



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

For the year ended September 30, 2016

(Expressed in US dollars)

Majestic Gold Corp.
Management's Discussion and Analysis
For the year ended September 30, 2016

INTRODUCTION

The following Management Discussion and Analysis ("MD&A") of the financial condition and results of operations of Majestic Gold Corp. ("Majestic" or "the Company") should be read in conjunction with the accompanying audited consolidated annual financial statements and related notes thereto for the year ended September 30, 2016 and 2015, (the "Financial Report").

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

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

This MD&A contains information to January 25, 2017.

This discussion focuses on key statistics from the consolidated annual financial statements for the years ended September 30, 2016 and 2015 and up to the date of this MD&A and pertains to known risks and uncertainties relating to the gold exploration and development and mining industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions.

OVERVIEW

- Gold production from the Songjiagou Gold Mine was 22,975 ounces for 2016 (2015 – 19,488), a 18% increase in production over the prior year;
- Gross profit for 2016 was \$1,741,197 compared to a gross loss of (\$1,824,830) for 2015, a gross profit increase of \$3,566,027, 195% increase over the prior year;
- Gold sales revenue was \$27.5 million for 2016, from the sale of 22,924 ounces, at an average realized gold price of \$1,198 per ounce, compared to gold sales revenue of \$22.4 million from the sale of 18,133 ounces, at an average realized gold price of \$1,235 per ounce, for 2015. The increase was due to increased gold sales and partially offset by the lower realized gold price;
- Net loss for 2016 was \$3,277,816 (2015 – (\$6,328,834)), a net loss decrease of \$3,051,018;
- Majestic's adjusted EBITDA was \$1,851,687 for 2016, (2015 – (\$2,431,956)). Refer to pages 19-20 for the computation of this Non-IFRS financial measure;
- For 2016, cash costs were \$1,014 per ounce (2015 - \$1,210), and all-in sustaining costs ("AISC") were \$1,174 per ounce (2015 - \$1,411);
- Tonnes milled for 2016 were 1,619,876 tonnes with an average head grade of 0.49 g/t, compared to 1,578,797 tonnes milled, with an average head grade of 0.43 g/t, for 2015;
- General and administrative ("G&A") expenses were \$3,036,630 for 2016 (2015 -\$3,335,927); a decrease of 9% over the comparative year;
- The Company entered into a new two year non-binding Letter of Intent ("LOI") with Yantai Baiheng Gold Mining Co. Ltd. ("Baiheng") on July 11, 2016, The July 11, 2016 LOI supersedes the August 6, 2015 LOI and allows the Company an additional 24 months for due diligence on the Shuang Shan Tun and Xia Yu Cun properties, located in the Muping-Rushan Gold Belt in Shandong Province, China; and
- On December 16, 2016, the Company closed a non-brokered private placement financing for total proceeds of \$9,787,500 by the issuance of 72,500,000 units at \$0.135 per unit. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase an additional common share at \$0.155 for a period of two years after the closing. Proceeds from the private placement will be used to partially fund construction of housing for inhabitants of two villages that are being relocated due to their close proximity to the Songjiagou open pit operation and for general working capital purposes.

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OUTLOOK

The Company's continued priority through the 2016 fiscal year has been to make improvements at its mining operation by developing and implementing a more realistic optimized mine plan. During the year ended September 30, 2016, the operations at Songjiagou have undergone a number of changes in preparation of implementing a new short term mining plan. Pit upgrades include adjusting ramps and benches and to better prepare working faces throughout the pit, all of which will allow for increased and more efficient production. Other notable changes include key personnel being added to the engineering staff, over 35,000 blasthole samples have augmented the original database, and the amount of waste material that is being separated out continues to increase. As an overall mine plan continues to evolve, the engineering department is now producing two month mine plans as a means of identifying and separating individual ore and waste blocks.

DESCRIPTION OF BUSINESS

Majestic is a Vancouver, Canada based gold producer with mining operations in China. The Company's main business involves the acquisition, exploration and development of mineral properties. At September 30, 2016, and at the date of this MD&A, all of the Company's mineral property interests and mining operations are located in China. The Company is a TSX Venture Exchange listed mining company trading under the symbol "MJS".

The Company's principal mining operation is the Songjiagou Gold Mine ("Songjiagou Project" and "Songjiagou"), of the Muping mineral property, located in Shandong province, China. Majestic holds its interest in Muping through its 94% owned subsidiary Majestic Yantai Gold Ltd. ("Majestic Yantai"). The Company commenced commercial gold production at the Songjiagou Gold Mine in May 2011.

SONGJIAGOU GOLD MINE

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

RESOURCE

On January 21, 2016, pursuant to a disclosure review by the British Columbia Securities Commission ("BCSC") (see news release dated December 21, 2015), the Company filed an amended technical report titled "Independent Technical Report of Songjiagou Project, Shandong Province, The People's Republic of China" (the "Amended Report") dated January 19, 2016, as prepared by SRK Consulting (China) Ltd. ("SRK").

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

Changes in the Amended Report included the following:

- Explanation to capping of High Grade samples at 40 g/t gold;
- Reporting open-pit resources and underground resources by using different cut-off grades;
- Excluding the depletion of historical underground mining in the resource statements and the PEA;
- Including taxation in the economic analysis in the PEA;
- Addition of a Qualified Person ("QP"), Peter Fairfield, BEng, FAusIMM, for mining aspects of the technical report, as well as amending the certificates and consents of QP's to ensure that at least one qualified person is responsible for each section of the Amended Report;
- Addition of cautionary language relating to the mineral resource estimate and results of the PEA;
- The Amended Report includes an updated resource estimate of Indicated and Inferred Resources at Songjiagou Gold Mine, as follows:

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Original Resource (in report dated August 2, 2013)

Global Resource

Open Pit	
Indicated (MT)	Inferred
(0.30 g/t Au) cutoff	(0.30 g/t Au) cutoff
28.6 MT @ 1.38 g/t Au	35.3 MT @ 1.43 g/t Au

Within Original Mining License

Open Pit	
Indicated (MT)	Inferred
(0.30 g/t Au) cutoff	(0.30 g/t Au) cutoff
25.9 MT @ 1.42 g/t Au	28.7 MT @ 1.35 g/t Au

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

Global Resource

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

Within Original Mining License

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

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

- The amended resource estimate accounted for depletion by previous underground mining of an amount of 443,555 tonnes at an average grade of 0.85 g/t gold;
- The Amended Report designated Scenario 1 as a base-case for PEA of the Songjiagou operation. Scenario 1 allows for mining of only Indicated Resources, within the original mining license, at a rate of up to 7,400 tonnes per day. Results of the base-case analysis, using US\$1,355 per ounce gold as the long term price are as follows:
 - Mining Inventory: 17.094MT @ 1.36 g/t gold
 - Stripping Ratio: 3.26:1
 - Mining Recovery: 95%
 - Mining Dilution: 5%
 - Smelting Recovery: 93%
 - After-tax NPV @ 10% discount rate: US\$335 Million
 - Sensitivity analysis for 20% reduction in the base-case average gold price (US\$1,084 per ounce) results in an after-tax NPV of US\$232 Million

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

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PRELIMINARY ECONOMIC ASSESSMENT

The Company's Amended Report dated January 19, 2016, is an amendment to the initial technical report in support of the Preliminary Economic Assessment ("PEA") for the Songjiagou Gold Mine, filed on August 21, 2013, and prepared by SRK Consulting (China) Ltd..

A summary of the main sections of the PEA are as follows:

Operating Cost

The following parameters were used to estimate the operating cost in the PEA:

- Mining cost: US\$ 1.79/t (RMB 11.3/t). Mining costs are assumed to increase by US\$ 0.05/t (RMB 0.3/t) annually;
- Stripping cost: US\$ 1.36 (RMB 8.55/t). Stripping costs are assumed to increase by US\$ 0.05/t (RMB 0.3/t) annually;
- Processing cost: US\$ 7.55/t (RMB 47.46/t);
- Administration cost: US\$ 0.72/t (RMB 4.50/t);
- Resource tax: US\$ 0.72/t (RMB 5/t);
- Mineral resource compensation fee: US\$ 31,830/year (RMB 200,000/year);
- Smelting cost: US\$ 15.91/t (RMB 100/t) of dry gold concentrate; and
- Exchange rate: US\$1 = RMB 6.2834 (CDN\$ 1 = RMB 6.2789).

Mining Methods

Mining activities have been outsourced to Dahedong, and mining equipment is also being supplied by the contractor. The PEA is based on conventional open pit mining using excavators to load 40 tonne trucks which haul ore to the processing plant - a distance of about 4 km. Ore break is by self-propelled air track drills. Benches are 12 m high. The overall slope of the pit is 48°. The mine is scheduled to operate 330 days per year, 3 shifts per day and 8 hours per shift.

Recovery Methods

The Songjiagou Gold Mine has three processing plants. Two of them were put into operation in 2006 with capacities of 200 tpd and 1,200 tpd and the third was put into operation in May 2011 with a capacity of 6,000 tpd. The 1,200 tpd mill is not being utilized at this time; all material mined currently is processed in the 6,000 tpd mill.

During the 2015 fiscal year, the 200 tpd mill was upgraded to a 2,000 tpd mill by a third party, YE Zhifan ("Zhifan"), to process waste material from Songjiagou (< 0.30 g/t). Zhifan has paid all costs associated with the upgrade of the mill. The Company is also party to a February 1, 2015, agreement which allows Zhifan 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.

Similar flowsheets are adopted in the 1,200 tpd plant and the 6,000 tpd plant. The flow sheet comprises conventional three-stage crushing and grinding in a closed circuit. The slurry is subjected to a flotation circuit comprising of one stage of roughing, one stage of cleaning, and two stages of scavenging. The gold concentrate is dehydrated and then sent for metallurgical processing at a nearby smelter.

The Company has been unable to realize the full potential of the Songjiagou Gold Mine, due in a large part to the lack of consistent grade control of the material entering the mill after being mined in the pit. The Company's management is currently limiting production to the capacity of the 6,000 tpd mill as the Company continues to work on the implementation of its grade control program, and the development of an optimized mine plan at Songjiagou.

EXPLORATION

Songjiagou North

During the year ended September 30, 2016, Zhongjia received a 0.414 sq. km. mining license immediately north of the original mining license at Songjiagou. This second license covers the extension of the

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Songjiagou gold mineralization to the north. Development of a 2,175 meter ramp to access at least four mineralized vein structures from six different levels began subsequent to the year ended September 30, 2016. Production is anticipated to begin late in 2017 or possibly early in the following year.

Baiheng

On July 11, 2016, the Company entered into a new two year non-binding Letter of Intent ("LOI") with Yantai Baiheng Gold Mining Co. Ltd. ("Baiheng"). The July 11, 2016 LOI supersedes the August 6, 2015 LOI and allows the Company an additional 24 months for due diligence on the Shuang Shan Tun and Xia Yu Cun properties, located in the Muping-Rushan Gold Belt in Shandong Province, China.

The July 11, 2016 LOI is, in principal, a due diligence agreement that allows Majestic an 24 month detailed due diligence period, after which the Company has the option to enter into a definitive agreement for the properties.

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

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

QUALIFIED PERSON

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

SELECTED ANNUAL FINANCIAL INFORMATION

The following table presents audited selected financial information for the last three audited fiscal years:

	Year ended September 30, 2016 \$	Year ended September 30, 2015 \$	Year ended September 30, 2014 \$
Revenue	27,801,966	22,595,313	23,816,403
Net loss	(3,277,816)	(6,328,834)	(7,308,886)
Net loss per share	(0.00)	(0.01)	(0.01)
Total assets	93,305,139	95,679,706	96,725,413
Total liabilities ⁽¹⁾	35,190,882	32,354,772	24,777,755
Dividends	-	-	-

(1) Total liabilities do not include deferred income.

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SELECTED FINANCIAL INFORMATION

	Year ended September 30,	
	2016	2015
Operating data		
Gold produced (ozs)	22,975	19,488
Gold realized net of smelting fees (ozs)	21,644	17,986
Gold sold (ozs)	22,924	18,133
Average realized gold price (\$/oz sold)	\$ 1,198	\$ 1,235
Total cash costs (\$/oz sold) ⁽¹⁾	1,014	1,210
Total production costs (\$/oz sold) ⁽¹⁾	1,137	1,347
All-in sustaining costs (\$/oz sold) ⁽¹⁾	1,174	1,411
Financial data		
Total revenues	\$ 27,801,966	\$ 22,595,313
Gross profit (loss) ⁽²⁾	1,741,197	(1,824,830)
Adjusted EBITDA ⁽¹⁾	1,851,687	(2,431,956)
Net loss	(3,277,816)	(6,328,834)
Net loss attributable to shareholders	(2,914,351)	(4,855,689)
Basic and diluted loss per share	(0.00)	(0.01)
Cash and cash equivalents	9,037,258	6,981,718
Total assets	93,305,139	95,679,706
Total debt	33,038,286	30,297,103

(1) "Total cash costs" are presented on a per ounce sold basis. See "Additional Non-IFRS Financial Measures" on page 19-20.

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

RESULTS OF OPERATIONS

Gold Production

	Year ended September 30,	
	2016	2015
Production data		
Tonnes mined	1,662,583	1,673,484
Tonnes milled	1,619,876	1,578,797
Head grade (g/t)	0.49	0.43
Mill recovery	90%	88.6%
Gold produced (ozs)	22,975	19,488
Gold realized net of smelting fees (ozs)	21,644	17,986

Tonnes milled for fiscal 2016, were 1,619,876 tonnes with an average head grade of 0.49 g/t, compared to 1,578,797 tonnes milled, with an average head grade of 0.43 g/t, for fiscal 2015. The Company estimates the average head grade will continue to be in the range 0.50 g/t as the optimized mine plan is developed.

Total gold produced for fiscal 2016, was 22,975 ounces, compared to 19,488 ounces produced for the fiscal 2015. Total gold realized was 21,644 ounces for fiscal 2016, compared to 17,986 ounces realized for fiscal 2015. The Company expects gold production to continue to quarterly average in the range of 5,000 ounces as the optimized mine plan is developed.

Total gold produced for the quarter ended September 30, 2016, was 5,258 ounces, compared to 5,012 ounces produced for the 2015 comparative quarter. For the quarter ended September 30, 2016, total gold realized was 4,800 ounces compared to 4,469 ounces realized in the comparative quarter of 2015.

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Revenues

	Year ended September 30,	
	2016	2015
Gold		
Ounces sold	22,924	18,133
Average realized price (\$/oz)	\$ 1,198	\$ 1,235
Revenues		
Gold	\$ 27,461,704	\$ 22,395,034
Other income	340,262	200,279
	\$ 27,801,966	\$ 22,595,313

Gold sales revenue was \$27.5 million for fiscal 2016, from the sale of 22,924 ounces, at an average realized gold price of \$1,198 per ounce, compared to gold sales revenue of \$22.4 million from the sale of 18,133 ounces, at an average realized gold price of \$1,235 per ounce, for fiscal 2015. Gold sales revenue increased in the current year due primarily to an additional 4,791 ounce being sold as compared to the prior year.

Gold sales revenue was \$6.1 million for the quarter ended September 30, 2016, from the sale of 4,823 ounces, at an average realized gold price of \$1,263 per ounce, compared to gold sales revenue of \$7.0 million from the sale of 5,916 ounces, at an average realized gold price of \$1,176 per ounce, for the comparative quarter of 2015.

Revenues also included \$340,262 for fiscal 2016 (2015 - \$200,279), including \$86,829 for quarter ended September 30, 2016 (2015 Q4 -\$200,279). The revenue is earned from a February 1, 2015 agreement which the Company is a party to. The agreement allows a third party use of the tailings pond for a fee of CNY 5.5 per tonne of ore processed to a maximum of 1,500 tonnes per day.

Cost of Goods Sold

	Year ended September 30,	
	2016	2015
Ounces sold	22,924	18,133
Per ounce of gold sold ⁽¹⁾		
Cash costs	\$ 1,014	\$ 1,210
Production costs	1,137	1,347
Cost of Goods Sold		
Total cash costs	\$ 23,234,500	\$ 21,943,538
Total production costs	26,060,769	24,420,143

(1) See "Additional Non-IFRS Financial Measures" on page 19-20.

For fiscal 2016, cash costs per ounce were \$1,014 (2015 - \$1,210/oz) and production costs per ounce were \$1,137 (2015 - \$1,347/oz).

For the quarter ended September 30, 2016, cash costs per ounce were \$1,059 (2015 - \$1,304/oz) and production costs per ounce were \$1,188 (2015 - \$1,468/oz).

Cash and productions costs per ounce for 2016 were both lower over the 2015 comparative period, due to the improved head grade and recovery rates, leading to the increase in the overall gold production and thereby lowering the cash and production costs per ounce.

Other Items

The Company's G&A expenditures were \$3,036,630 for fiscal 2016, (2015 -\$3,335,927), a 9% decrease over the comparative year. The G&A for the quarter ended September 30, 2016 was \$982,453 (2015 Q4 - \$1,250,030)

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The details of the general and administrative expenses for the years ended September 30, 2016 and 2015 are as follows:

	Year ended September 30,	
	2016	2015
	-\$-	-\$-
Consulting and management fees	651,593	705,174
Depreciation	320,851	252,196
Office and general	604,392	889,706
Professional fees	96,144	109,755
Salaries	977,813	925,938
Shareholder communications	24,915	34,134
Travel	360,922	419,024
Total	3,036,630	3,335,927

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

Share-based compensation for fiscal 2016 was \$805,700 from the grant of 27,700,000 stock options during the year

The details of the changes in the consolidated finance expense for the years ended September 30, 2016 and 2015 are as follows:

	Year ended September 30,	
	2016	2015
	-\$-	-\$-
Interest expense	974,909	1,066,216
Accretion of asset retirement obligation	82,513	104,646
Total	1,057,422	1,170,862

Net loss for fiscal 2016, was \$3,277,816 (\$0.00 per share) compared to a loss of \$6,328,834 (\$0.01 per share) for the comparative period of 2015.

Net loss for the quarter ended September 30, 2016, was \$801,897 (\$0.00 per share) compared to a loss of \$3,990,750 (\$0.00 per share) for the comparative period of 2015.

The Company's adjusted EBITDA was \$1,851,687 for fiscal 2016, (2015 – (\$2,431,956)), an increase in the adjusted EBITDA of \$4,283,643 from improved gold production, and the corresponding reduction in total cash costs per ounce. Total adjusted EBITDA for the quarter ended September 30, 2016, was \$215,430 (2015 Q4 – (\$2,041,088)).

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SUMMARY OF QUARTERLY RESULTS

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

	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Net revenues	\$6,178,145	\$6,744,418	\$10,434,943	\$4,444,460
Net loss	(\$801,897)	(\$330,993)	(\$1,482,846)	(\$662,080)
Per share	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Net revenues	\$7,155,148	\$2,787,430	\$5,889,843	\$6,762,892
Net loss	(\$3,990,750)	(\$1,137,335)	(\$639,042)	(\$1,161,707)
Per share	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.00)

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

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

FOURTH QUARTER

Majestic began the fourth quarter ended September 30, 2016, with \$10,330,617 in cash and cash equivalents. During the three months ended September 30, 2016, the Company expended \$728,979 on its operating activities, net of working capital changes, expended \$36,869 on investing activities which was attributable to the purchase of property, plant and equipment and investment in gold futures, expended \$423,005 on financing activities which was attributable to restricted cash on deposit and loan borrowing repayments, net of loan borrowings and, had a foreign exchange loss of \$105,506, to end at September 30, 2016, with \$9,037,258 in cash and cash equivalents.

LIQUIDITY

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

On December 16, 2016, the Company closed a non-brokered private placement financing for total proceeds of \$9,787,500 by the issuance of 72,500,000 units at \$0.135 per unit. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase an additional common share at \$0.155 for a period of two years after the closing. Proceeds from the private placement will be used to partially fund construction of housing for inhabitants of two villages that are being relocated due to their close proximity to the Songjiagou open pit operation and for general working capital purposes.

At September 30, 2016, the Company had cash and cash equivalents of \$9,037,258 (September 30, 2015 - \$6,981,718) and had a working capital deficit of \$16,492,256 (September 30, 2015 - (\$14,459,420)).

Majestic began the year ended September 30, 2016, with \$6,981,718 in cash and cash equivalents. During fiscal 2016, the Company had a net cash inflow of \$5,489,112 from its operating activities, net of working capital changes, expended \$2,386,424 on investing activities, net of proceeds of \$417,210 from sale of investments, and expended \$885,483 on financing activities which was attributable to loan borrowings repayments, net of loan borrowing and restricted cash placed on deposit, and had foreign exchange loss of \$161,665, to end at September 30, 2016, with \$9,037,258 in cash and cash equivalents.

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Majestic began the year ended September 30, 2015, with \$8,812,166 in cash and cash equivalents. During the year ended September 30, 2015, the Company had expended \$4,456,122 on operating activities, net of working capital changes, spent \$570,351 on investing activities which was attributable to the purchase of property, plant and equipment and investment in gold futures, received \$3,973,697 on financing activities which was attributable to loan borrowings, net of loan borrowing repayments and restricted cash on deposit, and had foreign exchange loss of \$777,672, to end at September 30, 2015, with \$6,981,718 in cash and cash equivalents.

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

CAPITAL RESOURCES

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

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

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

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

Authorized: an unlimited number of common shares without par value.	Common shares issued and outstanding	Common share purchase warrants	Stock options
Outstanding at September 30, 2016	839,765,216	-	27,700,000
Private placements	72,500,000	72,500,000	-
Outstanding at the date of this MD&A	912,265,216	72,500,000	27,700,000

TRANSACTIONS WITH RELATED PARTIES

Related party transactions

The Company incurred the following related party transactions during the year ended September 30, 2016 and 2015:

	Year ended September 30,	
	2016	2015
	-\$-	-\$-
Consulting fees charged by companies controlled by directors and officers of the Company - include key management personnel compensation	616,428	655,807
Stock-based compensation	651,541	
Mining and milling services charged by Dahedong	18,782,621	18,838,342
Interest charged by Dahedong	98,452	203,380
	20,149,042	19,697,529

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Compensation of key management personnel

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

	Year ended September 30,	
	2016	2015
	-\$-	-\$-
Short-term employee benefits—management fees	236,371	254,592
Director fees	164,551	169,687
Stock-based compensation	564,280	-
	965,202	424,279

Key management included the Company's directors, executive officers and senior management. These transactions occurred in the normal course of operations and are measured at their exchange amounts, which is the amount of consideration established and agreed to by the parties.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are not yet effective as of September 30, 2016, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

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.

IFRS 16 Leases

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

COMMITMENT AND CONTINGENCIES

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

OFF-BALANCE SHEET ARRANGEMENTS

At September 30, 2016, the Company had no off-balance sheet arrangement such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

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FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

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

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

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

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

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

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

Financial assets are derecognized when the right to receive cash flows from the investment has expired or has been transferred and the Company has transferred substantially all risks and rewards of ownership.

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

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

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

- (i) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- (ii) Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

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(iii) Level 3 – Inputs that are not based on observable market data.

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

Risk Management

Credit Risk

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

Liquidity Risk

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

Industry Risk

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

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

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

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

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 September 30, 2016.

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Currency Risk

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

Other Price Risk

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

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

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

As at September 30, 2016, the Company did not hold any gold futures contracts. The Company does not use derivative instruments to hedge or reduce its price risk to gold.

DIRECTORS

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

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

RISKS AND UNCERTAINTIES

Risks and uncertainties information concerning risks specific to the Company and its industry, which are required to be included in this MD&A are incorporated by reference to the Company's annual MD&A for the year ended September 30, 2016.

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The following is a discussion of those distinctive or special characteristics of the Company's operations and industry that may have a material impact on, or constitute risk factors in respect of the Company's operations and future financial performance.

Additional risks not currently known by the Company, or that the Company currently deems immaterial, may also impair the Company's operations.

Exploration and mining risks

Exploration for minerals and development of mining operations involve many risks, many of which are outside the Company's control. In addition to the normal and usual risks of exploration and mining, the Company often works in remote locations that lack the benefit of infrastructure or easy access.

The economics of developing gold and other mineral properties are affected by many factors including the cost of operations, variations of the grade of ore mined, fluctuations in the price of gold or other minerals produced, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Depending on the price of gold or other minerals produced, which have fluctuated widely in the past, the Company may determine it is impractical to commence or continue commercial production.

Reserves and resource estimates

The mineral and resources estimates disclosed in the Company's public filings are only estimates and no assurances can be given that any particular level of recovery of minerals will be realized or that an identified resource will ever qualify as a commercially mineable deposit which can be legally and economically exploited. The Company relies on laboratory-based recovery models to project estimated ultimate recoveries by ore type at optimal crush sizes. Actual gold recoveries may exceed or fall short of projected laboratory test results. As stated previously, the grade of mineralization ultimately mined may differ from the one indicated by the drilling results and the difference may be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, inaccurate or incorrect geologic, metallurgical or engineering work, and work interruptions among other things. Short-term factors, such as the need for an orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of those operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under onsite conditions or in production scale operations. Material changes in proven and probable reserves or resource grades, waste-to-ore ratios or recovery rates may affect the economic viability of projects. The estimated proven and probable reserves and resources disclosed in the Company's public filings should not be interpreted as assurances of mine life or of the profitability of future operations.

The Company has engaged expert independent technical consultants to advise it on, among other things, mineral reserves and resources and project engineering. The Company believes these experts are competent and that they have carried out their work in accordance with internationally recognized standards. If, however, the work conducted by these experts is ultimately found to be incorrect or inadequate in any material respect, the Company may experience delays and increased costs.

The Company's production decision was not based on a feasibility study of mineral reserves demonstrating economic and technical viability. The Company's production decision was made based on the open pit optimization resource model set out in a PEA, which takes into account the relatively low mining costs negotiated by the Company. The pit optimization that was conducted in the preliminary assessment generated a production schedule summary at grade cut-off of 0.30 gram per tonne Au.

The Songjiagou Gold Project resource estimate was carried out using industry-standard procedures and a geological interpretation of the deposit that, to the extent possible, reflected observations of grade distributions. Modeling of the deposit is uncertain, however, because it is difficult to establish with a high level of confidence the area of influence of higher-grade gold values. The risk remains, therefore, that the geological model may overstate the distribution of high-grade gold values. If future mining demonstrates

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that this is in fact the case, then the model may overstate anticipated gold grades. Because the probability of this outcome is unknown, the level of uncertainty must also be unknown.

Foreign countries, laws and regulations

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

Commodity prices

The profitability of the Company's operations, if established, will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, world supply of mineral commodities, consumption patterns, sales of gold by central banks, forward sales by producers, production, industrial and jewelry demand, speculative activities and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political development. The prices of mineral commodities have fluctuated widely in recent years. Current and future price declines could cause commercial production of the Company's properties to become impracticable.

The Company's revenues and earnings also could be affected by the prices of other commodities such as fuel and other consumable items, although to a lesser extent than by the price of gold. The prices of these commodities are affected by numerous factors beyond the Company's control.

A reduction in the price of gold may prevent the Company's properties from being economically mined or result in the write-off of assets whose value is impaired as a result of low gold prices. The price of gold may also have a significant influence on the market price of the Company's common shares.

Environmental compliance and other regulatory requirements

Any significant mining operation will have some environmental impact, including land and habitat impact, arising from the use of land for mining and related activities, and certain impact on water resources near the project sites, resulting from water use, rock disposal and drainage run-off. The current exploration and mining activities of the Company require permits from various governmental authorities and such operations are, and will be, governed by laws and regulations governing exploration, mining, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety, mine permitting and other matters. Companies engaged in exploration and mining activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all permits the Company may require for exploration, development and mining will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project the Company may undertake.

The Company's operations are subject to local laws and regulations regarding environmental matters, which generally provide for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of mining operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving towards stricter standards, and enforcement, fines and penalties for non-compliance are becoming more stringent. An environmental assessment of a proposed project carries a heightened degree of responsibility for companies and their directors, officers and employees.

Environmental laws and regulations change frequently, and the implementation of new, or the modification of existing laws or regulations could harm the Company. The Company cannot predict how agencies or courts in foreign countries will interpret existing laws and regulations or the effect these adoptions and interpretations may have on the Company's business or financial condition.

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Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions there-under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in exploration and mining operations may be required to compensate those suffering loss or damage by reason of the exploration and mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

No assurances can be given that such environmental and compliance issues will not have a material adverse effect on the Company's operations in the future. While the Company believes it does not currently have any material environmental obligations, the cost of complying with existing regulations or changes in governmental regulations have the potential to reduce the profitability of operations, may give rise in the future to significant liabilities on the Company's part to the government and third parties, and may require the Company to incur substantial costs of remediation.

Insurance and uninsured risks

The business of the Company is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to properties of the Company or others, delays in mining, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts it considers reasonable, its insurance will not cover all the potential risks associated with its operations and insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks because of high premiums or other reasons. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Dependence on key personnel

The success of the Company will be largely dependent upon the performance of its key officers, employees and consultants. Local mineral deposits and mining operations depend on a number of factors, not the least of which is the technical skill of the exploration and mining personnel involved. The success of the Company is largely dependent on the performance of its key personnel. Failure to retain key personnel or to attract or retain additional key individuals with necessary skills could have a materially adverse impact upon the Company's success. The Company has not purchased any "key man" insurance with respect to any of its directors, officers or key employees and has no current plans to do so.

Property interests

The ability of the Company to carry out successful mineral exploration, development activities and mining operations is dependent, in part, on the Company's ability to acquire and maintain title to its mineral interests. No guarantee can be given that the Company will be in a position to comply with the obligations that this requirement entails, or to require third parties to comply with their obligations with respect to such properties. Furthermore, while it is common practice that permits and licenses may be renewed, extended or transferred into other forms of licenses appropriate for ongoing operations, no guarantee can be given that a renewal, extension or a transfer will be granted to the Company or, if they are granted, that the Company will be in a position to comply with all conditions that are imposed.

Furthermore, at any point in time certain of the Company's mineral interests may be the subject of contractual promises to assign, pursuant to which a third party has agreed to assign to the Company, or to an entity in which the Company holds its interest in the applicable property, certain licenses and/or

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concession contracts upon the issuance of such licenses or concession contracts by the mining registry to the promising party. The failure of a promising party to comply with its contractual obligation could have a materially adverse impact on the Company's interests in the license or concession.

The acquisition of the right to exploit, develop and/or mine its mineral properties is a detailed and time-consuming process. Although the company is satisfied it has taken reasonable measures to acquire unencumbered rights to explore on and exploit its mineral reserves on its mineral interests, there can be no assurances the interest in the Company's properties is free from defects or that the material contracts between the Company and the entities owned or controlled by foreign government will not be unilaterally altered or revoked. There can be no assurances the Company's rights will not be challenged or impugned by third parties, that the Company's interests in properties may be subject to prior unregistered agreements, or that transfers and title may be affected by undetected defects.

ADDITIONAL NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

The following table provides a reconciliation of adjusted EBITDA to the consolidated financial statements for the years ended September 30, 2016 and 2015:

	Year ended September 30,	
	2016	2015
Net Income (loss)	\$ (3,277,816)	\$ (6,328,834)
Depreciation and depletion	3,147,120	2,728,801
Share-based compensation	805,700	-
Finance expense, net of finance income	734,986	873,815
Gain on financial instruments	(68,434)	(10,347)
Foreign exchange loss (income)	2,465	(20,815)
Gain on asset dispositions	(1,174)	-
Unrealized loss on investment in gold futures	-	21,575
Income tax expense (recovery)	508,840	303,849
Adjusted EBITDA	\$ 1,851,687	\$ (2,431,956)

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

	Year ended September 30,	
	2016	2015
Revenue	\$ 27,801,966	\$ 22,595,313
Cost of sales, net of depreciation and depletion	(23,234,500)	(21,943,538)
G&A, net of depreciation	(2,715,779)	(3,083,731)
Adjusted EBITDA	\$ 1,851,687	\$ (2,431,956)

The following tables provide reconciliation to the consolidated financial statements of total cash costs per ounce, and total production costs per ounce as disclosed in this MD&A to the consolidated financial statements for the years ended September 30, 2016 and 2015:

	Year ended September 30,	
	2016	2015
Gold sold (ozs)	22,924	18,133
Total cash costs per ounce		
Contractor costs paid to Dahedong	\$ 18,782,621	18,838,342
Smelting costs	643,063	533,466
Resource taxes	1,159,166	1,417,552
Other direct costs	798,474	1,007,400
Changes in ending gold concentrate inventory	1,851,176	146,778
Total cash costs	\$ 23,234,500	\$ 21,943,538
Per ounce sold	\$ 1,014	\$ 1,210
Total production costs per ounce		
Total cash costs	\$ 23,234,500	\$ 21,943,538
Depreciation and depletion	2,826,269	2,476,605
Total production costs	\$ 26,060,769	\$ 24,420,143
Per ounce sold	\$ 1,137	\$ 1,347
All-in sustaining costs per ounce		
Total cash costs	\$ 23,234,500	\$ 21,943,538
G&A, net of depreciation	2,715,779	3,083,731
Share-based compensation	805,700	-
Sustaining capital expenditures ⁽¹⁾	147,656	560,087
All-in sustaining costs	\$ 26,903,635	\$ 25,587,356
Per ounce sold	\$ 1,174	\$ 1,411

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

The following table reconciles sustaining capital expenditures to the Company's total additions as reported in the interim condensed consolidated statements of cash flows for statements for the years ended September 30, 2016 and 2015:

	Year ended September 30,	
	2016	2015
Additions to property, plant and equipment		
Songjiagou Gold Mine	\$ 3,588,778	\$ 1,995,555
Sustaining capital	147,656	560,087
	\$ 3,736,434	\$ 2,555,642

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FORWARD-LOOKING STATEMENTS

This MD&A contains or incorporates by reference "forward-looking statements" within the meaning of applicable Canadian securities legislation. Except for statements of historical fact relating to the Company, information contained herein constitutes forward-looking statements, including any information as to the Company's strategy, plans or future financial or operating performance. Forward-looking statements are characterized by words such as "plan", "expect", "budget", "target", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions, assumptions and estimates of management considered reasonable at the date the statements are made, and are inherently subject to a variety of risks and uncertainties and other known and unknown factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the impact of general business and economic conditions, global liquidity and credit availability on the timing of cash flows and the values of assets and liabilities based on projected future conditions, fluctuating gold prices, currency exchange rates, possible variations in ore grade or recovery rates, changes in accounting policies, changes in the Company's corporate resources, changes in project parameters as plans continue to be refined, changes in project development, construction, production and commissioning time frames, risk related to joint venture operations, the possibility of project cost overruns or unanticipated costs and expenses, higher prices for fuel, steel, power, labour and other consumables contributing to higher costs and general risks of the mining industry, failure of plant, equipment or processes to operate as anticipated, unexpected changes in mine life, unanticipated results of future studies, seasonality and unanticipated weather changes, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and timing and possible outcome of pending litigation and labour disputes, as well as those risk factors discussed or referred to in the Company's Management's Discussion and Analysis for the year ended September 30, 2016, filed with the applicable securities regulatory authorities and available at SEDAR www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates, assumptions or opinions should change, except as required by applicable law. The reader is cautioned not to place undue reliance on forward-looking statements. The forward-looking information contained herein is presented for the purpose of assisting investors in understanding the Company's expected financial and operational performance and results as at and for the periods ended on the dates presented in the Company's plans and objectives, and may not be appropriate for other purposes.