



## **CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the six months ended March 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)

		March 31, 2016 - \$ -	September 30, 2015 - \$ -
	<i>Note</i>		
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	4	10,032,294	6,981,718
Receivables	5	262,589	1,216,523
Deposits and prepaid expenses	6	501,446	560,116
Inventory	7	2,690,845	3,735,154
Investments	8	-	196,449
Restricted cash	12	3,929,962	3,147,723
		17,417,136	15,837,683
Property, plant and equipment			
Property, plant and equipment	9	76,978,471	79,754,509
Exploration and evaluation assets	10	2	2
Deferred tax assets		86,235	87,512
		94,481,844	95,679,706
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities	11	10,626,178	9,612,691
Loans payable	12	20,335,498	20,684,412
		30,961,676	30,297,103
Asset retirement obligation	13	2,574,707	2,570,427
		33,536,383	32,867,530
<b>EQUITY</b>			
Share capital	14	99,893,830	99,893,830
Reserves	14	10,577,650	10,060,581
Deficit		(65,547,650)	(63,544,618)
Equity attributable to owners of parent		44,923,830	46,409,793
Equity attributable to non-controlling interests	19	16,021,631	16,402,383
Total equity		60,945,461	62,812,176
		94,481,844	95,679,706
Nature of operations	1		
Commitment	9, 20		
Subsequent events	21		

Approved by the Directors:

"John Campbell""Stephen Kenwood"*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**Majestic Gold Corp.****Condensed Consolidated Interim Statements of Comprehensive Loss**

(Unaudited - expressed in US dollars)

		Three months ended March		Six months ended March 31,	
		2016	2015	2016	2015
		- \$ -	- \$ -	- \$ -	- \$ -
	Note				
Gold revenue	17	10,434,943	5,889,843	14,879,403	12,652,735
Cost of goods sold	17	9,959,274	5,654,560	14,499,912	12,509,823
Gross profit		475,669	235,283	379,491	142,912
Selling and administrative expenses					
General and administrative	17	630,546	694,763	1,337,916	1,448,481
Share-based compensation	14	1,054,063	-	1,054,063	-
		1,684,609	694,763	2,391,979	1,448,481
Loss before other items		(154,877)	(459,480)	(2,012,488)	(1,305,569)
Other items					
Finance expense	17	364,206	244,913	656,989	582,942
Finance income		(34,399)	(50,233)	(445,236)	(103,579)
Foreign exchange loss (income)		9,028	(13,250)	3,833	(14,361)
Realized gain on sale of investments	8	(52,704)	-	(68,434)	(10,347)
Gain on disposal of equipment	9	(1,174)	-	(1,174)	-
		286,131	181,430	145,978	454,655
Net loss before income tax		(441,008)	(640,910)	(2,158,466)	(1,760,224)
Income tax expense (recovery)		(11,051)	(1,868)	(13,540)	40,525
Net loss for the period		(429,957)	(639,042)	(2,144,926)	(1,800,749)
Other comprehensive income (loss)					
Items that may be subsequently reclassified to profit or loss:					
Realized gain on investments recognized in net loss		-	-	-	(10,347)
Exchange differences on translating foreign operations		590,972	(147,291)	(775,852)	(191,071)
Total other comprehensive income (loss) for the period		590,972	(147,291)	(775,852)	(201,418)
Total comprehensive income (loss) for the period		161,015	(786,333)	(2,920,778)	(2,002,167)
Net loss for the period attributable to:					
Owners of the parent		(1,454,033)	(544,256)	(2,003,032)	(1,468,444)
Non-controlling interests		(28,813)	(94,786)	(141,894)	(332,305)
		(1,482,846)	(639,042)	(2,144,926)	(1,800,749)
Comprehensive income (loss) for the period attributable to:					
Owners of the parent		(968,571)	(966,425)	(2,540,026)	(1,866,822)
Non-controlling interest		76,697	180,092	(380,752)	(135,345)
		(891,874)	(786,333)	(2,920,778)	(2,002,167)
Loss per share attributable to owners of the parent- basic and diluted		(0.00)	(0.00)	(0.00)	(0.00)
Weighted average number of common shares outstanding - basic and diluted		839,765,216	839,765,216	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)

	Number of shares	Attributable to owners of the parent							Non-controlling interest	Total equity
		Share capital	Share-based payment reserve	Foreign currency translation reserve	Available-for-sale-reserve	Deficit	Total			
		- \$ -	- \$ -	- \$ -	- \$ -	- \$ -	- \$ -			
Balance, September 30, 2014	839,765,216	99,893,830	10,691,293	1,786,804	10,568	(58,688,929)	53,693,566	18,254,092	71,947,658	
Comprehensive loss										
Net loss for the period	-	-	-	-	-	(1,468,444)	(1,468,444)	(332,305)	(1,800,749)	
Other Comprehensive loss	-	-	-	(387,810)	(221)	-	(388,031)	196,960	(191,071)	
Realized gain on sale of investment classified as available for sale	-	-	-	-	(10,347)	-	(10,347)	-	(10,347)	
Total comprehensive loss for the period	-	-	-	(387,810)	(10,568)	(1,468,444)	(1,866,822)	(135,345)	(2,002,167)	
Balance, March 31, 2015	839,765,216	99,893,830	10,691,293	1,398,994	-	(60,157,373)	51,826,744	18,118,747	69,945,491	
Balance, September 30, 2015	839,765,216	99,893,830	10,691,293	(630,712)	-	(63,544,618)	46,409,793	16,402,383	62,812,176	
Comprehensive loss										
Net loss for the period	-	-	-	-	-	(2,003,032)	(2,003,032)	(141,894)	(2,144,926)	
Other Comprehensive loss	-	-	-	(536,994)	-	-	(536,994)	(238,858)	(775,852)	
Total comprehensive loss for the period	-	-	-	(536,994)	-	(2,003,032)	(2,540,026)	(380,752)	(2,920,778)	
Share-based compensation	-	-	1,054,063	-	-	-	1,054,063	-	1,054,063	
Balance, March 31, 2016	839,765,216	99,893,830	11,745,356	(1,167,706)	-	(65,547,650)	44,923,830	16,021,631	60,945,461	

*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 March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	- \$ -	- \$ -	- \$ -	- \$ -
Cash provided from (used for):				
Operating activities				
Net loss for the period	(1,482,846)	(639,042)	(2,144,926)	(1,800,749)
Items not involving cash:				
Depreciation of property, plant and equipment	724,434	612,439	1,693,049	1,303,299
Stock-based compensation	1,054,063	-	1,054,063	-
Finance expense	364,206	244,914	656,989	582,943
Income tax expense (recovery)	(11,051)	(82,918)	(13,540)	(40,525)
Gain on fair value adjustment of gold futures	(31,224)	-	-	-
Gain on sale of investments	(21,480)	-	(68,434)	(10,347)
Changes in non-cash working capital balances:				
Receivables	240,106	19,973	953,934	(68,437)
Deposits and prepaid expenses	(232,126)	(140,683)	70,922	250,453
Inventory	3,683,065	207,359	865,522	1,196,668
Accounts payable and accrued liabilities	1,544,709	(872,817)	891,311	(4,717,904)
Interest paid	(1,164,524)	(246,669)	(2,949,897)	(474,506)
Net cash used for operating activities	4,667,332	(897,444)	1,008,993	(3,779,105)
Investing activities:				
Expenditures on property, plant and equipment	15,400	245,253	(15,226)	(731,006)
Proceeds on sales of investments	174,899	-	417,210	34,362
Investment in gold futures	(2,453)	-	(157,059)	-
Net cash provided from (used for) investing activities	187,846	245,253	244,925	(696,644)
Financing activities:				
Restricted cash	700,684	-	(825,973)	-
Loan advances	4,157,027	3,056,657	10,329,847	13,143,155
Loan repayments	(4,912,953)	(1,938,635)	(8,043,186)	(7,004,689)
Net cash provided from (used for) financing activities	(55,242)	1,118,022	1,460,688	6,138,466
Effect of foreign exchange on cash and cash equivalent:	(27,667)	(245,536)	335,970	(575,297)
Net increase in cash and cash equivalents	4,772,269	220,295	3,050,576	1,087,420
Cash and cash equivalents, beginning	5,260,025	9,679,291	6,981,718	8,812,166
Cash and cash equivalents, ending	10,032,294	9,899,586	10,032,294	9,899,586

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

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the six months ended March 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 May 27, 2016, 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, 2015.

**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 March 31, 2016	Percentage as at September 30, 2015
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) 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 March 31, 2016, there are indicators of impairment of the Company's Songjiagou Gold Mine (Note 9) 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 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.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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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.

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 group 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 March 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.

**4. Cash and cash equivalents**

	March 31, 2016	September 30, 2015
	-	-
Cash	10,032,294	3,507,341
Term deposits	-	3,474,377
<b>Total</b>	<b>10,032,294</b>	<b>6,981,718</b>

Cash of \$6,535,444 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.

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**(Unaudited - expressed in US dollars)**

**5. Receivables**

	March 31, 2016	September 30, 2015
	- \$ -	- \$ -
Sales taxes receivable	262,589	260,429
Amount owing from Dahedong (Note 9 and 15)	-	952,982
Other receivables	-	3,112
<b>Total</b>	<b>262,589</b>	<b>1,216,523</b>

**6. Deposits and prepaid expenses**

	March 31, 2016	September 30, 2015
	- \$ -	- \$ -
Prepayment for mining supplies and services	447,708	428,421
Rent deposit	19,296	18,870
Other advances and prepayments	34,442	112,825
<b>Total</b>	<b>501,446</b>	<b>560,116</b>

**7. Inventory**

	March 31, 2016	September 30, 2015
	- \$ -	- \$ -
Gold concentrate	751,610	2,011,931
Ore stockpile	1,939,235	1,723,223
<b>Total</b>	<b>2,690,845</b>	<b>3,735,154</b>

**8. Investment**

	Total -\$-
Balance, September 30, 2015	196,449
Proceeds on sale of gold futures	(417,210)
Deposit for gold futures	157,059
Gain on sale of gold futures	68,434
Foreign exchange adjustment	(4,732)
<b>Balance, March 31, 2016</b>	<b>-</b>

**(i) Gold Futures**

During the six months ended March 31, 2016, the Company closed on its gold futures contracts of 3,216 ounces for total proceeds of \$417,210, realizing a net gain of \$68,434. At March 31, 2016, the Company was not holding any gold future contracts.

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**(Unaudited - expressed in US dollars)**

**9. Property, plant and equipment**

	Heavy machinery and equipment - \$ -	Office furniture and equipment - \$ -	Mill - \$ -	Mining property - \$ -	Total - \$ -
<b>Cost</b>					
At September 30, 2015	1,246,327	499,989	48,780,321	38,514,552	89,041,189
Additions	60,665	852	19,267	82,545	163,329
Disposal	(148,103)	-	-	-	(148,103)
Foreign exchange adjustment	(18,422)	(2,175)	(711,846)	(551,926)	(1,284,369)
At March 31, 2016	1,140,467	498,666	48,087,742	38,045,171	87,772,046
<b>Accumulated depreciation</b>					
At September 30, 2015	(356,442)	(311,142)	(4,619,766)	(3,999,330)	(9,286,680)
Depreciation	(108,579)	(35,326)	(870,546)	(678,598)	(1,693,049)
Disposal	53,363	-	-	-	53,363
Foreign exchange adjustment	10,870	(82)	65,449	56,554	132,791
At March 31, 2016	(400,788)	(346,550)	(5,424,863)	(4,621,374)	(10,793,575)
<b>Net book value</b>					
At September 30, 2015	889,885	188,847	44,160,555	34,515,222	79,754,509
At March 31, 2016	739,679	152,116	42,662,879	33,423,797	76,978,471

The Company's Mining Property consists of the Songjiagou gold Mine located in the Shandong Province of China. The Company commenced commercial gold production 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 March 31, 2016, the Company had a balance due to Dahedong of \$3,705,356 (September 30, 2015 – (\$952,982)) (Note 5 and 11). The amounts bear no interest, are unsecured, and due on demand. During the period ended March 31, 2016, the Company incurred \$10,283,035 (2015 - \$8,905,257) in mining and processing fees to Dahedong (Note 17).

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the six months ended March 31, 2016 and 2015**  
**(Unaudited - expressed in US dollars)**

**10. 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.

**11. Accounts payable and accrued liabilities**

	March 31, 2016	September 30, 2015
	-\$-	-\$-
Trade and other payables	6,918,922	9,607,572
Amount due to Dahedong (Note 9 and 15)	3,705,356	-
Amounts due to related parties (Note 15)	1,900	5,119
<b>Total</b>	<b>10,626,178</b>	<b>9,612,691</b>

**12. Loans payable**

	March 31, 2016	September 30, 2015
	-\$-	-\$-
Balance, beginning	20,684,412	14,101,270
Accrued interest and fees	615,307	1,064,556
Banker's acceptance notes	3,933,079	6,488,766
Loan advances	6,396,768	22,211,047
Loan and interest repayments	(10,993,083)	(22,520,659)
Foreign exchange adjustment	(300,985)	(660,568)
<b>Balance, ending</b>	<b>20,335,498</b>	<b>20,684,412</b>

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

- (i) a \$3,101,785 (CNY 20,000,000) (September 30, 2015 - \$3,147,723) one year loan bearing an interest at 5.655% per annum. The loan is repayable on November 12, 2016. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;
- (ii) a \$1,550,893 (CNY 10,000,000) (September 30, 2015 - \$1,573,861) one year loan bearing an interest at 0.453125% per month. The loan is repayable on November 15, 2016. The loan is guaranteed by certain third parties, including Dahedong;
- (iii) a \$1,550,893 (CNY 10,000,000) (September 30, 2015 - \$1,573,861) 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;
- (iv) a \$775,446 (CNY 5,000,000) (September 30, 2015 - \$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 were repaid on April 21, 2016;
- (v) a \$310,179 (CNY 2,000,000) (September 30, 2015 - \$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 30, 2016;

**Majestic Gold Corp.**  
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**12. Loans payable (continued)**

- (vi) a \$52,730 (CNY 340,000) (September 30, 2015 - \$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 3, 2016;
- (vii) a \$465,268 (CNY 3,000,000) (September 30, 2015 - \$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 23, 2016;
- (viii) a \$1,085,625 (CNY 7,000,000) (September 30, 2015 - \$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 July 12, 2016;
- (ix) a \$1,186,433 (CNY 7,650,000) (September 30, 2015 - \$Nil) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due September 1, 2016;
- (x) a \$3,101,785 (CNY 20,000,000) (September 30, 2015 - \$3,147,723) one year loan bearing an interest at 5.91% per annum. This loan was renewed on April 22, 2016 bearing an interest rate of 4.785% 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;
- (xi) a \$775,446 (CNY 5,000,000) (September 30, 2015 - \$613,806) one year loan with Dahedong bearing an of 1.0% per month plus 5% if the loan is not repaid at maturity. The loan is repayable on June 9, 2016;
- (xii) a \$4,652,678 (CNY 30,000,000) (September 30, 2015 - \$4,721,584) one year loan bearing an interest at 5.52% per annum. The loan is repayable on August 26, 2016. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;
- (xiii) a \$1,550,893 (CNY 10,000,000) (September 30, 2015 - \$1,573,861) one year loan with Dahedong bearing an of 1.0% per month plus 5% if the loan is not repaid at maturity. The loan is repayable on August 27, 2016;
- (xiv) a \$310,719 (CNY 2,000,000) (September 30, 2015 - \$Nil) one year loan with Dahedong bearing an of 1.0% per month plus 5% if the loan is not repaid at maturity. The loan is repayable on January 6, 2017;
- (xv) Accrued interest of \$175,447(CNY 1,131,261) (September 30, 2015 - \$1,184,270) relating to the above loans.

**13. Asset retirement obligation**

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

	March 31, 2016 -\$-	September 30, 2015 -\$-
Balance, beginning	2,570,427	2,466,708
Additions and changes in estimates of net present value	-	82,447
Accretion (Note 17)	41,682	104,646
Foreign exchange adjustment	(37,402)	(83,374)
Balance, ending	2,574,707	2,570,427

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**13. Asset retirement obligation (continued)**

The Company's asset retirement obligation consists of costs associated with mine reclamation and closure activities on the Songjiagou Gold Mine (Note 9). 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 3.3% (2015 – 3.3%) and an inflation rate of 3.0% (2015 – 3.0%). The majority of the expenditures are expected to occur in or after 2023.

**14. 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 March 31, 2016 and September 30, 2015.

**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.

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

Expiry date	Exercise price	Balance September 30, 2015	Issued	Exercised	Expired/Cancelled	Balance March 31, 2016
September 14, 2016	CAD\$0.20	20,500,000	-	-	-	20,500,000
January 28, 2021	CAD\$0.12	-	27,700,000	-	-	27,700,000
		20,500,000	27,700,000	-	-	48,200,000
Weighted average exercise price		CAD\$0.20	CAD\$0.12	\$ -	\$ -	CAD\$0.15

On January 28, 2016, the Company granted a total of 27,700,000 stock options to directors, management and employees. These stock options, exercisable at CAD\$0.12 per share, vested immediately and have a five year term to expiry.

The fair value of stock options granted was \$1,054,063, which was recorded as an expense to share-based compensation. The fair value of the options granted was determined using the Black-Scholes pricing model with the following assumptions: a risk free interest rate of 0.61%, an expected volatility of 79%, an expected life of 5 years, and a zero dividend for a weighted average fair value per option of \$0.04.

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**14. Share capital and Reserves (continued)**

**c) Stock Options (continued)**

Details of stock options outstanding as at March 31, 2016, are as follows:

Exercise Price	Expiry Date	Options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
CAD\$0.20	September 14, 2016	20,500,000	CAD\$0.20	0.46
CAD\$0.12	January 28, 2021	27,700,000	CAD\$0.12	4.83
		48,200,000	CAD\$0.15	2.97

As at March 31, 2016, all stock options were exercisable.

**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.

**15. Related party transactions and balances**

**Related party transactions**

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

	Three months ended March		Six months ended March 31,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Consulting fees charged by companies controlled by directors and officers of the Company - include key management personnel compensation	151,459	165,408	302,285	337,488
Mining and milling services charged by Dahedong	4,821,502	4,236,883	10,283,035	8,905,257
Interest charged by Dahedong	66,290	26,156	133,006	96,531
	5,039,251	4,428,447	10,718,326	9,339,276

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

**Key management personnel compensation**

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Short-term employee benefits—management fees	56,816	63,017	115,261	131,680
Stock-based compensation	197,875	-	197,875	-
Director fees	44,505	44,967	81,348	86,606
	299,196	107,984	394,484	218,286

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

**Related party balances**

	March 31,	September 30,
	2016	2015
	-\$-	-\$-
Amounts due to companies controlled by Directors and Officers of the Company (Note 11)	1,900	5,119
Amounts (owing from) due to Dahedong (Note 5 and 11)	3,705,356	(952,982)
Loan amounts due to Dahedong (Note 12)	2,489,514	2,391,047
	6,196,770	1,443,184

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

**16. Segmented information**

The Company operates in one industry segment, being the exploration, development and operation of mining properties in China. All of the Company's capital assets are located in China, except office furniture and equipment with a net book value of \$14,100 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

**17. Revenue and Expenses**

**Revenue**

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Sales of gold bullion	10,327,091	5,889,843	14,686,316	12,652,735
Other revenue	107,852	-	193,087	-
Total	10,434,943	5,889,843	14,879,403	12,652,735

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 \$168,691 under this agreement as other revenue during the period ended March 31, 2016.



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

**Cost of goods sold**

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Contractor costs paid to Dahedong (Note 9 and 15)	4,821,472	4,236,883	10,283,035	8,905,257
Depreciation (Note 9)	661,250	547,204	1,549,144	1,184,937
Smelting costs	164,450	116,746	342,526	250,570
Resource taxes	273,850	325,535	672,532	582,780
Other direct costs	114,669	194,992	424,991	433,841
Changes in ending gold concentrate inventory	3,923,583	233,200	1,227,684	1,152,438
<b>Total</b>	<b>9,959,274</b>	<b>5,654,560</b>	<b>14,499,912</b>	<b>12,509,823</b>

**General and administrative**

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Consulting and management fees	167,576	155,713	325,978	336,603
Depreciation (Note 9)	9,821	65,278	90,542	118,362
Office and general	125,541	123,265	298,810	303,220
Professional fees	9,955	21,332	19,425	22,893
Salaries	198,397	210,043	394,758	423,413
Shareholder communications	11,542	12,841	13,340	14,448
Travel	107,714	106,291	195,063	229,542
<b>Total</b>	<b>630,546</b>	<b>694,763</b>	<b>1,337,916</b>	<b>1,448,481</b>

**Finance expense**

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Interest expenses (Note 12)	343,612	218,666	615,307	530,424
Accretion of asset retirement obligation (Note 13)	20,594	26,247	41,682	52,518
<b>Total</b>	<b>364,206</b>	<b>244,913</b>	<b>656,989</b>	<b>582,942</b>

**18. Risks and capital management**

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

**Credit Risk**

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

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

**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 operation 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 March 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.

*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.

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

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 March 31, 2016, the Company does not hold gold futures contracts (Note 8). The Company does not use derivative instruments to hedge or reduce its price risk to gold.

**19. Non-controlling interest**

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

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

	March 31, 2016	September 30, 2015
	-\$-	-\$-
Current:		
Assets	10,223,667	11,894,033
Liabilities	(28,192,728)	(30,078,917)
Total current net liabilities	(17,969,061)	(18,184,884)
Non-current		
Assets	76,964,373	79,733,339
Liabilities	(5,486,566)	(5,545,025)
Total non-current net assets	71,477,807	74,188,314
Balance, ending	53,508,746	56,003,430

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

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	-\$-	-\$-	-\$-	-\$-
Revenue	10,434,943	5,889,843	14,879,403	12,652,735
Net income (loss) before income tax	(137,306)	(333,173)	(522,295)	(1,137,722)
Income tax expense (recovery)	(16,029)	1,868	(13,540)	(40,525)
Net income (loss)	(121,277)	(335,041)	(508,755)	(1,097,197)
Other comprehensive income (loss)	(563,823)	953,173	3,327,603	3,719,382
Comprehensive income (loss)	(685,100)	618,132	2,818,848	2,622,185

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**20. Commitments**

**Operating lease commitments**

Refer to Note 9 for details of commitments resulting from the agreements with Dahedong.

	2016	2017	2018	Total
	\$	\$	\$	\$
Operating lease commitments:				
Office premises	16,118	20,929	8,720	45,766

**21. Subsequent events**

Subsequent to March 31, 2016, the Company completed the following transactions:

- The Company entered into a banker's acceptance agreement for CNY 6,000,000 (\$930,536) on April 6, 2016, for series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due October 5, 2016.
- On April 21, 2016, the Company repaid a series of banker's acceptance notes for CNY 5,000,000 (\$775,446);
- On April 22, 2016, the Company renewed its bank loan for CNY 20,000,000 (\$3,101,785) with an interest rate of 4.785% per annum and a maturity date of April 15, 2017;