



Majestic Gold Corp.

**Consolidated Financial Statements
September 30, 2012 and 2011**

(Expressed in US dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Majestic Gold Corp.;

We have audited the accompanying consolidated financial statements of Majestic Gold Corp., which comprise the consolidated statements of financial position as at September 30, 2012, 2011 and October 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended September 30, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Majestic Gold Corp. as at September 30, 2012, 2011 and October 1, 2010, and its financial performance and its cash flows for the years ended September 30, 2012 and 2011, in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'DMCL'.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, B.C.
January 28, 2013

Majestic Gold Corp.
Consolidated Statements of Financial Position
(Expressed in US dollars)

		September 30, 2012	September 30, 2011	October 1, 2010
		- \$ -	- \$ -	- \$ -
	Note		Note 26	Note 26
ASSETS				
Current assets				
Cash and cash equivalents	4	24,974,244	13,536,073	1,740,436
Receivables	5	590,520	294,525	1,067,277
Deposits and prepaid expenses	6	352,521	129,361	172,523
Inventory	7	2,082,493	2,590,498	217,646
Investment	8	82,714	144,912	213,926
		28,082,492	16,695,369	3,411,808
Property, plant and equipment	9	81,412,558	73,876,390	19,518,699
Exploration and evaluation assets	10	2	2	2
Deferred tax assets	24	1,011,872	-	-
		110,506,924	90,571,761	22,930,509
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	11	6,698,951	33,113,357	1,907,946
Income taxes payable	24	1,233,877	-	-
Liability component of convertible loan	16	-	414,071	-
Loans payable	12	13,316,710	1,458,162	2,151,584
		21,249,538	34,985,590	4,059,530
Asset retirement obligation	13	2,538,356	2,104,461	-
Deferred income	14	12,710,161	12,711,066	-
		36,498,055	49,801,117	4,059,530
SHAREHOLDERS' EQUITY				
Share capital	15	99,893,830	56,980,226	39,757,024
Reserves	15, 16	12,234,469	19,857,057	4,211,276
Deficit		(38,766,227)	(36,459,048)	(25,425,077)
Equity attributable to owners of the parent		73,362,072	40,378,235	18,543,223
Equity attributable to non-controlling interests	22	646,797	392,409	327,756
Total equity		74,008,869	40,770,644	18,870,979
		110,506,924	90,571,761	22,930,509

Approved by the Directors:

"Rudy Brauer"

"Gurm Sangha"

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

Majestic Gold Corp.
Consolidated Statements of Comprehensive Loss
(Expressed in US dollars)

		Years ended September 30,	
		2012	2011
		- \$ -	- \$ -
	Note		Note 26
Revenue	20	31,670,269	10,651,076
Cost of goods sold	20	19,841,998	8,350,862
Gross profit		11,828,271	2,300,214
Selling and administrative expenses			
General and administrative	20	8,497,960	5,117,242
Stock-based compensation	15	-	5,570,746
Recovery of receivable previously impaired	10	(870,294)	-
Impairment of receivable on mineral property sale	10	-	821,951
		7,627,666	11,509,939
Income (loss) before other items		4,200,605	(9,209,725)
Other items			
Distribution of net profit	9	2,722,596	693,426
Finance expense	20	2,934,022	900,486
Finance income		(117,460)	(5,720)
Foreign exchange		39,431	17,334
		5,578,589	1,605,526
Net loss before income tax		(1,377,984)	(10,815,251)
Income tax expense	24	692,797	223,765
Net loss for the year		(2,070,781)	(11,039,016)
Other comprehensive income			
Unrealized loss on available-for-sale investments	8	(62,198)	(69,014)
Exchange differences on translating foreign operations		1,478,702	108,292
Total other comprehensive income for the year		1,416,504	39,278
Total comprehensive loss for the year		(654,277)	(10,999,738)
Net loss for the year attributable to:			
Owners of the parent		(2,307,179)	(11,033,971)
Non-controlling interests		236,398	(5,045)
		(2,070,781)	(11,039,016)
Comprehensive loss for the year attributable to:			
Owners of the parent		(908,665)	(11,064,391)
Non-controlling interests		254,388	64,653
		(654,277)	(10,999,738)
Loss per share – basic and diluted		(0.00)	(0.02)
Weighted average number of common shares outstanding		675,235,313	504,205,272

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

Majestic Gold Corp.
Consolidated Statements of Changes in Equity
(Expressed in US dollars)

	Note	Number of shares	Attributable to owners of the parent							Non-controlling interest	Total equity
			Share capital -\$ -	Share-based payment reserve -\$ -	Convertible loan reserve -\$ -	Foreign currency translation reserve -\$ -	Available-for-sale reserve -\$ -	Deficit -\$ -	Total -\$ -		
Balance, October 1, 2010	26	399,796,169	39,757,024	4,036,194	-	-	175,082	(25,425,077)	18,543,223	327,756	18,870,979
Comprehensive loss:											
Net loss for the year		-	-	-	-	-	-	(11,033,971)	(11,033,971)	(5,045)	(11,039,016)
Other comprehensive income (loss)		-	-	-	-	38,594	(69,014)	-	(30,420)	69,698	39,278
Total comprehensive loss for the year		-	-	-	-	38,594	(69,014)	(11,033,971)	(11,064,391)	64,653	(10,999,738)
Share issuances:											
Private placement	15	14,000,000	2,838,080	-	-	-	-	-	2,838,080	-	2,838,080
Options exercised	15	575,000	69,939	-	-	-	-	-	69,939	-	69,939
Warrants exercised	15	151,979,413	15,404,633	-	-	-	-	-	15,404,633	-	15,404,633
Share issue costs	15	-	(1,089,450)	-	-	-	-	-	(1,089,450)	-	(1,089,450)
Total share issuances		166,554,413	17,223,202	-	-	-	-	-	17,223,202	-	17,223,202
Stock-based compensation		-	-	5,570,746	-	-	-	-	5,570,746	-	5,570,746
Issuance of convertible loan	16	-	-	-	10,105,455	-	-	-	10,105,455	-	10,105,455
Balance, September 30, 2011	26	566,350,582	56,980,226	9,606,940	10,105,455	38,594	106,068	(36,459,048)	40,378,235	392,409	40,770,644
Comprehensive loss:											
Net loss for the year		-	-	-	-	-	-	(2,307,179)	(2,307,179)	236,398	(2,070,781)
Other comprehensive income (loss)		-	-	-	-	1,460,712	(62,198)	-	1,398,514	17,990	1,416,504
Total comprehensive loss for the year		-	-	-	-	1,460,712	(62,198)	(2,307,179)	(908,665)	254,388	(654,277)
Share issuances:											
Private placement	15	197,500,000	33,688,068	962,515	-	-	-	-	34,650,583	-	34,650,583
Finders' fee shares	15	25,000,000	4,264,313	121,838	-	-	-	-	4,386,151	-	4,386,151
Convertible loan	15,16	50,914,634	10,532,893	-	(10,105,455)	-	-	-	427,438	-	427,438
Share issue costs	15	-	(5,571,670)	-	-	-	-	-	(5,571,670)	-	(5,571,670)
Total share issuances		273,414,634	42,913,604	1,084,353	(10,105,455)	-	-	-	33,892,502	-	33,892,502
Balance, September 30, 2012		839,765,216	99,893,830	10,691,293	-	1,499,306	43,870	(38,766,227)	73,362,072	646,797	74,008,869

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

Majestic Gold Corp.
Consolidated Statements of Cash Flows
(Expressed in US dollars)

		Years ended September 30,	
		2012	2011
		- \$ -	- \$ -
	Note		Note 26
Cash provided by (used for):			
Operating activities:			
Net loss for the year		(2,070,781)	(11,039,016)
Items not involving cash:			
Depreciation of property, plant and equipment	20	1,623,820	538,576
Amortization of deferred income	20	(229,652)	(68,187)
Finance expense	20	2,934,022	900,486
Income tax expense	24	692,797	223,765
Stock-based compensation	15	-	5,570,746
Changes in non-cash working capital:			
Receivables		(295,995)	772,752
Deposits and prepaid expenses		(223,160)	43,162
Inventory		508,005	(2,372,852)
Accounts payable and accrued liabilities		1,231,039	2,527,678
Interest paid		(3,285,897)	(1,082,805)
Income taxes paid		(470,792)	(223,765)
Net cash provided by (used in) operating activities		413,406	(4,209,460)
Investing activities:			
Expenditures on property, plant and equipment		(34,949,886)	(10,840,105)
Net cash used in investing activities		(34,949,886)	(10,840,105)
Financing activities:			
Issuance of shares for cash, net of issue costs	15	33,478,431	17,223,202
Issuance of convertible loan	16	-	10,519,526
Loan advances		17,740,149	1,937,715
Loan repayments		(5,859,173)	(1,649,177)
Net cash provided by financing activities		45,359,407	28,031,266
Effect of foreign exchange on cash and cash equivalents		615,244	(1,186,064)
Net increase in cash and cash equivalents		11,438,171	11,795,637
Cash and cash equivalents, beginning		13,536,073	1,740,436
Cash and cash equivalents, ending		24,974,244	13,536,073

See supplemental disclosure of non-cash transactions in Note 19.

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

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

1. Nature of operations

Majestic Gold Corp. (the "Company") was 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 535 Thurlow Street, Suite 502, Vancouver, British Columbia, Canada, V6E 3L2.

These consolidated 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 working capital of \$6,832,954 at September 30, 2012 which management considers being adequate for its planned exploration, development and operational activities for the next twelve months. 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 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 consolidated financial statements have been prepared in accordance with International Accounting Standard 1, Presentation of Financial Statements ("IAS 1") 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 January 28, 2012, the date the board of directors approved these annual consolidated financial statements for issue.

These are the Company's first annual consolidated financial statements prepared in accordance with IFRS and, as a result, IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), has been applied. Prior to the adoption of IFRS, the Company's financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). As these financial statements are the Company's first annual financial statements prepared in accordance with IFRS, disclosure of the elected transition exemptions and reconciliation of accounting policy differences compared to Canadian GAAP have been provided in Note 26.

Basis of preparation

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in US dollars unless otherwise noted.

Basis of consolidation

The consolidated 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 Companies most significant wholly owned and partially owned subsidiaries are presented below:

	Country of incorporation	Percentage owned as at September 30, 2012
Majestic Yantai Gold Ltd.	BVI	94%
Yantai Zhongjia Mining Inc.	China	100%
Yantai Jinze Gold Inc.	China	90%
Xinjiang Majestic Mining Ltd.	China	100%

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

2. Significant accounting policies and basis of preparation (continued)

Use of estimates

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

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 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 Muping Property. 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) Other significant estimates

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

Use of judgments

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

a) The determination of functional currency

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

b) The determination of control

Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits generally accompanying a shareholding of more than one half of the voting rights. Management has determined that the Company has control over all subsidiaries consolidated in these financial statements.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

2. Significant accounting policies and basis of preparation (continued)

Use of judgments (continued)

- c) The determination of whether certain items of property, plant and equipment meet the definition of an asset

Substantial components of the Company's property, plant and equipment were constructed by a third party and legal title does not transfer until the Company has paid its share of the costs in full. An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. The Company has concluded the noted property, plant and equipment does meet this definition and accordingly has recognized this as an asset in its financial statements.

Foreign currency translation

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

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Depreciation of heavy machinery and mobile equipment, vehicles and office furniture and equipment is calculated on a straight-line basis over a three to ten year life as appropriate. Certain items of property, plant and equipment including the Company's New Mill and its related assets are amortized over the life of the mine using the units-of-production ("UOP") method based on the recoverable ounces from the measured and indicated resources.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

2. Significant accounting policies and basis of preparation (continued)

Mining properties

Mining properties include acquisition costs, costs previously capitalized during the exploration and evaluation stage, mine development costs. Mining properties are stated at cost less accumulated depreciation and are accounted for on an individual project basis. When production commences, these costs are amortized using the UOP method, based on recoverable ounces from the measured and indicated resources.

Non-recoverable costs for projects determined not to be commercially feasible are expensed in the period in which the determination is made or when the carrying value of the project is determined to be impaired.

Exploration and evaluation expenditures

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties as exploration and evaluation expenditures until the properties are placed in production, abandoned, sold or considered to be impaired in value. When a production decision has been made on a property, exploration and evaluation expenditures are reclassified to mining properties. If no minable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value. Exploration costs that do not relate to any specific property are expensed as incurred.

Borrowing costs

Borrowing costs attributable to the acquisition or construction of qualifying assets that take a substantial period of time to make ready for their intended use are added to the cost of the assets, until such time as the assets are substantially complete and ready for their intended use. All other borrowing costs are expensed in the period in which they are incurred.

Inventory

Inventory consists of gold concentrate and ore stockpile. Gold concentrate and ore stockpiles are physically measured or estimated and valued at the lower of average production cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Asset retirement obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of the asset retirement obligation estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the asset retirement obligation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. Accretion expense, representing the increase in the provision due to the passage of time, is recorded in finance costs in the statement of comprehensive loss.

The Company's estimates of asset retirement obligations could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for mineral property interests.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

2. Significant accounting policies and basis of preparation (continued)

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Impairment of assets

The carrying amount of the Company's non-financial assets, other than deferred tax assets if any, is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

2. Significant accounting policies and basis of preparation (continued)

Loss per share

Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company.

Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

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 cash and cash equivalents.

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 includes 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 includes 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 on which the Company commits to purchase the asset. The Company's non-derivative financial liabilities include accounts payable, the liability component of the convertible loan and loans payable.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have 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 Company does not have any material derivative financial assets and liabilities.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

2. Significant accounting policies and basis of preparation (continued)

Financial instruments (continued)

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:

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

The Company's cash and cash equivalents and investments are classified as level 1.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Revenue Recognition

Revenue from gold sales is recognized as revenue when there is evidence of a sale arrangement, amounts are determinable, collection is reasonably assured and the Company no longer retains control over the goods sold. Revenue from the lease of the Company's underground mine is recognized on a straight line basis over the term of the lease.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year'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 September 30, 2012, and have not been applied in preparing these condensed consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

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

New standard IFRS 10 “Consolidated Financial Statements”

This new standard will replace IAS 27 “Consolidated and Separate Financial Statements”, and SIC-12 “Consolidation – Special Purpose Entities”. Concurrent with IFRS 10, the IASB issued IFRS 11 “Joint Ventures”; IFRS 12 “Disclosures of Involvement with Other Entities”; IAS 27 “Separate Financial Statements”, which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and IAS 28 “Investments in Associates and Joint Ventures”, which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12, and requires continuous assessment of control over an investee. The above consolidation standards are effective for annual periods beginning on or after January 1, 2013.

New standard IFRS 11 “Joint Arrangements”

This new standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

New standard IFRS 12 “Disclosure of Interests in Other Entities”

This new standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

New standard IFRS 13 “Fair value measurement”

This new standard replaces the fair value measurement guidance currently included in various other IFRS standards with a single definition of fair value and extensive application guidance. IFRS 13 provides guidance on how to measure fair value and does not introduce new requirements for when fair value is required or permitted. It also establishes disclosure requirements to provide users of the financial statements with more information about fair value measurements. IFRS 13 is effect for annual periods beginning on or after January 1, 2013.

New interpretation IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”

This new IFRIC clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32 “Financial Instruments: Presentation”

These amendments address inconsistencies when applying the offsetting requirements, and are effective for annual periods beginning on or after January 1, 2014.

Financial statement presentation

In June 2011, the IASB and the Financial Accounting Standards Board (“FASB”) issued amendments to standards to align the presentation requirements for other comprehensive income (“OCI”). The IASB issued amendments to IAS 1 “Presentation of Financial Statements” to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for fiscal years beginning on or after July 1, 2012.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

4. Cash and cash equivalents

	September 30, 2012 -\$ -	September 30, 2011 -\$ -	October 1, 2010 -\$ -
Cash	5,280,845	9,822,834	1,694,108
Term deposits	19,693,399	3,713,239	46,328
Total	24,974,244	13,536,073	1,740,436

5. Receivables

	September 30, 2012 -\$ -	September 30, 2011 -\$ -	October 1, 2010 -\$ -
HST and VAT receivable	472,942	238,361	67,687
Sale of mineral property	-	821,951	821,951
Allowance relating to sale of mineral property	-	(821,951)	-
Other receivables	117,578	56,164	177,639
Total	590,520	294,525	1,067,277

6. Deposits and prepaid expenses

	September 30, 2012 -\$ -	September 30, 2011 -\$ -	October 1, 2010 -\$ -
Prepayment for mining supplies and services	309,389	75,440	-
Rent deposit	30,342	28,716	19,895
Other advances and prepayments	12,790	25,205	152,628
Total	352,521	129,361	172,523

7. Inventory

	September 30, 2012 -\$ -	September 30, 2011 -\$ -	October 1, 2010 -\$ -
Gold concentrate	330,759	1,141,071	217,646
Ore stockpile	1,751,734	1,449,427	-
Total	2,082,493	2,590,498	217,646

8. Investment

	Number	September 30, 2012 -\$-	Number	September 30, 2011 -\$-	Number	October 1, 2010 -\$-
Balance, beginning	500,000	144,912	500,000	213,926	500,000	46,705
Increase (decrease) in fair value	-	(62,198)	-	(69,014)	-	167,221
Balance, ending	500,000	82,714	500,000	144,912	500,000	213,926

The investment consists of 500,000 shares of Bullabulling Gold Limited:

The valuation of the shares has been determined by reference to the closing price of the shares on the London Stock Exchange. At September 30, 2012, the closing price was \$0.165 per share (September 30, 2011 - \$0.29, October 1, 2010 - \$0.43). The cost of this investment was \$38,844 (CAD\$40,000).

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

9. Property, plant and equipment

	Heavy machinery and equipment - \$ -	Office furniture and equipment - \$ -	New Mill - \$ -	Mining property - \$ -	Construction in progress - \$ -	Total - \$ -
Cost						
At October 1, 2010	103,759	-	2,087,832	17,486,068	-	19,677,659
Additions	49,019	63,518	40,485,851	12,073,563	-	52,671,951
Foreign exchange adjustment	6,241	714	1,093,046	1,145,169	-	2,245,170
At September 30, 2011	159,019	64,232	43,666,729	30,704,800	-	74,594,780
Additions	310,065	69,154	-	3,576,379	4,473,913	8,429,511
Foreign exchange adjustment	1,604	1,386	431,208	303,606	487	738,291
At September 30, 2012	470,688	134,772	44,097,937	34,584,785	4,474,400	83,762,582
Accumulated depreciation						
At October 1, 2010	(16,221)	-	-	(142,739)	-	(158,960)
Depreciation	(15,103)	(8,433)	(232,966)	(282,074)	-	(538,576)
Foreign exchange adjustment	(1,158)	(147)	(5,706)	(13,843)	-	(20,854)
At September 30, 2011	(32,482)	(8,580)	(238,672)	(438,656)	-	(718,390)
Depreciation	(55,699)	(25,469)	(777,104)	(765,548)	-	(1,623,820)
Foreign exchange adjustment	(753)	(201)	(2,443)	(4,417)	-	(7,814)
At September 30, 2012	(88,934)	(34,250)	(1,018,219)	(1,208,621)	-	(2,350,024)
Net book value						
At October 1, 2010	87,538	-	2,087,832	17,343,329	-	19,518,699
At September 30, 2011	126,537	55,652	43,428,057	30,266,144	-	73,876,390
At September 30, 2012	381,754	100,522	43,079,718	33,376,164	4,474,400	81,412,558

Included in additions to the New Mill for the year ended September 30, 2011 is borrowing costs capitalized in the amount of \$967,504.

Mining Property

In May 2004, the Company, through its 94% owned subsidiary Majestic Yantai Gold Ltd. ("Majestic Yantai"), acquired an interest in thirteen exploration licenses located in the Chinese province of Shandong (the "Muping Property"). The Company acquired these licenses as part of a co-operation contract with Shandong Yantai Muping Gold Mine, China. This agreement provided an option to acquire a 60% interest in Yantai Zhongjia Mining Inc. ("JVCo"), a Chinese co-operation company that was established to hold the rights to the Muping Property. In order to secure its rights and interest in JVCo, Majestic Yantai was required to contribute a minimum of CNY 35,000,000 in exploration costs by March 2009 (completed). During the years ended September 30, 2008 and 2007, nine of the thirteen exploration licenses were abandoned, leaving four exploration licenses that now comprise the Muping Property.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

9. Property, plant and equipment (continued)

During the year ended September 30, 2010 the Company entered into the following Agreements relating to the Muping Property:

1. On February 11, 2010 the Company entered into an Acquisition Agreement ("Agreement") with Yantai Dahedong Processing Co. Ltd ("Dahedong") to acquire the remaining 40% ("Muping JV Interest") of JVCo. As part of the proposed transaction, JVCo will acquire the Mining Permit required to commence mining operations and will commence mining operations.
2. On September 1, 2010 the Company entered into a Declaration of Trust and Profit Sharing Agreement ("Profit Sharing Agreement") with Dahedong which, among other matters, outlines the basis by which the mining operations and share of profits, as defined in the Agreement, are to be conducted and distributed. The Profit Sharing Agreement was a re-affirmation of essential arrangements as outlined in the original Agreement of February 11, 2010.
3. On September 29, 2010 the Company entered into Addendum No. 1 to the Agreement.

The Muping JV Interest was initially transferred from its holders to Dahedong. The agreement then provides for this interest to be transferred to Majestic Yantai. Upon completion of the acquisition of the Muping JV Interest by Majestic Yantai, the Company's interest in JVCo and the Muping Mineral Property increases from 54% to 94%.

The Company entered into the Agreement and the Profit Sharing Agreement to facilitate commencement of mining operations at the Muping Property. The Agreements provides that Dahedong will carry on mining operations on the Muping Property. In addition, Dahedong will process ore mined from the property at facilities owned by it.

Under the Agreement, mining operations will be carried out by Dahedong. Dahedong will be responsible for mining, transporting and processing ore and tailings and other waste material from the Muping Property for a period of 30 years (the "Mining Term").

Significant terms of the Agreement are as follows:

1. As compensation for the use of Dahedong's mining assets and equipment during the Mining Term, Dahedong will be entitled to 25% of the net profits ("Net Profits"), as defined in the Agreement, of JVCo derived from mining operations during the Mining Term. Net Profits is determined based on revenues less mining and processing costs, refining costs, royalties and production taxes, income taxes and costs to fund future reclamation work.
2. 100% of all revenue received by JVCo will accrue to the sole benefit of JVCo;
3. To cover Dahedong's operational costs, Dahedong will receive CNY75 per tonne ("Mining Fee") for all mining, transporting and processing services required to produce concentrate suitable for delivery to a refinery or smelter.

The Mining Fee will be paid only from revenue from mining operations so that no cost, expense or liability will accrue to or be payable by JVCo with respect to mining operations, and the Mining fee will be paid to Dahedong from revenue before any revenue is distributed to any participant in JVCo. On October 5, 2011, the Mining Fee was revised resulting in Mining Fees ranging between CNY40 and CNY75 per tonne for open pit operations and CNY92.5 and CNY130 for underground operations, subject to achieving specified recovery rates. The Mining Fees are based on ranges of ore head grade.

4. Dahedong is primarily responsible for dealings with Chinese governmental authorities and interest groups in carrying out mining operations.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

9. Property, plant and equipment (continued)

As subsequently revised in the addendum to the Agreement, the Agreement also provides for construction of a new mill and related facilities (collectively the "New Mill") in accordance with the following terms:

- a. Dahedong will construct one New Mill with an output of approximately 6,000 tonnes per day at a budgeted cost of CAD\$50,000,00;
- b. Dahedong shall complete the procedures for the acquisition and lease of land to be occupied by the New Mill, obtain necessary approvals, complete filing procedures, and coordinate the supply of utilities such as water and electric power for the New Mill;
- c. Dahedong shall be responsible for 25% of the costs incurred in the construction of the New Mill including permitting, leasing and licensing costs, and JVCo shall be responsible for 75% of construction costs;
- d. Ownership of the New Mill shall be vested in JVCo;
- e. Dahedong will be responsible to pay all construction costs in the first instance;
- f. JVCo will reimburse Dahedong for 100% of JVCo's share of construction costs out of JVCo's share of Net Profits before any Net Profits are paid or distributed by JVCo to the Company;
- g. JVCo's share of construction costs will be paid only from JVCo's share of Net Profits so that no cost, expense or other liability will accrue to or be payable by JVCo otherwise than out of Net Profits;
- h. JVCo will pay to Dahedong a financing fee equal to 10% of JVCo's share of construction costs out of JVCo's share of Net Profits after JVCo's share of construction costs have been paid in full and before any Net Profits are paid or distributed by JVCo to the Company;
- i. Title to the New Mill shall not be transferred to JVCo until JVCo has reimbursed Dahedong for JVCo's share of construction costs out of JVCo's share of Net Profits;
- j. JVCO shall have the right, but not the obligation, to pay or reimburse Dahedong for all or any portion of JVCo's share of construction costs from other sources of funding which may be available to JVCo from time to time. Such payments would offset the agreed minimum payments from revenues

For the year ended September 30, 2012, Dahedong's share of Net Profits was \$2,722,596 (2011 - \$693,426).

10. Exploration and evaluation assets

Sawayaerdun, China

Pursuant to a joint venture agreement entered into during the year ended September 30, 2004 with a party in China and the completion of the required minimum cumulative exploration expenditures, the Company acquired a 90% interest in the Sawayaerdun Project in the Xinjiang Province, China.

On April 19, 2009, the Company entered into an agreement (the "Agreement") to sell their interest to for CNY 45,500,000 (the "Purchase Price"). The Company's share of the proceeds was CNY 40,950,000.

On September 8, 2009, upon the approval of the transaction by the China Xinjiang Bureau of Geology and Mineral Resources (the "Bureau"), the Company received the first installment of the Purchase Price, CNY 25,000,000. On July 30, 2010, after the Bureau received all documents required to facilitate the transfer of the exploration and mining permits, the Company received the second installment of the Purchase Price, CNY 15,000,000. At September 30, 2011, due to uncertainty of collection, an allowance for the collectability of the remaining balance of CNY 5,500,000 (\$821,951) from the sale of the mineral property was recorded.

On August 31, 2012, the Company received payment of CNY 5,500,000 (\$870,294) which was recorded as a recovery of a receivable previously impaired.

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.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

11. Accounts payable and accrued liabilities

	September 30, 2012	September 30, 2011	October 1, 2010
	- \$ -	- \$ -	- \$ -
Trade payables	4,615,439	1,710,990	1,040,332
Amount due to Dahedong (Note 17)	1,685,957	31,154,178	489,215
Amounts due to related parties (Note 17)	397,555	248,189	378,399
Total	6,698,951	33,113,357	1,907,946

12. Loans payable

	September 30, 2012	September 30, 2011
	- \$ -	- \$ -
Balance, beginning	1,458,162	2,151,584
Accrued interest and fees	387,073	129,280
Loan advances	17,740,149	1,937,715
Loan repayments	(5,989,404)	(2,729,473)
Foreign exchange adjustment	(279,270)	(30,944)
Balance, ending	13,316,710	1,458,162

At October 1, 2010, the loan balance consisted of an unsecured note payable of CAD\$2,000,000. The loan included interest at a rate of 30% per annum on all principal amounts commencing September 1, 2008. The note matured on September 30, 2008. The Company was required to pay a CAD\$25,000 re-commitment fee at the beginning of each month during which the principal of the loan plus any unpaid interest remains outstanding. The loan balance and all unpaid interest and fees were repaid during the year ended September 30, 2011.

At September 30, 2011, the balance consists of a series of unsecured loans bearing an interest rate payable of 0.7% per month. The balance comprised principal of \$1,410,349 (CNY 9,000,000) and accrued interest of \$47,813 (CNY 305,115). The loans were repayable in ten months from the date of cash advances making up the total balance outstanding.

At September 30, 2012, the loans outstanding consist of:

- a \$3,513,214 (CNY 22,200,000) series of loans bearing an interest rate payable of 0.7% per month. The loans are repayable in ten months from the date of cash advances. The loans are secured by gold sales revenue generated by JVCo;
- a \$1,582,529 (CNY 10,000,000) one year loan bearing an interest repayable of 9.184% per annum. The loan is repayable on January 29, 2013. The loan is guaranteed by certain third parties, including Dahedong. On January 22, 2013 the loan was extended, and the new maturity date is January 22, 2014;
- a \$4,747,587 (CNY 30,000,000) one year loan bearing an interest repayable of 6.6% per annum. The loan is repayable on August 23, 2013. The loan is guaranteed by the owner of Dahedong and the Company that provides gold concentrate refining services to the Company;
- a \$3,165,058 (CNY 20,000,000) one year loan bearing an interest repayable of 7.2% per annum. The loan is repayable on September 6, 2013. The loan is guaranteed by Dahedong, the owner of Dahedong and the company that provides gold concentrate refining services to the Company; and
- Accrued interest of \$308,322 (CNY 1,948,287) relating to the above loans.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

13. Asset retirement obligation

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

	Year ended September 30, 2012 - \$ -	Year ended September 30, 2011 - \$ -
Balance, beginning	2,104,461	-
Additions and changes in estimates of net present value	330,229	2,025,468
Accretion (Note 20)	82,875	77,105
Foreign exchange adjustment	20,791	1,888
Balance, ending	2,538,356	2,104,461

The Company's asset retirement obligation consist primarily of costs associated with mine reclamation and closure activities on the Muping Property. 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 3.6% (2011 – 3.9%) and an inflation rate of 3.6% (2011 – 2.0%). The majority of the expenditures are expected to occur in or after 2030.

14. Deferred income

	Year ended September 30, 2012 - \$ -	Year ended September 30, 2011 - \$ -
Balance, beginning	12,711,066	-
Addition	102,864	12,473,693
Depreciation (Note 20)	(229,652)	(68,187)
Foreign exchange adjustment	125,883	305,560
Balance, ending	12,710,161	12,711,066

Pursuant to the Agreement and the Addendum between the Company and Dahedong (Note 9), Dahedong is responsible for 25% of the costs incurred in the construction of the New Mill of which 100% of title and use will reside with JVCo. The costs for which Dahedong is responsible for are recorded to deferred income in the consolidated statement of financial position and are amortized to profit and loss using the UOP method on the same basis as the New Mill.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

15. 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 September 30, 2012 (2011-566,350,582).

See the Consolidated Statement of Changes in Equity for a summary of changes in share capital and reserves for the years ended September, 2012 and September 30, 2011.

Share issuances for the year ended September 30, 2012:

On November 3, 2011, the \$10,105,455 (CAD\$10,000,000) convertible loan (Note 16) was converted into 48,780,489 common shares of the Company at a price of CAD\$0.205 per share. In addition, deemed interest in the amount of \$427,438 (CAD\$437,500) was converted into 2,134,145 common shares of the Company at a price of CAD\$0.205 per share. A total of 50,914,634 common shares were issued.

On June 22, 2012, the Company completed a non-brokered private placement of 197,500,000 units ("Units") at a price of CAD\$0.18 per Unit for gross proceeds of \$34,650,583 (CAD\$35,550,000). Each Unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of CAD\$0.20 until June 22, 2014. The Company allocated \$962,515 of the proceeds to the share-based payment reserve, being the fair value of the warrants determined as being the difference between the issue price and the market price of the Company's shares on the date the Units were issued. The Company paid \$1,096,538 (CAD\$1,125,000) and issued 25,000,000 units ("Finders Unit") as finders' fee in connection with this private placement. Each Finder's Unit comprised one common share and one common share purchase warrant issued on the same terms as the private placement Units. The Finder's Units were recorded at a value of \$4,386,151, which was determined based on the private placement issue price of CAD\$0.18 per unit. \$121,838 of the value recorded for the Finders' Units was allocated to the share-based payment reserve, being the fair value of the warrants. Cash share issue costs were \$88,981.

Share issuances for the year ended September 30, 2011:

On August 10, 2011, the Company completed a non-brokered private placement consisting of 14,000,000 common shares at CAD\$0.20 per share for gross proceeds of \$2,838,080 (CAD\$2,800,000). The Company paid \$283,808 (CAD\$280,000) in cash as finders' fees for this private placement.

During the year ended September 30, 2011, the Company issued 575,000 common shares pursuant to the exercise of stock options for total proceeds of \$69,939 (CAD\$69,000) and 151,979,413 common shares pursuant to the exercise of share purchase warrants for proceeds of \$15,404,633 (CAD\$15,197,941). The Company paid \$805,642 (CAD\$794,832) as finders' fees relating to warrants exercised.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

15. Share capital and reserves (continued)

c) Share Purchase Warrants

The continuity of share purchase warrants outstanding is as follows:

	September 30, 2012		September 30, 2011	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance outstanding, beginning	-	-	152,569,337	CAD\$ 0.10
Issue	225,500,000	CAD\$ 0.20	-	-
Exercised	-	-	(151,979,413)	CAD\$ 0.10
Expired / cancelled	-	-	(589,924)	CAD\$ 0.10
Balance outstanding, ending	225,500,000	CAD\$ 0.20	-	-

The following table summarizes information concerning share purchase warrants at September 30, 2012:

Exercise price	Expiry date	Warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
CAD\$0.20	June 22, 2014	222,500,000	CAD\$0.20	1.73

d) Stock Options

The maximum number of common shares issuable under the terms of the Company's Amended Incentive Stock Option Plan, dated February 15, 2005, shall not exceed 10% of the issued and outstanding shares of the Company at the time the stock options are granted, less the number of shares, if any, subject to prior stock options issued.

The continuity of stock options for the year ended September 30, 2012, and 2011 is as follows:

	September 30, 2012		September 30, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance outstanding, beginning	51,500,000	CAD\$ 0.17	22,125,000	CAD\$ 0.14
Granted	-	-	30,000,000	CAD\$ 0.20
Exercised	-	-	(575,000)	CAD\$ 0.12
Expired/cancelled	(1,600,000)	CAD\$ 0.19	(50,000)	CAD\$ 0.30
Balance outstanding, ending	49,900,000	CAD\$ 0.17	51,500,000	CAD\$ 0.17

All outstanding stock options are vested and exercisable at September 30, 2012.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

15. Share capital and reserves (continued)

The following table summarizes information concerning outstanding and exercisable stock options at September 30, 2012:

Exercise Price	Expiry Date	Options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
CAD\$0.30	October 3, 2012*	2,075,000	CAD\$0.30	0.01
CAD\$0.12	June 22, 2015	19,275,000	CAD\$0.12	2.73
CAD\$0.20	September 14, 2016	28,550,000	CAD\$0.20	3.96
		49,900,000	CAD\$0.17	3.32

*Subsequent to September 30, 2012, these options expired unexercised.

e) Share-based compensation

In September 2011, the Company granted 30,000,000 stock options to directors, senior officers and consultants at a price of CAD\$0.20 per share for a period of five years. The options vested immediately. The following assumptions were used for the Black-Scholes valuation of these stock options granted: expected dividend yield – 0%; expected stock price volatility – 152.87%; risk-free interest rate – 1.49%; expected life of options – 5 years. For the year ended September 30, 2011, the Company recorded stock-based compensation expense of \$5,570,746.

f) Reserves

Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments. The 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.

Convertible loan reserve

The convertible loan reserve records the equity component of convertible instruments with liability and equity components. On conversion, the amount recorded is transferred to share capital.

Foreign currency translation reserve

The foreign currency translation reserve records unrealized exchange differences arising on translation of foreign operations 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.

16. Convertible loan

On July 26, 2011 the Company arranged a \$10,539,000 (CAD\$10,000,000) convertible loan to advance the Muping Property. The loan had a one-year term and the loan principal was convertible at the option of the lender in whole or in part into common shares of the company until 12 months from the date of the loan advance at the price of CAD\$0.205 per share. The loan bore interest at a rate of 7.5% per year, payable on maturity, and accrued and unpaid interest was convertible at the option of the lender in whole or in part into shares of the company until 12 months from the date of the loan advance at market price at the time of conversion.

The borrower also agreed to a 90-day period for reciprocal due diligence reviews and discussions for the possible further involvement of the lender in the Muping Property. In the event that no further agreement was reached between the lender and the company during the 90-day period, then the loan and a minimum of seven months interest automatically converted to shares in the company, the loan at a price of CAD\$0.205 per share and the interest at the higher of per CAD\$0.205 per share or the market price of the Company's shares at conversion.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

16. Convertible loan (continued)

As the Company was not obliged to negotiate a further agreement with the lender during the 90-day period it had no obligation to settle the loan in cash or other assets of the Company. As a result of not having an obligation to settle the loan in cash or other assets of the Company, the principal of loan was classified as equity.

As the deemed interest component of the loan was convertible at the higher of per CAD\$0.205 per share or the market price of the Company's shares at conversion it did not meet the "fixed-for-fixed" criteria required for equity classification and accordingly was recorded as a liability. Therefore, \$433,545 of the proceeds was allocated to liabilities, determined using a discount rate of 25%. During the year ended September 30, 2012, the Company recorded a loan interest expense of \$7,488 (2011 - \$19,043) relating to the convertible loan (Note 20).

On November 3, 2011, the convertible loan and interest were converted into common shares of the Company. Accordingly, \$10,105,455 previously recorded in equity in the convertible loan reserve and \$427,438 recorded as a liability relating to the interest component was transferred to share capital.

17. Related party transactions and balances

Related party transactions

The Company incurred the following related party transactions during the year:

	Year ended September 30, 2012	Year ended September 30, 2011
	- \$ -	- \$ -
Consulting fees charged by companies controlled by directors of the Company	2,234,845	1,168,384
Rent and administrative fees charged by companies controlled by directors of the Company	26,653	93,694
Legal fees charge by a law firm jointly controlled by a Director	171,680	77,093
Legal fees included in share issue costs charge by a law firm jointly controlled by a Director	30,309	-
Mining and milling services charged by Dahedong	15,701,388	8,195,617
Total	18,164,875	9,534,788

Key management personnel compensation

	Year ended September 30, 2012	Year ended September 30, 2011
	- \$ -	- \$ -
Short-term employee benefits – management fees	260,087	315,799
Stock-based compensation	-	185,692
Total	260,087	501,491

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

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

17. Related party transactions and balances (continued)

Related party balances

	September 30, 2012	September 30, 2011	October 1, 2010
	- \$ -	- \$ -	- \$ -
Amounts due to companies controlled by Directors of the Company (Note 11)	397,555	248,189	378,399
Dahedong (Note 11)	1,685,957	31,154,178	489,215
Total	2,083,512	31,402,367	867,614

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

18. 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 \$17,412 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

19. Supplemental cash flow information

Supplementary disclosure of cash flow information is provided for the years ended September 30, 2012 and 2011:

	Year ended September 30, 2012	Year ended September 30, 2011
	- \$ -	- \$ -
Change in accounts payable relating to acquisition of property, plant and equipment	(35,382,979)	27,332,685
Recognition of deferred revenue relating to acquisition of property, plant and equipment (Note 14)	102,864	12,473,693
Units issued as finders' fees on private placement	4,386,151	-
Shares issued on conversion of convertible loan	10,532,893	-
Stock-based compensation	-	5,570,746

20. Revenue and expenses

Revenue

	Year ended September 30, 2012	Year ended September 30, 2011
	- \$ -	- \$ -
Sales of gold bullion	31,116,445	10,651,076
Lease of underground mine	553,824	-
Total	31,670,269	10,651,076

The Company has leased the mining of the underground mine to a third party for a two year period expiring March 25, 2014. The lease is for \$1,107,770 (CNY7,000,000) per annum, subject to adjustment if the price of gold falls below CYN330 per gram.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

20. Revenue and expenses (continued)

Cost of goods sold

	Year ended September 30, 2012	Year ended September 30, 2011
	- \$ -	- \$ -
Contractor costs paid to Dahedong	15,701,388	8,195,617
Depreciation	1,542,652	498,788
Amortization of deferred income (Note 14)	(229,652)	(68,187)
Smelting costs	326,253	154,853
Resource taxes	974,917	457,406
Other direct costs	704,950	35,810
Changes in ending gold concentrate inventory	821,490	(923,425)
Total	19,841,998	8,350,862

General and administrative expenses

	Year ended September 30, 2012	Year ended September 30, 2011
	- \$ -	- \$ -
Consulting	4,500,376	2,531,241
Office and general	1,477,962	706,932
Professional fees	334,404	283,345
Salaries	800,455	291,703
Shareholder, transfer agent and filing fees	77,191	144,574
Travel	1,226,404	1,119,659
Depreciation	81,168	39,788
Total	8,497,960	5,117,242

Finance expense

	Year ended September 30, 2012	Year ended September 30, 2011
	- \$ -	- \$ -
Interest on loans (Note 12)	387,073	129,280
Interest recorded on liability component of convertible loan (Note 16)	7,488	19,043
Finance fee on construction of New Mill (Note 9)	2,456,586	675,058
Accretion of asset retirement obligation (Note 13)	82,875	77,105
Total	2,934,022	900,486

21. Financial and capital risk 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:

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

21. Financial and capital risk management (continued)

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

The Company ensures 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 and exploration company with properties and mining operations focused 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 CNY 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 and exploration programs. 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, 2012.

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.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

21. Financial and capital risk management (continued)

Other Price Risk

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

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

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

As at September 30, 2012, the Company has no contracts or agreements in place to mitigate these price risks.

22. Non-controlling interest

The Company had initially accounted for its interest in Majestic Yantai (Note 9) as an asset acquisition. As a result of the Muping Property commencing production during the year ended September 30, 2010, the Company recognized the non-controlling interest in the subsidiary. The non-controlling interest represents a 6% equity interest in Majestic Yantai held by a minority shareholder.

23. Commitments

Operating lease commitments

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

On June 1, 2011, the Company entered into a 5-year lease agreement, whereby the Company is required to pay \$4,100 per month for rental of the head office premises. Total basic rent over the remaining lease period is \$192,000.

	2013	2014	2015	2016	Total
	-\$-	-\$-	-\$-	-\$-	-\$-
Operating lease commitments:					
Office premises	49,000	49,000	49,000	33,000	180,000

24. Income tax

The components of the Company's income tax expense are as follows:

	Year ended September 30, 2012	Year ended September 30, 2011
Current income tax expense:		
Current income tax charge	1,896,958	223,765
Adjustment to current tax expense for a previous period	(192,401)	-
	1,704,557	223,765
Deferred income tax recovery:		
Origination and reversal of temporary differences	(1,011,760)	-
Total	692,797	223,765

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

24. Income tax (continued)

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	Year ended September 30, 2012 - \$ -	Year ended September 30, 2011 - \$ -
Net loss for the year	(1,377,984)	(10,815,251)
Expected income tax recovery at local statutory tax rates	(368,235)	(2,904,289)
Non-deductible items and other permanent differences	(358,486)	1,862,492
Adjustment to current tax expense for a previous period	(192,401)	-
Effect of tax rate changes	53,690	126,527
Temporary differences not recognized	1,558,229	1,139,035
Total	692,797	223,765

Deferred tax assets and liabilities consist of the following and all relate to the Company's Chinese operations:

	September 30, 2012 - \$ -	September 30, 2011 - \$ -	October 1, 2010 - \$ -
Property, plant and equipment	340,036	-	-
Deferred income	(74,959)	-	-
Finance expense	788,821	-	-
Asset retirement obligation	40,664	-	-
Other temporary differences	(82,690)	-	-
Net deferred tax asset	1,011,872	-	-

The Company has the following deductible temporary differences that relate to the Canadian parent and for which no deferred asset has been recognized:

	September 30, 2012 - \$ -	September 30, 2011 - \$ -	October 1, 2010 - \$ -
Non-capital losses	25,549,049	16,631,425	11,836,050
Share issue costs	5,466,661	1,129,801	512,784
Property, plant and equipment	4,082	761	-
	31,019,792	17,761,987	12,348,834

These temporary differences can be used to offset taxable income in the future. The non-capital losses expire in the years 2014 through 2032. The share issue costs are amortized into taxable income (loss) over a five year period.

Chinese tax law requires that a withholding tax of 10% is applied to dividends paid by Chinese subsidiaries to foreign parent companies. At September 30, 2012, there were distributable profits in the amount of \$4,438,335 (2011 – \$455,513) for which no deferred tax liabilities has been recognized as the Company is able to control the timing of the reversal of temporary differences and its is probable that the temporary differences will not reverse in the foreseeable future.

25. Subsequent events

As of the date of filing, there are no material subsequent events to report.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

26. Transition to International Financial Reporting Standards

The Company adopted IFRS effective October 1, 2011, with a transition date of October 1, 2010 (the "Transition Date"). Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP.

The accounting policies in Note 2 have been applied in preparing the consolidated financial statements for the year ended September 30, 2012, the comparative information for the year ended September 30, 2011, and the preparation of an opening IFRS statement of financial position on the Transition Date, October 1, 2010.

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

Business combinations

The Company has elected to utilize the option in IFRS 1 to not apply IFRS 3, Business Combinations ("IFRS 3"), retrospectively to business combinations prior to October 1, 2010 and to apply IFRS 3 prospectively to business combinations on or after the October 1, 2010 transition date. The impact of this policy decision is that all prior business combinations will continue to be accounted for as originally recorded under Canadian GAAP. There were no business combinations during fiscal 2011.

Share based payments

The Company has elected the transition exemption available to not retrospectively apply the IFRS 2 "Share-based Payments" calculation method to any share options vested before October 1, 2010.

Foreign currency translation reserve

IAS 21, The Effects of Changes in Foreign Exchange Rates ("IAS 21"), has not been applied to cumulative translation differences that existed at the date of transition to IFRS. The Company has eliminated the cumulative translation difference and adjusted deficit by the same amount at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

Estimates

IFRS 1 requires that estimates made in accordance with IFRS at the date of transition and other comparative periods shall be consistent with estimates made for the same date in accordance with Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of October 1, 2010 and September 30, 2011 are consistent with its Canadian GAAP estimates for the same date.

The following reconciliations show the impact of the conversion to IFRS on the comparative information previously reported under Canadian GAAP.

Reconciliation of total assets

		September 30, 2011	October 1, 2010
	Note	- \$ -	- \$ -
Total assets as reported under Canadian GAAP	26(a)	47,912,937	25,075,291
Reversal of deferred tax recorded on acquisition of asset	26(b)	(2,695,280)	(2,719,080)
Recording of total cost of New Mill on completion of construction	26(d)	40,113,609	-
Borrowing costs capitalized	26(d)	967,504	-
Adjustment to accumulated depreciation of property, plant and equipment	26(e)	130,140	(112,720)
Adjustment to asset retirement obligation	26(f)	1,642,685	-
Effect of difference methods of foreign currency translation	26(g)	2,500,166	687,018
Total assets as reported under IFRS		90,571,761	22,930,509

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

26. Transition to International Financial Reporting Standards (continued)

Reconciliation of total liabilities

	Note	September 30, 2011 - \$ -	October 1, 2010 - \$ -
Total liabilities as reported under Canadian GAAP	26(a)	8,724,500	6,700,161
Reversal of deferred tax recorded on acquisition of asset	26(b)	(2,714,093)	(2,640,631)
Liability component of convertible loan	26(c)	414,071	-
Recording of total cost of New Mill on completion of construction	26(d)	40,113,609	-
Amortizing deferred income recorded on acquisition of New Mill	26(d)	(69,858)	-
Accrual of financing fee	26(d)	1,659,096	-
Adjustment to asset retirement obligation	26(f)	1,673,792	-
Total liabilities reported under IFRS		49,801,117	4,059,530

Reconciliation of total equity

	Note	September 30, 2011 - \$ -	October 1, 2010 - \$ -
Total equity as reported under Canadian GAAP	26(a)	38,915,542	18,047,128
Reversal of deferred tax recorded on acquisition of asset	26(b)	18,813	(78,449)
Liability component of convertible loan	26(c)	(414,071)	-
Amortizing deferred income recorded on acquisition of New Mill	26(d)	69,858	-
Accrual of financing fee	26(d)	(1,659,096)	-
Borrowing costs capitalized	26(d)	967,504	-
Adjustment to accumulated depreciation of property, plant and equipment	26(e)	130,140	(112,720)
Adjustment to asset retirement obligation	26(f)	(31,107)	-
Effect of difference methods of foreign currency translation	26(g)	2,500,166	687,018
Reclassification of non-controlling interest balance to equity	26(h)	272,895	328,002
Total equity reported under IFRS		40,770,644	18,870,979

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

26. Transition to International Financial Reporting Standards (continued)

Reconciliation of total comprehensive loss

	Note	Year ended September 30, 2011 - \$ -
Comprehensive loss as reported under Canadian GAAP	26(a)	(10,735,988)
Reversal of deferred tax recorded on acquisition of asset	26(b)	101,692
Interest recorded on liability component of convertible loan	26(c)	(19,043)
Accrual of financing fee	26(d)	(675,058)
Amortizing deferred income recorded on acquisition of New Mill	26(d)	68,187
Adjustment to accumulated depreciation of property, plant and equipment	26(e)	242,399
Adjustment to asset retirement obligation	26(f)	(30,363)
Effect of difference methods of foreign currency translation	26(g)	103,439
Reclassification of non-controlling interest balance to equity	26(h)	(55,003)
Comprehensive loss reported under IFRS		(10,999,738)

(a) Presentation

Upon adoption of IFRS, the Company has elected to change its presentation currency to the United States dollar. All amounts previously reported under Canadian GAAP using the Canadian dollar as the presentation currency have been restated on a retrospective basis. Assets and liabilities were translated using the year-end exchange rate, equity items were translated using historical rates and income and expense items using the average exchange rate for the year.

(b) Deferred tax liabilities

The Company has previously purchased assets where the carrying value of the asset on initial recognition differs from the tax value of the asset on initial recognition. Under Canadian GAAP, a deferred tax liability is recognized for the resulting temporary difference, with a corresponding increase to the value of the asset recorded. IAS 12, Income Taxes, does not permit the recognition of a deferred income tax asset or liability resulting from differences between the carrying value and tax value of an asset or liability on initial recognition, unless acquired as part of a business combination.

(c) Convertible loan

During the year ended September 30, 2011, the Company issued a convertible loan where both principal and a fixed amount of interest would convert to common shares at a specified date. The principal portion of the loan was convertible at a specified fixed price, and the interest portion at the higher of the specified fixed price and the market price. Under Canadian GAAP, the entire proceeds were recorded as equity. Under IFRS, the conversion of the interest portion did not meet the "fixed-for-fixed" criteria to be recorded as equity, and accordingly was reclassified as a liability.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

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26. Transition to International Financial Reporting Standards (continued)

(d) Construction of New Mill

As described in Note 9, the Dahedong constructed a New Mill which went into operation during the year ended September 30, 2011. The costs of construction of this New Mill and related assets were all initially incurred by Dahedong, and the Company was required to reimburse Dahedong for its share of the costs out its share of mining profits. Under Canadian GAAP, the Company only capitalized reimbursements that it had made to Dahedong plus its share of profits. Under IFRS, the entire cost of the New Mill and related assets were determined to meet the definition of an asset, and the entire amount of the Company's share of construction costs payable to Dahedong were determined to meet the definition of a liability. Accordingly, the entire construction costs incurred were recorded on the completion of the New Mill. The difference between the total cost of the New Mill and the Company's share of the construction costs has been recorded as deferred income which is being amortized on the same basis as the New Mill.

The agreement with Dahedong calls for a Finance Fee of 10% of its share of the construction costs to be paid to Dahedong. Under Canadian GAAP, this Finance Fee was not recorded on the basis that it was only payable out of the Company's share of Net Profits. Under IFRS, the Finance Fee has been accrued using the effective interest rate method. To the extent that the Finance Fee related prior to the completion of the New Mill, the Finance Fee has been capitalized in accordance with IAS 23, Borrowing Costs.

(e) Depreciation

Under Canadian GAAP, the cost of the Mining Property was depreciated using the UOP method based on a resource estimate the included inferred resources. Under IFRS, the Company has revised its accounting policy and now determines depreciation on the cost of the Mining Property using a resource estimate that only includes indicated resources.

Under Canadian GAAP, the New Mill was depreciated on a straight-line basis over its estimated useful life of 20 years. Under IFRS, the Company has revised its accounting policy and now determines depreciation of the New Mill using the UOP method.

(f) Asset retirement obligation

Under IFRS, the Company determined the present value of its asset retirement obligation using a credit-adjusted risk-free rate. Under IFRS, the Company has determined the fair value of the asset retirement obligation using the same risk-free interest rate with no adjustment for the Company's credit risk.

(g) Foreign currency translation

IFRS requires that the functional currency of each entity in the consolidated Company be determined separately in accordance with the indicators as per IAS 21, "The Effects of Changes in Foreign Exchange Rates" and should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the subsidiaries of the Company that have operations in China is the CNY. The consolidated financial statements are presented in US dollars which is the Company's presentation currency.

Under IFRS, the results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- exchange differences arising on translation of foreign operations are transferred directly to the Company's foreign currency translation reserve in the statement of comprehensive income and are recognized in the profit or loss in the period in which the operation is disposed.

Majestic Gold Corp.

Notes to Consolidated Financial Statements

For the year ended September 30, 2012

(Expressed in US dollars)

26. Transition to International Financial Reporting Standards (continued)

(g) Non-controlling interest

Under Canadian GAAP, non-controlling interest was presented as a separate component on the balance sheet outside of equity. Under IFRS, non-controlling interest is presented as a component of equity separate from the balance attributable to the owners of the parent company. Comprehensive loss under IFRS includes the amount attributable to the non-controlling interest.

(h) Revenue presentation

Under Canadian GAAP, revenue included the value of gold sold but retained by the smelter as compensation for refining services. Under IFRS, revenue is shown net of this amount. As a result, revenue for the year ended September 30, 2011 was reduced by \$733,225 with a corresponding reduction to cost of goods sold.

The classification of certain other items with the statement of comprehensive loss has been adjusted with no effect to comprehensive loss.

(i) Consolidated statement of cash flows

The presentation of the cash flow statement in accordance with IFRS differs from the presentation of the cash flow statement in accordance with Canadian GAAP as the changes made to the statements of the financial position and statements of comprehensive income have resulted in reclassifications of various amounts on the statement of cash flows. However, as there have been no changes to the total operating, financing or investing cash flows, no reconciliation has been provided.