                                       |  |                                      |                   |                 |                                    |                        |
|---|--------------------------------------|---|-------------------------|---------------------------------------|--|--------------------------------------|-------------------|-----------------|------------------------------------|------------------------|
|   | Number of shares                     | Share subscriptions received in advance<br>-\$- | Share capital<br>- \$ - | Share-based payment reserve<br>- \$ - | Foreign currency translation reserve<br>- \$ - | Available-for-sale-reserve<br>- \$ - | Deficit<br>- \$ - | Total<br>- \$ - | Non-controlling interest<br>- \$ - | Total equity<br>- \$ - |
| 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                 | -                                    | -   | -                       | -                                     | -  | -                                    | (548,999)         | (548,999)       | (113,081)                          | (662,080)              |
| Other Comprehensive loss                | -                                    | -   | -                       | -                                     | (1,022,456)                                    | -                                    | -                 | (1,022,456)     | (344,368)                          | (1,366,824)            |
| Total comprehensive loss for the period | -                                    | -   | -                       | -                                     | (1,022,456)                                    | -                                    | (548,999)         | (1,571,455)     | (457,449)                          | (2,028,904)            |
| Balance, December 31, 2015              | 839,765,216                          | -   | 99,893,830              | 10,691,293                            | (1,653,168)                                    | -                                    | (64,093,617)      | 44,838,338      | 15,944,934                         | 60,783,272             |
| 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             |
| Share subscriptions received in advance | -                                    | 7,289,730                                       | -                       | -                                     | -  | -                                    | -                 | 7,289,730       | -                                  | 7,289,730              |
| Comprehensive loss                      |                                      |   |                         |                                       |  |                                      |                   |                 |                                    |                        |
| Net profit for the period               | -                                    | -   | -                       | -                                     | -  | -                                    | 146,491           | 146,491         | 173,209                            | 319,700                |
| Other Comprehensive loss                | -                                    | -   | -                       | -                                     | (1,719,876)                                    | -                                    | -                 | (1,719,876)     | (605,867)                          | (2,325,743)            |
| Total comprehensive loss for the period | -                                    | -   | -                       | -                                     | (1,719,876)                                    | -                                    | 146,491           | (1,573,385)     | (432,658)                          | (2,006,043)            |
| Balance, December 31, 2016              | 839,765,216                          | 7,289,730                                       | 99,893,830              | 11,496,993                            | (4,281,997)                                    | -                                    | (66,312,478)      | 48,086,078      | 14,838,540                         | 62,924,618             |

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

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

|   | Three months ended December 31, |                    |
|---|---------------------------------|--------------------|
|   | 2016                            | 2015               |
|   | - \$ -                          | - \$ -             |
| Cash provided from (used for):                                |                                 |                    |
| Operating activities  |                                 |                    |
| Net profit (loss) for the period                              | 319,700                         | (662,080)          |
| Items not involving cash:                                     |                                 |                    |
| Depreciation of property, plant and equipment                 | 563,270                         | 968,615            |
| Finance expense   | 231,239                         | 292,783            |
| Income tax recovery   | (256,496)                       | (2,489)            |
| Loss on fair value adjustment of gold futures                 | -                               | 31,224             |
| Gain on sale of investments                                   | -                               | (46,954)           |
| Changes in non-cash working capital balances:                 |                                 |                    |
| Receivables   | 16,704                          | 713,828            |
| Deposits and prepaid expenses                                 | 715,786                         | 303,048            |
| Inventory   | (1,713,778)                     | (2,817,543)        |
| Accounts payable and accrued liabilities                      | 69,195                          | (653,398)          |
| Interest paid   | (191,528)                       | (1,785,373)        |
| Income tax  | (74,090)                        | -                  |
| <b>Net cash used for operating activities</b>                 | <b>(319,998)</b>                | <b>(3,658,339)</b> |
| Investing activities:   |                                 |                    |
| Expenditures on property, plant and equipment                 | (10,416,578)                    | (30,626)           |
| Proceeds on sales of investments                              | -                               | 242,311            |
| Investment in gold futures                                    | -                               | (154,606)          |
| <b>Net cash provided from (used for) investing activities</b> | <b>(10,416,578)</b>             | <b>57,079</b>      |
| Financing activities:   |                                 |                    |
| Restricted cash   | (1,099,137)                     | (1,526,657)        |
| Share subscriptions received in advance                       | 7,289,730                       | -                  |
| Loan advances   | 7,904,675                       | 6,172,820          |
| Loan repayments   | (6,865,357)                     | (3,130,233)        |
| <b>Net cash provided from financing activities</b>            | <b>7,229,911</b>                | <b>1,515,930</b>   |
| Effect of foreign exchange on cash and cash equivalents       | (256,533)                       | 363,637            |
| <b>Net decrease in cash and cash equivalents</b>              | <b>(3,763,198)</b>              | <b>(1,721,693)</b> |
| Cash and cash equivalents, beginning                          | 9,037,258                       | 6,981,718          |
| Cash and cash equivalents, ending                             | 5,274,060                       | 5,260,025          |

*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 three months ended December 31, 2016 and 2015**  
**(Unaudited - expressed in US dollars)**

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**1. Nature of operations**

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

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

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

**2. Significant accounting policies and basis of preparation**

**Statement of compliance**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard, *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). The policies applied in these financial statements are based on International Financial Reporting Standards (“IFRS”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) issued and outstanding as at February 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 December 31, 2016 | Percentage as at September 30, 2016 |
|-----------------------------|--------------------------|------------------------------------|-------------------------------------|
| 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

**Majestic Gold Corp.**  
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**2. Basis of preparation and significant accounting policies (continued)**

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.

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 December 31, 2016, 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:



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

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

a) The determination of functional currency

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

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

**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 December 31, 2016, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

**IFRS 9 Financial Instruments**

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

**IFRS 15 Revenue from Contracts with Customers**

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

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**3. New standards, interpretations and amendments issued but not yet effective (continued)**

**IFRS 16 Leases**

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

**4. Cash and cash equivalents**

Cash of \$3,084,182 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**

|   | December 31,<br>2016 | September 30,<br>2016 |
|---|----------------------|-----------------------|
|   | - \$ -               | - \$ -                |
| Sales taxes receivable                      | 194,381              | 198,907               |
| Amount owing from a related party (Note 14) | 2,546                | 4,891                 |
| Other receivables                           | 3,393                | 13,226                |
| <b>Total</b>                                | <b>200,320</b>       | <b>217,024</b>        |

**6. Deposits and prepaid expenses**

|   | December 31,<br>2016 | September 30,<br>2016 |
|---|----------------------|-----------------------|
|   | - \$ -               | - \$ -                |
| Prepayment for mining supplies and services | 121,957              | 820,877               |
| Rent deposit                                | 14,033               | 8,611                 |
| Other advances and prepayments              | 46,321               | 68,609                |
| <b>Total</b>                                | <b>182,311</b>       | <b>898,097</b>        |

**7. Inventory**

|                  | December 31,<br>2016 | September 30,<br>2016 |
|------------------|----------------------|-----------------------|
|                  | - \$ -               | - \$ -                |
| Gold concentrate | 1,785,705            | 103,741               |
| Ore stockpile    | 1,464,080            | 1,524,295             |
| <b>Total</b>     | <b>3,249,785</b>     | <b>1,628,036</b>      |

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended December 31, 2016 and 2015**  
**(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        |
|---|-------------------------------|--------------------------------|-------------|----------------------|------------------|--------------|
|   | - \$ -                        | - \$ -                         | - \$ -      | - \$ -               | - \$ -           | - \$ -       |
| <b>Cost</b>                                   |                               |                                |             |                      |                  |              |
| At September 30, 2016                         | 1,330,419                     | 485,734                        | 47,184,995  | 39,605,325           | -                | 88,606,473   |
| Additions                                     | 15,241                        | 1,559                          | 71,025      | 3,714,762            | 6,613,991        | 10,416,578   |
| Foreign exchange adjustment                   | (52,808)                      | (17,190)                       | (1,865,118) | (1,620,697)          | (106,967)        | (3,662,780)  |
| At December 31, 2016                          | 1,292,852                     | 470,103                        | 45,390,902  | 41,699,390           | 6,507,024        | 95,360,271   |
| <b>Accumulated depreciation and depletion</b> |                               |                                |             |                      |                  |              |
| At September 30, 2016                         | (579,391)                     | (372,150)                      | (5,828,871) | (5,150,325)          | -                | (11,930,737) |
| Depreciation and depletion                    | (63,324)                      | (16,155)                       | (252,461)   | (231,330)            | -                | (563,270)    |
| Foreign exchange adjustment                   | 23,917                        | 13,094                         | 234,343     | 207,197              | -                | 478,551      |
| At December 31, 2016                          | (618,798)                     | (375,211)                      | (5,846,989) | (5,174,458)          | -                | (12,015,456) |
| <b>Net book value</b>                         |                               |                                |             |                      |                  |              |
| At September 30, 2016                         | 751,028                       | 113,584                        | 41,356,124  | 34,455,000           | -                | 76,675,736   |
| At December 31, 2016                          | 674,054                       | 94,892                         | 39,543,913  | 36,524,932           | 6,507,024        | 83,344,815   |

The Company's Mining Property consists 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. ("Zhongjia"). The remaining 25% of Zhongjia is held by Yantai Dahedong Processing Co. Ltd. ("Dahedong").

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

Significant terms of the New Mining Agreement are as follows:

- (i) When the grade of ore is less than or equals to 0.5g/t, Dahedong will receive:
  - a) CNY27 per tonne for ore mined and extracted and delivered to the mill for processing;
  - b) CNY38 per tonne for ore processed into concentrate; and
  - c) CNY7 per tonne for waste material mined, extracted and removed and disposed of.
- (ii) When the grade of ore is more than to 0.5g/t, Dahedong will receive:
  - a) CNY37 per tonne for ore mined and extracted and delivered to the mill for processing;
  - b) CNY38 per tonne for ore processed into concentrate; and
  - c) CNY7 for waste material mined, extracted and removed and disposed of.

At December 31, 2016, the Company had a balance due to Dahedong of \$5,700,350 (September 30, 2016 – \$5,442,741) (Note 10). The amounts bear no interest, are unsecured, and due on demand. During the period ended December 31, 2016, the Company incurred \$3,913,964 (2015 - \$5,461,533) in mining and processing fees to Dahedong (Note 16).

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**8. Property, plant and equipment (continued)**

**Songjiagou North**

The Songjiagou North property consists of a 0.414 sq. km. mining license immediately north of the original mining license of the Songjiagou Gold Mine. This second license covers the extension of the Songjiagou gold mineralization to the north. During the current period, the Company began development, at the Songjiagou North property, of a 2,175 meter ramp to access at least four mineralized vein structures from six different levels. The Company anticipates production at Songjiagou North to begin late in 2017 or early 2018.

**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**

|  | December 31,<br>2016 | September 30,<br>2016 |
|--|----------------------|-----------------------|
|  | -\$-                 | -\$-                  |
| Trade and other payables               | 6,707,858            | 7,398,976             |
| Amount due to Dahedong (Note 8 and 14) | 5,700,350            | 5,442,741             |
| <b>Total</b>                           | <b>12,408,208</b>    | <b>12,841,717</b>     |

**11. Loans payable**

|                              | December 31,<br>2016 | September 30,<br>2016 |
|------------------------------|----------------------|-----------------------|
|                              | -\$-                 | -\$-                  |
| Balance, beginning           | 19,775,928           | 20,684,412            |
| Accrued interest and fees    | 212,966              | 944,290               |
| Banker's acceptance notes    | 1,872,201            | 8,147,659             |
| Loan advances                | 6,032,474            | 14,256,579            |
| Loan and interest repayments | (7,056,885)          | (23,276,733)          |
| Foreign exchange adjustment  | (798,372)            | (980,279)             |
| <b>Balance, ending</b>       | <b>20,038,312</b>    | <b>19,775,928</b>     |

At December 31, 2016, the loans outstanding consist of:

- (i) a \$2,880,309 (CNY 20,000,000) (September 30, 2016 - \$2,998,771) one year loan bearing an interest at 5.655% per annum. The loan was repayable on November 12, 2016. The loan is guaranteed by the company that provides gold concentrate refining services to the Company. On November 11, 2016, the loan was renewed with an interest rate of 5.655% per annum and a new maturity date is November 11, 2017;
- (ii) a \$1,440,154 (CNY 10,000,000) (September 30, 2016 - \$1,499,385) one year loan bearing an interest at 0.453125% per month. The loan was repayable on November 15, 2016. The loan is guaranteed by certain third parties, including Dahedong. On November 18, 2016, the loan was renewed, with an interest rate of 0.489375% per month and a new maturity date is November 12, 2017;
- (iii) a \$1,440,154 (CNY 10,000,000) (September 30, 2016 - \$1,499,385) one year loan bearing an interest at 8.5% per annum. The loan was repayable on January 7, 2017. The loan is guaranteed by Dahedong, the owner of Dahedong and by certain third parties. On January 9, 2017, the loan was renewed, with an interest rate of 7.0833% per annum and a new maturity date is January 4, 2018 (Note 20);

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**11. Loans payable (continued)**

- (iv) a \$864,093 (CNY 6,000,000) (September 30, 2016 - \$899,631) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes were repaid on January 5, 2017 (Note 20);
- (v) a \$864,093 (CNY 6,000,000) (September 30, 2016 - \$899,631) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes were repaid on January 18, 2017 (Note 20);
- (vi) a \$864,093 (CNY 6,000,000) (September 30, 2016 - \$899,631) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes were repaid on February 19, 2017 (Note 20);
- (vii) a \$720,077 (CNY 5,000,000) (September 30, 2016 - \$749,693) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due March 9, 2017;
- (viii) a \$2,880,309 (CNY 20,000,000) (September 30, 2016 - \$2,998,771) one year loan bearing an interest at 4.785% per annum and repayable on April 15, 2017. The loan is guaranteed by the owner of Dahedong and the company that provides gold concentrate refining services to the Company;
- (ix) a \$432,046 (CNY 3,000,000) (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 April 20, 2017;
- (x) a \$576,062 (CNY 4,000,000) (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 May 11, 2017;
- (xi) a \$864,093 (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 June 2, 2017;
- (xii) a \$4,320,463 (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;
- (xiii) a \$1,584,170 (CNY 11,000,000) (September 30, 2016 - \$Nil) one year loan with Dahedong bearing an interest of 0.5% per month plus 5% if the loan is not repaid at maturity. The loan is repayable on December 27, 2017;
- (xiv) Accrued interest of \$308,196 (CNY 2,140,024) (September 30, 2016 - \$298,913) relating to the above loans.

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**12. Asset retirement obligation**

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

|   | December 31,<br>2016<br>-\$- | September 30,<br>2016<br>-\$- |
|---|------------------------------|-------------------------------|
| Balance, beginning                                      | 2,625,922                    | 2,570,427                     |
| Additions and changes in estimates of net present value | -                            | 98,348                        |
| Accretion (Note 16)                                     | 18,273                       | 82,513                        |
| Foreign exchange adjustment                             | (104,029)                    | (125,366)                     |
| Balance, ending   | 2,540,166                    | 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% (2015 – 3.3%) and an inflation rate of 2.1% (2015 – 3.0%). The majority of the expenditures are expected to occur in or after 2032.

**13. Share capital and Reserves**

**a) Authorized**

Unlimited number of common shares without par value.

**b) Issued share capital**

The Company had 839,765,216 common shares issued and outstanding as at December 31, 2016 and September 30, 2016.

During the three months ended December 31, 2016, the Company closed a non-brokered private placement of 72,500,000 units at CAD\$0.135 per unit for total subscription proceeds of CAD\$9,787,500 (\$7,289,730). 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. At December 31, 2016, the proceeds were held as subscriptions received in advance as the 72,500,000 units were issued in January 2017 on the completion of the non-brokered private placement.

**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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**13. Share capital and Reserves (continued)**  
**c) Issued share capital (continued)**

A summary of the Company's outstanding stock options as a December 31, 2016 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                       | 4.08   |

The continuity of stock options for the three months ended December 31, 2016, is as follows:

| Expiry date                     | Exercise price | Balance September 30, 2016 | Issued | Exercised | Expired/Cancelled | Balance December 31, 2016 |
|---------------------------------|----------------|----------------------------|--------|-----------|-------------------|---------------------------|
| January 28, 2021                | CAD\$0.12      | 27,700,000                 | -      | -         | -                 | 27,700,000                |
| Weighted average exercise price |                | CAD\$0.12                  | \$ -   | \$ -      | \$ -              | CAD\$0.12                 |

**d) 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.

**14. Related party transactions and balances**

**Related party transactions**

The Company incurred the following related party transactions during the three months ended December 31, 2016 and 2015:

|   | Three months ended December 31, 2016 | Three months ended December 31, 2015 |
|---|--------------------------------------|--------------------------------------|
| Consulting fees charged by companies controlled by directors and officers of the Company - includes key management personnel compensation | 150,307                              | 150,826                              |
| Mining and milling services charged by Dahedong (Note 8)  | 3,913,964                            | 5,461,563                            |
| Interest charged by Dahedong  | 19,156                               | 66,716                               |
|   | 4,083,427                            | 5,679,105                            |

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**14. Related party transactions and balances (continued)**

**Key management personnel compensation**

|  | Three months ended<br>December 31,<br>2016 | Three months ended<br>December 31,<br>2015 |
|--|--|--|
|  | -\$ -                                      | -\$ -                                      |
| Short-term employee benefits—management fees | 58,461                                     | 58,445                                     |
| Director fees                                | 38,825                                     | 38,814                                     |
|  | 97,286                                     | 97,259                                     |

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

**Related party balances**

|   | December 31,<br>2016 | September 30,<br>2016 |
|---|----------------------|-----------------------|
|   | -\$-                 | -\$-                  |
| Amounts due to companies controlled by Directors and Officers of the Company (Note 5) | (2,546)              | (4,891)               |
| Amounts due to Dahedong (Note 10)   | 5,700,350            | 5,442,741             |
| Loan amounts due to Dahedong (Note 11)  | 1,881,730            | 1,634,330             |
|   | 7,579,534            | 7,072,180             |

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

**15. 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 \$8,579 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

**16. Revenue and Expenses**

**Revenue**

|                       | Three months ended<br>December 31,<br>2016 | Three months ended<br>December 31,<br>2015 |
|-----------------------|--|--|
|                       | -\$-                                       | -\$-                                       |
| Sales of gold bullion | 3,991,927                                  | 4,359,225                                  |
| Other revenue         | 86,893                                     | 85,235                                     |
| Total                 | 4,078,820                                  | 4,444,460                                  |

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 \$86,893 under this agreement during the period ended December 31, 2016 (2015 - \$85,235).



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**16. Revenue and Expenses (continued)**

**Cost of sales**

|   | Three months ended<br>December 31,<br>2016<br>-\$- | Three months ended<br>December 31,<br>2015<br>-\$- |
|---|--|--|
| Contractor costs paid to Dahedong (Note 8 and 14) | 3,913,964  | 5,461,563  |
| Depreciation and depletion (Note 8)               | 483,791  | 887,894  |
| Smelting costs                                    | 102,972  | 178,076  |
| Resource taxes                                    | 124,829  | 398,682  |
| Other direct costs                                | 239,847  | 310,322  |
| Changes in ending gold concentrate inventory      | (1,719,772)  | (2,695,899)  |
| <b>Total</b>                                      | <b>3,145,631</b>                                   | <b>4,540,638</b>                                   |

**General and administrative**

|                                | Three months ended<br>December 31,<br>2016<br>-\$- | Three months ended<br>December 31,<br>2015<br>-\$- |
|--------------------------------|--|--|
| Consulting and management fees | 154,685  | 158,402  |
| Depreciation (Note 8)          | 79,479   | 80,721   |
| Office and general             | 137,420  | 173,269  |
| Professional fees              | 510  | 9,470  |
| Salaries                       | 191,105  | 196,361  |
| Shareholder communications     | 561  | 1,798  |
| Travel                         | 120,996  | 87,349   |
| <b>Total</b>                   | <b>684,756</b>                                     | <b>707,370</b>                                     |

**Finance expense**

|  | Three months ended<br>December 31,<br>2016<br>-\$- | Three months ended<br>December 31,<br>2015<br>-\$- |
|--|--|--|
| Interest expenses (Note 11)                        | 212,966  | 271,695  |
| Accretion of asset retirement obligation (Note 12) | 18,273   | 21,088   |
| <b>Total</b>                                       | <b>231,239</b>                                     | <b>292,783</b>                                     |

**17. 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

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**17. Risks and capital management (continued)**

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 December 31, 2016.

*Currency Risk*

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

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**17. Risks and capital management (continued)**

*Other Price Risk*

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

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

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

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

**18. 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:

|                               | December 31,<br>2016<br>-\$- | September 30,<br>2016<br>-\$- |
|-------------------------------|------------------------------|-------------------------------|
| Current:                      |                              |                               |
| Assets                        | 12,190,778                   | 13,857,389                    |
| Liabilities                   | (26,674,843)                 | (27,455,142)                  |
| Total current net liabilities | (14,484,065)                 | (13,597,753)                  |
| Non-current                   |                              |                               |
| Assets                        | 83,333,556                   | 76,662,223                    |
| Liabilities                   | (5,262,058)                  | (5,459,760)                   |
| Total non-current net assets  | 78,071,498                   | 71,202,463                    |
| Balance, ending               | 63,587,433                   | 57,604,710                    |

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

|                                     | December 31,<br>2016<br>-\$- | December 31,<br>2015<br>-\$- |
|-------------------------------------|------------------------------|------------------------------|
| Revenue                             | 4,078,850                    | 4,444,460                    |
| Net income (loss) before income tax | 329,514                      | (384,989)                    |
| Income tax recovery (expense)       | 256,496                      | (2,489)                      |
| Net income (loss)                   | 586,010                      | (387,478)                    |
| Other comprehensive income          | 2,940,664                    | 3,891,426                    |
| Comprehensive income                | 3,526,674                    | 3,503,948                    |

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**19. 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              | 15,279 | 8,488 | 23,767 |

**20. Subsequent events**

Subsequent to December 31, 2016, the Company:

- (i) repaid a series of banker's acceptance notes for CNY 6,000,000 (\$872,236) on January 5, 2017;
- (ii) renewed its bank loan for CNY 10,000,000 (\$1,453,727) on January 9, 2017, with an interest rate 0.70833% per month and a new maturity date is January 4, 2018;
- (iii) repaid a series of banker's acceptance notes for CNY 6,000,000 (\$872,236) on January 18, 2017;
- (iv) issued 72,500,000 units in connection to the private placement which closed in December 2016 (Note 13); and
- (v) repaid a series of banker's acceptance notes for CNY 6,000,000 (\$872,236) on February 19, 2017.