

# **Majestic Gold Corp.**

## Consolidated Financial Statements

Three and nine months ended June 30, 2011 and 2010

(Unaudited – Prepared by Management)  
(expressed in Canadian dollars)

# **Majestic Gold Corp.**

## **NOTICE TO READER**

These interim consolidated financial statements have not been reviewed by the Company's auditor.

**Majestic Gold Corp.**  
**Consolidated Balance Sheets**

	June 30, 2011 (unaudited) - \$ -	September 30, 2010 (audited) - \$ -
<b>ASSETS</b>		
Current assets		
Cash	2,641,524	1,791,845
Accounts receivable (Note 4)	820,602	1,029,388
Other receivable	201,657	69,701
Prepaid expenses and advances	220,106	177,369
Gold inventory	-	224,132
Investments (Note 5)	178,170	220,293
	4,062,059	3,512,728
Property, plant and equipment (Note 6)	7,437,826	2,236,849
Mineral properties and deferred exploration costs (Note 7)	18,166,113	17,271,341
	29,665,998	23,020,918
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,663,153	1,605,268
Income taxes payable	581,112	280,765
Loan payable (Note 8)	-	2,215,615
Due to related parties (Note 11)	140,530	386,516
	2,384,795	4,488,164
NON-CONTROLLING INTEREST (Note 14)	377,385	337,763
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	53,015,614	42,363,600
Share subscriptions received (Notes 9)	1,932,051	-
Contributed surplus (Note 10)	4,256,613	4,256,613
Accumulated other comprehensive income	138,169	180,292
Deficit	(32,438,630)	(28,605,514)
	26,903,818	18,194,991
	29,665,998	23,020,918

Nature of business and going concern (Note 1)

Commitments (Note 7 and 8)

Contingency (Note 15)

Subsequent events (Note 16)

Approved by the Directors:

"Rod Husband"

"Rudy Brauer"

- See accompanying notes -

**Majestic Gold Corp.**  
**Consolidated Statements of Operations and Deficit**

	Three months ended June 30, 2011 - \$ -	Three months ended June 30, 2010 - \$ -	Nine months ended June 30, 2011 - \$ -	Nine months ended June 30, 2010 - \$ -
Gold revenue	2,536,693	2,403,550	5,653,884	4,133,942
Cost and Expenses				
Operating costs	1,823,719	1,994,117	4,010,867	3,463,990
Depletion	42,922	70,492	56,332	70,492
Stock-based compensation	-	2,406,000	-	2,406,000
General and administrative	1,457,575	388,903	4,095,865	878,810
	3,324,216	4,859,512	8,163,064	6,819,292
Operating loss	787,523	2,455,962	2,509,180	2,685,350
Other items				
Loan interest and fees (Note 8)	-	170,932	81,502	512,943
Distribution of net profit (Note 7)	13,659	-	223,238	-
Loss (gain) on foreign exchange	108,041	(195,168)	679,227	437,901
	121,700	(24,236)	983,967	950,844
Loss before tax and non-controlling interest	909,223	2,431,726	3,493,147	3,636,194
Income tax expense (Note 12)	105,879	84,735	300,347	149,865
Loss before non-controlling interest	1,015,102	2,516,461	3,793,494	3,786,059
Non-controlling interest (Note 15)	20,517	149,054	39,622	260,328
Net loss	1,035,619	2,665,515	3,833,116	4,046,387
Deficit, beginning	31,403,011	23,133,250	28,605,514	21,752,378
Deficit, ending	32,438,630	25,798,765	32,438,630	25,798,765
Basic and diluted loss per share	0.00	0.01	0.01	0.02
Weighted average common shares outstanding	503,839,221	187,789,697	489,086,953	188,503,054

- See accompanying notes -

**Majestic Gold Corp.**  
**Consolidated Statements of Comprehensive Loss and Accumulated Other**  
**Comprehensive Income**

**Consolidated Statements of Comprehensive Loss**

	Three months ended June 30, 2011 - \$ -	Three months ended June 30, 2010 - \$ -	Nine months ended June 30, 2011 - \$ -	Nine months ended June 30, 2010 - \$ -
Net Loss (Income)	1,035,619	2,665,515	3,833,116	4,046,387
Increase (decrease) in the accumulated unrealized loss (income) on available-for-sale investments (Note 5)	99,227	(28,508)	42,123	(19,276)
<b>Comprehensive Loss (Income)</b>	<b>1,134,846</b>	<b>2,637,007</b>	<b>3,875,239</b>	<b>4,027,111</b>

**Consolidated Statements of Accumulated Other Comprehensive Income**

	Three months ended June 30, 2011 - \$ -	Three months ended June 30, 2010 - \$ -	Nine months ended June 30, 2011 - \$ -	Nine months ended June 30, 2010 - \$ -
Balance, beginning	237,395	(1,137)	180,292	8,094
Unrealized gain (loss) on available-for-sale investments (Note 5)	(99,227)	28,507	(42,123)	19,276
<b>Balance, ending</b>	<b>138,169</b>	<b>27,370</b>	<b>138,169</b>	<b>27,370</b>

- See accompanying notes -

**Majestic Gold Corp.**  
**Consolidated Statements of Cash Flows**

	Three months ended June 30, 2011 - \$ -	Three months ended June 30, 2010 - \$ -	Nine months ended June 30, 2011 - \$ -	Nine months ended June 30, 2010 - \$ -
Cash from (used in):				
Operating Activities				
Net income (loss) from continuing operations	(1,035,619)	(2,665,515)	(3,833,116)	(4,046,387)
Items not involving cash:				
Acrued loan interest	-	170,932	81,502	512,943
Depletion	42,922	-	56,332	-
Stock-based compensation	-	2,406,000	-	2,406,000
Non-controlling interest	20,517	149,054	39,622	260,328
Change in non-cash working capital				
Accounts and other receivables	(51,682)	-	76,830	-
Prepaid expenses and advances	(52,125)	(641,916)	(42,736)	(2,419,074)
Inventory	-	-	224,132	-
Accounts payable and accrued liabilities	(65,599)	138,469	330,167	(793,294)
Income taxes payable	105,879	-	300,347	-
<b>Net cash used in operating activities</b>	<b>(1,035,707)</b>	<b>(442,976)</b>	<b>(2,766,920)</b>	<b>(4,079,484)</b>
Investing Activities				
Expenditures on property, plant and equipment	758,006	(30,765)	(5,200,977)	(62,800)
Expenditures on mineral properties	(632,822)	-	(951,104)	-
Proceeds on sale of capital assets	(252,904)	-	(272,282)	-
<b>Cash provided by (used in) investing activities</b>	<b>(127,720)</b>	<b>(30,765)</b>	<b>(6,424,363)</b>	<b>(62,800)</b>
Financing Activities				
Share capital issued for cash, net of costs	642,000	270,000	10,652,014	270,000
Share subscriptions received in advance	1,487,433	-	1,932,051	700,000
Advances to (repayment from) related parties	70,265	57,260	(245,986)	(41,491)
Repayment of a loan	-	-	(2,297,117)	-
<b>Cash provided by financing activities</b>	<b>2,199,698</b>	<b>327,260</b>	<b>10,040,962</b>	<b>928,509</b>
Increase (decrease) in cash from continuing operations	1,036,272	(146,481)	849,680	(3,213,775)
Cash, beginning	1,605,253	612,620	1,791,845	3,679,914
Cash, ending	2,641,524	466,139	2,641,524	466,139

- See accompanying notes -

# **Majestic Gold Corp.**

## **Notes to Consolidated Financial Statements**

Three and nine months ended June 30, 2011

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### **1. Nature of Business and Going Concern**

Majestic Gold Corp. (the "Company") is incorporated under the Business Corporations Act (British Columbia) and its principal business activity is the acquisition, exploration and mining of precious metals. All activity is currently being conducted in China and comprises a single business segment. The Company's shares trade on the TSX Venture Exchange.

#### **Going Concern**

These financial statements are prepared on a going concern basis, which presumes the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The company has working capital of \$1,677,264 at June 30, 2011. The Company will need to raise additional funds for working capital and for carrying out its planned exploration, development, operational activities and to settle outstanding debts. The ability of the Company to continue operations as a going concern is dependent on raising sufficient funds to meet operational requirements and ultimately upon achieving profitable operations. Management is currently evaluating sources of financing, including debt and equity financing, or a combination thereof, but there is no assurance that additional financing will be available, if needed, on terms acceptable to the Company. This uncertainty represents a liquidity risk and may impact the Company's ability to continue as a going concern in the future. The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

### **2. Significant Accounting Policies**

#### **a) Basis of Presentation and Consolidation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars, unless otherwise noted. They include the accounts of the Company and its subsidiaries. All inter-company transactions have been eliminated upon consolidation.

As these unaudited interim consolidated financial statements do not contain all of the disclosures required by Canadian GAAP, they should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended September 30, 2010.

The accounting policies followed by the Company are set out in Note 2 to the audited consolidated financial statements for the year ended September 30, 2010, and have been consistently followed in the preparation of these consolidated financial statements.

# Majestic Gold Corp.

## Notes to Consolidated Financial Statements

Three and nine months ended June 30, 2011

### 3. Financial Instruments and Risk Management

The Company's significant risk exposure and the impact on the Company's financial instruments are assessed and summarized below:

#### (a) 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 cash is held with one Canadian and one Chinese financial institutions giving rise to a concentration of credit risk. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	June 30, 2011	September 30, 2010
	-\$-	-\$-
Bank accounts – China	744,002	1,788,510
Bank accounts – Canada	1,897,522	3,335
	2,641,524	1,791,845

The credit risk associated with cash held in Canada is minimized substantially by ensuring that the Company uses a major 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 using a financial institution that is operated by the Government of China.

Accounts receivable consists of amount relating to the sale of the Sawayaerdun property (Note 7) and sale of gold from Muping Property (Note 7). The credit risk associated with Sawayaerdun property sale is low as the amount receivable is due from the government of Xinjiang Province, China. The account receivable from the sale of gold, in the opinion of management, is not subject to significant credit risk (Note 4).

#### (b) Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets at any point in time. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due by forecasting cash flows for operations and anticipated investing and financing activities. At June 30, 2011, the Company had accounts payable and accrued liabilities of \$1,663,153, income tax payable \$522,262 and amounts due to related parties of \$140,530. The Company normally maintains sufficient cash to meet the Company's business requirements. However, at June 30, 2011 the cash balance of \$2,641,524 would not be sufficient to meet the cash requirements for the Company's administrative overhead, maintaining its mineral interests and continuing with its exploration and mining program in the coming year.

The Company is currently evaluating other sources of financing, including debt and equity financings, or a combination thereof, and believes that future financings and the cash proceeds to be received from the sale of the Sawayaerdun project (Note 7) it will have adequate cash to continue supporting its mining operations and exploration efforts on its mineral properties.



# Majestic Gold Corp.

## Notes to Consolidated Financial Statements

Three and nine months ended June 30, 2011

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### 3. Financial Instruments and Risk Management (continued)

#### (c) Industry Risks

The Company is an exploration company with properties and mining operations currently focused in China. Its mining activities involve numerous inherent risks. The Company is subject to various financial, 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 reserves and mineral resources and fluctuations in the Chinese currency ("CNY" or ¥) against the Canadian 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: a) asset impairment and write-downs of mineral property carrying values and b) limitations in access to capital.

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

The Company's properties are located in areas 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.

#### (d) Market Risk

The significant market risks to which the Company is exposed are interest rate risk, currency risk and other 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. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as of June 30, 2011.

- **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 Canadian dollar (primarily CNY). The Company does not manage currency risks through hedging or other currency based derivatives.

# Majestic Gold Corp.

## Notes to Consolidated Financial Statements

Three and nine months ended June 30, 2011

### 3. Financial Instruments and Risk Management (continued)

At June 30, 2011, the Canadian dollar equivalent of financial instruments denominated in CNY is as follows:

	-\$-
Cash	744,002
Accounts receivable	820,602
Accounts payable	(1,309,063)
	255,541

Based on the above, assuming all other variables remain constant, a 10% weakening or strengthening of the Canadian dollar against CNY would result in an increase/decrease of \$25,554 in the Company's loss.

#### - 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 or foreign exchange risk. The Company is exposed to changes in prices as this can impact the value of its investments.

### 4. Accounts receivable

Accounts receivable consists of the following:

	June 30, 2011	September 30, 2010
	-\$-	-\$-
Sale of the Sawayaerdun Project receivable (Note 7)	820,602	846,453
Gold sales receivable	-	182,935
	820,602	1,029,388

**Majestic Gold Corp.**  
**Notes to Consolidated Financial Statements**  
Three and nine months ended June 30, 2011

**5. Investments**

Investments classified as available-for-sale are reported at fair value (or marked-to-market) based on quoted market prices, with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

The Company's investments consist of the following:

	June 30, 2011		September 30, 2010	
	Number	Fair Value -\$-	Number	Fair Value -\$-
Central China Goldfields Plc shares	500,000	178,170	500,000	220,293
		178,170		220,293

The valuation of the shares has been determined by reference to the closing price of the shares on the London Stock Exchange on June 30, 2011. At that date, the closing price was \$0.356 per share (2010 - \$0. 22). In December 2010 Central China Goldfields Plc did 1:2 share rollback.

During the nine months ended June 30, 2011, the Company recorded an unrealized loss of \$42,123 (2010 - \$19,276 gain) on the change in fair value of these shares.

**6. Property, plant and equipment**

	June 30, 2011			September 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulative Amortization	Net Book Value
	-\$-	-\$-	-\$-	-\$-	-\$-	-\$-
Construction-in-progress - Muping mine (Note 7)	7,361,858	-	7,361,858	2,149,836	-	2,149,836
Office furniture, equipment, vehicles	49,760	(23,189.26)	26,571	49,760	(13,251)	36,509
Heavy machinery and equipment	52,715	(3,317.54)	49,398	52,715	(2,212)	50,504
	7,464,333	(26,507)	7,437,826	2,252,311	(15,463)	2,236,849

All property, plant and equipment are located at the Company's mine site at Muping, China (Note 7), except part of office equipment located in Vancouver, Canada.

# Majestic Gold Corp.

## Notes to Consolidated Financial Statements

Three and nine months ended June 30, 2011

### 7. Mineral properties and deferred exploration costs

	Sep.30, 2009	Addition	Write-down / Depletion	Sep. 30, 2010	Addition	Write-down / Depletion	Jun. 30, 2011
	-\$-	-\$-	-\$-	-\$-	-\$-	-\$-	-\$-
<b>Muping, China:</b>							
Investigations	6,250	-	-	6,250	-	-	6,250
Acquisition	132,716	8,713,756	-	8,846,472	-	-	8,846,472
Assays and analysis	918,898	-	-	918,898	35,504	-	954,403
Exploration work	1,173,017	-	-	1,173,017	528,778	-	1,701,795
Drilling	2,082,842	-	-	2,082,842	211,747	-	2,294,589
Geological and geochemical	2,125,822	275,370	-	2,401,192	175,075	-	2,576,267
Logistics and support	600,130	-	-	600,130	-	-	600,130
Capital equipment	1,256,871	-	-	1,256,871	-	-	1,256,871
Depletion	-	-	(29,334)	(29,334)	-	(56,332)	(85,666)
Future income taxes	15,000	-	-	15,000	-	-	15,000
	8,311,546	8,989,126	(29,334)	17,271,339	951,104	(56,332)	18,166,111
<b>Shandong, China:</b>							
Investigations	4,640	-	(4,640)	-	-	-	-
Acquisition	246,044	-	(246,043)	1	-	-	1
Exploration work	182,533	-	(182,533)	-	-	-	-
Geological and geochemical	338,049	-	(338,049)	-	-	-	-
Logistics and support	133,105	48,305	(181,410)	-	-	-	-
Future income taxes	5,000	-	(5,000)	-	-	-	-
	909,371	48,305	(957,675)	1	-	-	1
<b>Jingang, China:</b>							
Assays and analysis	45,055	-	(45,054)	1	-	-	1
Exploration work	136,638	-	(136,638)	-	-	-	-
Drilling	60,000	-	(60,000)	-	-	-	-
Geological and geochemical	46,933	-	(46,933)	-	-	-	-
Logistics and support	5,883	-	(5,883)	-	-	-	-
	294,509	-	(294,508)	1	-	-	1
	9,515,426	9,037,431	(1,281,517)	17,271,341	951,104	(56,332)	18,166,113

### Sawayaerdun, China

On April 19, 2009, the Company entered into an agreement (the "Agreement") to sell their interest to the Chinese Co-Venturer (the "Purchaser") for CNY 45,500,000 (CAD 7,143,530) (the "Purchase Price"). The Company's share of the proceeds was CNY40,950,000 (CAD 6,429,177). During the year ended September 30, 2009, the Company recognized a loss of \$4,683,592 on the sale of this property. (See Note 18 - Restatement)

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 (CAD 3,925,016). 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 (CAD 2,355,010). The Agreement provides for the remainder of the Purchase Price, CNY 5,500,000 (CAD 820,602) (Note 4), to be received within 10 business days after the exploration and mining permits are transferred and registration of the joint venture company with the Industry and Commerce and Tax Bureau is cancelled, which the Company expects to take place in the next financial year.

# Majestic Gold Corp.

## Notes to Consolidated Financial Statements

Three and nine months ended June 30, 2011

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### 7. Mineral properties and deferred exploration costs (continued)

#### Muping, China

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 Mineral Property"). The Company acquired these licenses as part of a Co-operation Contract with Shandong Yantai Muping Gold Mine, China. This agreement gave the Company the 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 Mineral Property. In order to secure its rights and interest in the Co-operative company, the Company was required to contribute a minimum of CNY 35,000,000 (CAD 5,233,723) in exploration costs by March 2009 (completed). During the years ended September 30, 2008 and 2007, nine of the thirteen exploration licenses were abandoned and not renewed, leaving four exploration licenses that make up the Muping, China project.

#### Mining operations

In fiscal year 2010 the Company entered into the following Agreements relating to its mining operations in China:

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 at Muping and will commence mining operations. Details of the mining operations to be undertaken by Dahedong on behalf of JVCo are outlined below.
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, outlined 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, details of which are outlined below.

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 Muping JV Interest by Majestic Yantai, the Company's interest in JVCo and the Muping Mineral Property will increase from 54% to 94%.

As consideration for the Muping JV Interest, the Company issued 160,000,000 common shares of the Company with an estimated fair value of \$8,000,000. In addition, the Company paid a finder's fee by the issuance of 8,000,000 common shares of the Company with an estimated fair value of \$400,000 (Note 9).

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

The Agreement also provides for construction of a new mill and related facilities (collectively the "New Mill") with an output of at least 5,000 tonnes per day. The cost of acquiring the land for the New Mill will be borne entirely by Dahedong if its capacity does not exceed 5,000 tonnes per day. If Majestic designates a larger capacity mill, the costs of the land will be borne as to 75% by JVCo and 25% by Dahedong. In either event, construction costs will be borne as to 75% by JVCo and 25% by Dahedong.

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

# Majestic Gold Corp.

## Notes to Consolidated Financial Statements

Three and nine months ended June 30, 2011

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### 7. Mineral properties and deferred exploration costs (continued)

#### Muping, China (continued)

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;
2. 100% of all revenue received by JVCo will accrue to the sole benefit of JVCo;
3. Until the transfer of the Muping JV Interest to Dahedong has received all required Chinese governmental approvals and has been completed, 60% of Net Profits will be distributed to Majestic Yantai and JVCo will retain the remaining 40% of Net Profits. As of September 30, 2010, all required Chinese government approvals have been completed.
4. After the transfer of the Muping JV Interest to Dahedong has been completed and before the transfer of the Muping JV Interest to Majestic Yantai is completed, 60% of Net Profits will be distributed to Majestic Yantai, 25% of Net Profits will be distributed to Dahedong to compensate Dahedong for the use of the Mining Assets and the remaining 15% of Net Profits retained by JVCo pending completion of the acquisition of the Muping JV Interest by Majestic Yantai. As of September 30, 2010, the transfer of the Muping JV Interest to Majestic Yantai has been completed.
5. After the transfer of the Muping JV Interest to Majestic Yantai has been completed, and acceptance from the TSX-V has been received, 75% of Net Profits will be distributed to Majestic Yantai and the remaining 25% of Net Profits will be distributed to Dahedong. As of September 30, 2010, acceptance from the TSX-V has been received.
6. To cover Dahedong's operational costs, Dahedong will receive ¥75 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 August 25, 2010, the Mining Fee was revised resulting in Mining Fees ranging between ¥55 and ¥75 per tonne for open pit operations and ¥92.5 and ¥130 for underground operations. The Mining Fees are based on ranges of ore head grade.
7. Dahedong will be primarily responsible for dealings with Chinese governmental authorities and interest groups in carrying out mining operations.

On September 29, 2010, an Addendum No.1 ("Addendum") to the Agreement was signed with effect from February 11, 2010 outlining specific addenda to the original Agreement as follows:

1. Pursuant to the Profit Sharing Agreement made as of September 1, 2010, it was agreed the Company would advance further funds to JVCo by way of capital contributions to fund the expansion of operations including construction of the New Mill thereby increasing the Company's legal interest in JVCo from 60% to 75% before any transfer of the Muping JV interest by Dahedong;
2. Section 8 of the original Agreement is deleted in its entirety with the following substituted in its place and stead:
  - a. Dahedong will construct one New Mill and related facilities with an output of approximately 6,000 tonnes per day at a budgeted cost of \$50,000,000;
  - 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;

# Majestic Gold Corp.

## Notes to Consolidated Financial Statements

Three and nine months ended June 30, 2011

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### 7. Mineral properties and deferred exploration costs (continued)

#### Muping, China (continued)

- 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.

During the nine months ended June 30, 2011, Dahedong's share of Net Profits was \$179,101.

The Company is accounting for the New Mill acquisition as a stepped acquisition as the Company's is only liable to make payment from Net Profits. Consequently, the Company recorded the asset to the extent that payments have been made to Dahedong.

#### Shandong, China

The Shandong project consists of exploration licenses acquired by way of a Co-operation Contract with Yantai Jinze Mining and Technology Ltd. Under this agreement, the Company acquired a 90% interest in Yantai Jinze Gold Inc., a Chinese Cooperation Company that was established to hold the exploration rights to certain properties located in the vicinity of Yantai City in the Province of Shandong. In accordance with an amended agreement dated January 20, 2008, the Company was required to contribute \$300,000 in order to secure its interest (completed).

The Company has three additional active licenses in the Yuhuangding, Baima and Xianiantou areas within the Shandong project.

During the year ended September 30, 2010, the Company determined that this property was impaired and therefore recognized a write-down of \$957,675.

**Majestic Gold Corp.**  
**Notes to Consolidated Financial Statements**  
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**7. Mineral properties and deferred exploration costs** (continued)

**Jingang, China**

In July 2006, the Company entered into a Co-operation Contract with China Shandong No. 3 Mineral and Geological Exploration Institute. The Company has the right to acquire a 70% interest in Yantai Ludi Jingang Gold Mining Inc., a Chinese Co-operation Company established to hold the exploration rights to the Jingang Gold Project in the Shandong Province of China. In order to secure its interest in the co-operation company, the Company is required to contribute a minimum of \$567,125 in exploration costs and make a cash payment of CNY 1,750,000 to China Shandong No. 3 Mineral and Geological Exploration Institute. The timetable for these exploration costs is as follows:

- \$170,833 in exploration costs are to be contributed within 90 days of the issuance of the business license to the co-operation company;
- \$396,292 in exploration costs are to be contributed within 1.5 years of the issuance of the business licenses of the co-operation company in accordance with Chinese laws; and
- make a cash payment of CNY 1,750,000 within one month from when the transfer approval of all mining and exploration licenses is received.

At June 30, 2011, the issuance of the business license and the receipt transfer of all mining and exploration licenses had not occurred. Therefore, to date, the contributions described above are not yet due and have not been made or accrued.

During the year ended September 30, 2010, the Company determined that this property was impaired and therefore recognized a write-down of \$294,508.

**8. Loan Payable**

	June 30, 2011	September 30, 2010
	-\$-	-\$-
Balance, beginning	2,215,615	1,656,389
Accrued interest and fees	85,817	559,226
Loan repayment	(2,301,432)	-
Balance, ending	-	2,215,615

In April 8, 2008, the Company issued an unsecured note payable of \$2,000,000 to RAB as part of obtaining funding for the purpose of making the Company's final capital contribution to Yantai Zhongjia Mining Inc., the Chinese joint venture company that holds the rights to the Muping Mineral Property (Note 7). The loan bore interest at the rate of 30% per annum on all principal amounts commencing on September 1, 2008. The note matured on September 30, 2008. The Company was required to pay a \$25,000 re-commitment fee at the beginning of each month during which the principal of the loan plus any unpaid interest remains outstanding.

On November 3, 2010, the Company repaid the outstanding loan principal balance and accrued interest and fees to RAB in the amount of \$2,301,432.



**Majestic Gold Corp.**  
**Notes to Consolidated Financial Statements**  
Three and nine months ended June 30, 2011

**9. Share capital**

**Authorized**

Unlimited number of common shares without par value.

**Issued**

	# shares	June 30, 2011		September 30, 2010	
			-\$-	# shares	-\$-
Balance, beginning	399,796,169	42,363,600	228,299,986	33,693,600	
Issued:					
For mineral properties	-	-	160,000,000	8,000,000	
For mineral properties – finders' fees			8,000,000	400,000	
Warrants exercised	105,830,140	10,583,014	2,700,000	270,000	
Stock options exercised	575,000	69,000	-	-	
Finders' shares	-	-	796,183	39,809	
Share issue costs	-	-	-	(39,809)	
Balance, ending	506,201,309	53,015,614	399,796,169	42,363,600	

**Share capital transactions:**

**Nine months ended June 30, 2011:**

Share purchase warrants totaling 105,830,140 were exercised for proceeds of \$10,583,014.

Stock options totaling 575,000 were exercised for proceeds of \$69,000.

**Year ended September 30, 2010:**

On June 10, 2010, the Company issued 796,183 shares at \$0.05 per share as finders' fees relating to its non-brokered private placement that closed on October 26, 2008, not issued at the time of the private placement.

On September 13, 2010, the Company issued 160,000,000 shares at \$0.05 per share as consideration for the Muping JV Interest (Note 7). The Company also issued 8,000,000 shares at \$0.05 per share as finders' fees.

Share purchase warrants totaling 2,700,000 were exercised for proceeds of \$270,000.

**Share Purchase Warrants**

The continuity of share purchase warrants outstanding is as follows:

Issue Date	Outstanding Sep.30, 2010	Warrants Exercised	Outstanding Jun.30, 2011	Exercise Price -\$-	Expiry Date
October 14, 2008	95,540,140	(95,540,140)	-	0.10	October 15, 2010
July 16, 2009	57,029,197	(10,290,000)	46,739,197	0.10	July 16, 2011
	152,569,337	(105,830,140)	46,739,197	0.00	

# Majestic Gold Corp.

## Notes to Consolidated Financial Statements

Three and nine months ended June 30, 2011

### 9. Share Capital (continued)

#### 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.

In June 2010, the Company granted 20,000,000 stock options to directors, senior officers and consultants at a price of \$0.12 per share for a period of five years. The following assumptions were used for the Black-Scholes valuation of these stock options granted: expected dividend yield – 0; expected stock price volatility – 143%; risk-free interest rate – 2.47%; expected life of options – 5 years. For year ended September 30, 2010, the Company recorded stock-based compensation expenses of \$2,342,240 (2009 – \$nil).

A summary of the status of the Company's stock options at June 30, 2011 and September 30, 2010, and changes during the nine months and the year then ended is as follows:

Expiry Date	Exercise Price -\$-	Average Remaining Life (years)	Outstanding Sep.30, 2010	Cancelled, Expired, Exercised	Outstanding Jun.30, 2011	Exercisable Dec.31, 2010
January 9, 2011	\$0.30	0.0	50,000	-	50,000	50,000
October 3, 2012	\$0.30	1.8	2,075,000	-	2,075,000	2,075,000
June 22, 2015	\$0.12	4.5	20,000,000	(575,000)	19,425,000	19,425,000
			22,125,000	(575,000)	21,550,000	21,550,000

### 10. Contributed surplus

Changes to the Company's contributed surplus account are summarized as follows:

	June 30, 2011	September 30, 2010
	-\$-	-\$-
Balance, beginning	4,256,613	1,914,373
Stock-based compensation expense recognized in the year (Note 9)	-	2,342,240
Balance, ending	4,256,613	4,256,613

**Majestic Gold Corp.**  
**Notes to Consolidated Financial Statements**  
Three and nine months ended June 30, 2011

**11. Related Party Transactions**

**Related party balances**

The following amounts are due to related parties:

	June 30, 2011	September 30, 2010
	-\$-	-\$-
Directors of the Company and a company controlled by a director	177,696	168,973
Company controlled by an officer of the Company	30,688	217,543
	208,384	386,516

Amounts due to related parties are unsecured, non-interest bearing and are repayable on demand.

**Transactions with related parties**

The Company was charged the following amounts by companies controlled by a significant shareholder and directors or companies controlled by directors of the Company for the nine months ended June 30, 2011 and 2010:

	2011	2010
	-\$-	-\$-
Consulting and management fees	671,010	429,874
Rent and administrative services	75,552	50,700
	746,563	480,574

These transactions occurred in the normal course of operations and are measured at their exchange amounts, which is the amount of consideration established and agreed to by the parties.

**12. Segmented information**

The Company operates in one industry segment, being exploration of mineral properties and mining operations in China. All of the Company's capital assets are located in China and all of the Company's revenues are earned in China.

**13. Capital management**

The Company's policy on capital management is to maintain capital structure so as to maintain financial flexibility, preserve access to capital markets, maintain investor, creditor and market confidence, and to allow the Company to fund future development and mining operations. The Company considers its capital structure to include share capital, cash, amounts due to and from related parties, and working capital. In order to maintain or adjust capital structure, the Company may from time to time issue shares or enter into debt agreements and adjust its capital spending to manage current and projected cash flows and debt levels.

The company's share capital is not subject to any external restrictions. The Company has neither paid or declared any dividends, nor are any contemplated in the foreseeable future. There have been no changes to the Company's capital management strategy during the nine months ended June 30, 2011.

# **Majestic Gold Corp.**

## **Notes to Consolidated Financial Statements**

Three and nine months ended June 30, 2011

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### **14. Non-controlling interest**

The Company previously accounted for its interest in Majestic Yantai (Note 7) as an asset acquisition. As a result of the Muping Mineral Property commencing commercial operations during the year, the Company recognized the non-controlling interest in the subsidiary. The non-controlling interest represents the 6% equity interest in Majestic Yantai held by a minority shareholder.

### **15. Contingency**

A former director of the Company has made a claim for unpaid fees against the Company. The Company disputes the claim on the grounds there was no agreement for payment of such fees. Management is not able to assess at this time the outcome of the dispute. Any adjustment that may be required will be recorded in the period in which the dispute is resolved.

### **16. Subsequent events**

On August 26, 2011, the Company completed a \$10,000,000 convertible loan to advance its Song Jiagou project in China. A total of \$9,000,000 from the proceeds from the loan will be used by the company in connection with its Song Jiagou project and the balance of \$1,000,000 for general working capital purposes.

The loan will have a one-year term and loan principal will be 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 a price of \$0.205 per share. The loan will bear interest at the rate of 7.5 per cent per year, payable on maturity, and accrued and unpaid interest will be 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 Company paid cash finders' fees equal to 2.5% of the gross proceeds from the loan financing.

The lender is at arm's length from the company and will not become an insider as a result of any conversion of principal and interest. All shares issued on any conversion of loan principal or interest will be subject to a four-month hold period from the date of advance of loan proceeds. The loan is subject to acceptance by the TSX Venture Exchange.

The borrower has also agreed to a 90-day period for reciprocal due diligence reviews and discussions for the possible further involvement of the lender in the Song Jiagou project. In the event that no further agreement is reached between the lender and the company during the 90-day period, then the loan and a minimum of seven months interest will automatically convert to shares in the company at a price of \$0.205 per share and the interest at market price respectively.

On August 15, 2011, the Company issued 14,000,000 shares at \$0.20 per share pursuant to a private placement for total proceeds \$2,800,000. No warrants were included in this financing. The Company paid cash finders' fees equal to 10% of the gross proceeds from this financing.

During July and August 2011, the Company issued 46,149,273 shares upon exercise of share purchase warrants at \$0.10 with total cash proceeds of \$4,614,927.