# CONSOLIDATED FINANCIAL STATEMENTS

## September 30, 2017 and 2016

*(Expressed in US dollars)*

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

## 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, 2017 and 2016, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated 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 we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Majestic Gold Corp. as at September 30, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Majestic Gold Corp's ability to continue as a going concern.

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
January 26, 2018

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

| | Note | September 30, 2017 - $ - | September 30, 2016 - $ - |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash | *4* | 10,227,054 | 9,037,258 |
| Receivables | *5* | 1,886,992 | 217,024 |
| Deposits and prepaid expenses | *6* | 301,071 | 898,097 |
| Inventory | *7* | 1,573,339 | 1,628,036 |
| Restricted cash | *11* | 2,404,388 | 4,348,217 |
| | | 16,392,844 | 16,128,632 |
| Reclamation deposits | *6* | 985,102 | 417,398 |
| Property, plant and equipment | *8* | 88,348,473 | 76,675,736 |
| Exploration and evaluation assets | *9* | 2 | 2 |
| Deferred tax assets | *22* | - | 83,371 |
| | | 105,726,421 | 93,305,139 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | *10* | 11,555,868 | 12,841,717 |
| Deferred revenue | *21* | 2,009,575 | - |
| Income taxes payable | | 939,079 | 420,641 |
| Loans payable | *11* | 16,944,078 | 19,775,928 |
| | | 31,448,600 | 33,038,286 |
| Asset retirement obligation | *13* | 2,442,059 | 2,625,922 |
| Security deposit for financial guarantee | *12* | 2,254,114 | - |
| Deferred tax liabilities | *22* | 462,323 | - |
| | | 36,607,096 | 35,664,208 |
| EQUITY | | | |
| Share capital | *14* | 105,995,607 | 99,893,830 |
| Reserves | *14* | 10,564,392 | 8,934,872 |
| Deficit | | (64,233,216) | (66,458,969) |
| Equity attributable to owners of parent | | 52,326,783 | 42,369,733 |
| Equity attributable to non-controlling interests | *19* | 16,792,542 | 15,271,198 |
| Total equity | | 69,119,325 | 57,640,931 |
| | | 105,726,421 | 93,305,139 |
| Nature of operations | *1* | | |
| Commitments | *8, 20* | | |
| Contingency | *11* | | |
| Subsequent events | *11, 23* | | |

Approved by the Directors:
*"John Campbell"*
*"Stephen Kenwood"*

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

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

| | Notes | Years ended September 30, 2017 - $ - | 2016 - $ - |
|---|---|---|---|
| Gold revenue | *17* | 29,478,603 | 27,801,966 |
| Cost of sales | | | |
| Operating expenses | *17* | 16,613,864 | 23,234,500 |
| Depreciation and depletion | *8,17* | 3,200,158 | 2,826,269 |
| Gross profit | | 9,664,581 | 1,741,197 |
| Administrative expenses | | | |
| General and administrative | *17* | 3,054,209 | 3,036,630 |
| Share-based compensation | *14* | - | 805,700 |
| | | 3,054,209 | 3,842,330 |
| Profit (loss) before other items | | 6,610,372 | (2,101,133) |
| Other items | | | |
| Finance expense | *17* | 863,219 | 1,057,422 |
| Finance income | | (143,904) | (322,436) |
| Foreign exchange loss | | 7,796 | 2,465 |
| Realized gain on sale of investments | | - | (68,434) |
| Gain on disposal of equipment | | - | (1,174) |
| | | 727,111 | 667,843 |
| Net income (loss) before income tax | | 5,883,261 | (2,768,976) |
| Income tax expense | *22* | 2,205,909 | 508,840 |
| Net income (loss) for the year | | 3,677,352 | (3,277,816) |
| Other comprehensive income (loss) | | | |
| Item that will not be reclassified to profit or loss: | | | |
| Exchange differences on translation of parent | | 64,279 | 53,464 |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences on translating foreign operations | | 242,080 | (2,752,593) |
| Total other comprehensive income (loss) for the year | | 306,359 | (2,699,129) |
| Total comprehensive income (loss) for the year | | 3,983,711 | (5,976,945) |
| Net income (loss) for the year attributable to: | | | |
| Owners of the parent | | 2,225,753 | (2,914,351) |
| Non-controlling interests | | 1,451,599 | (363,465) |
| | | 3,677,352 | (3,277,816) |
| Comprehensive income (loss) for the year attributable to: | | | |
| Owners of the parent | | 2,462,367 | (4,845,760) |
| Non-controlling interest | | 1,521,344 | (1,131,185) |
| | | 3,983,711 | (5,976,945) |
| Income (loss) per share attributable to owners of the parent- basic and diluted | | 0.00 | (0.00) |
| Weighted average number of common shares outstanding - basic and diluted | | 888,032,339 | 839,765,216 |

*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)

| | | | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Number of shares | Share capital<br>- $ - | Share-based payment reserve<br>- $ - | Foreign currency translation reserve<br>- $ - | Deficit<br>- $ - | Total<br>- $ - | Non-controlling interest<br>- $ - | Total equity<br>- $ - |
| Balance, September 30, 2015 | | 839,765,216 | 99,893,830 | 10,691,293 | (630,712) | (63,544,618) | 46,409,793 | 16,402,383 | 62,812,176 |
| Comprehensive loss | | | | | | | - | | |
| Net loss for the year | | - | - | - | - | (2,914,351) | (2,914,351) | (363,465) | (3,277,816) |
| Other Comprehensive loss | | - | - | - | (1,931,409) | - | (1,931,409) | (767,720) | (2,699,129) |
| Total comprehensive loss for the year | | - | - | - | (1,931,409) | (2,914,351) | (4,845,760) | (1,131,185) | (5,976,945) |
| Share-based compensation | *14* | - | - | 805,700 | - | - | 805,700 | - | 805,700 |
| Balance, September 30, 2016 | | 839,765,216 | 99,893,830 | 11,496,993 | (2,562,121) | (66,458,969) | 42,369,733 | 15,271,198 | 57,640,931 |
| Balance, September 30, 2016 | | 839,765,216 | 99,893,830 | 11,496,993 | (2,562,121) | (66,458,969) | 42,369,733 | 15,271,198 | 57,640,931 |
| Shares issued on financing | *14* | 72,500,000 | 6,128,788 | 1,392,906 | - | - | 7,521,694 | - | 7,521,694 |
| Shares issue costs | *14* | - | (27,011) | - | - | - | (27,011) | - | (27,011) |
| Comprehensive income | | | | | | | | | |
| Net income for the year | | - | - | - | - | 2,225,753 | 2,225,753 | 1,451,599 | 3,677,352 |
| Other Comprehensive income | | - | - | - | 236,614 | - | 236,614 | 69,745 | 306,359 |
| Total comprehensive income for the year | | - | - | - | 236,614 | 2,225,753 | 2,462,367 | 1,521,344 | 3,983,711 |
| Balance, September 30, 2017 | | 912,265,216 | 105,995,607 | 12,889,899 | (2,325,507) | (64,233,216) | 52,326,783 | 16,792,542 | 69,119,325 |

*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, 2017 | 2016 |
|---|---|---|
| | - $ - | - $ - |
| Cash provided from (used for): | | |
| Operating activities: | | |
| Net income (loss) for the year | 3,677,352 | (3,277,816) |
| Items not involving cash: | | |
| Depreciation and depletion | 3,443,204 | 3,147,120 |
| Stock-based compensation | - | 805,700 |
| Finance expense | 863,219 | 1,057,422 |
| Income tax expense | 2,205,909 | 508,840 |
| Gain on sale of investments | - | (68,434) |
| Changes in non-cash working capital balances: | | |
| Receivables | (1,669,968) | 999,499 |
| Deposits and prepaid expenses | 597,026 | (392,396) |
| Inventory | 56,976 | 1,971,033 |
| Accounts payable and accrued liabilities | (1,317,375) | 1,652,842 |
| Deferred revenue | 2,009,575 | - |
| Effect of foreign exchange on working capital | (303,981) | 876,380 |
| Income tax paid | (1,155,304) | - |
| Interest paid | (773,582) | (1,791,078) |
| Net cash provided from operating activities | 7,633,051 | 5,489,112 |
| Investing activities: | | |
| Expenditures on property, plant and equipment | (14,777,877) | (2,646,575) |
| Proceeds on sales of investments | - | 417,210 |
| Investment in gold futures | - | (157,059) |
| Reclamation deposits | (567,704) | - |
| Net cash used for investing activities | (15,345,581) | (2,386,424) |
| Financing activities: | | |
| Private placement (net of share issue) | 7,494,683 | - |
| Deposit on loan guarantee | 2,254,114 | - |
| Restricted cash | 1,907,809 | (1,804,066) |
| Loan advances | 21,206,029 | 22,404,238 |
| Loan repayments | (24,104,431) | (21,485,655) |
| Net cash provided from (used for) financing activities | 8,758,204 | (885,483) |
| Effect of foreign exchange on cash and cash equivalents | 144,122 | (161,665) |
| Net increase in cash and cash equivalents | 1,189,796 | 2,055,540 |
| Cash, beginning | 9,037,258 | 6,981,718 |
| Cash, ending | 10,227,054 | 9,037,258 |

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

### 1. Nature of operations

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

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

These 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 completed its mining and production facilities and is now working towards achieving and maintaining efficient 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. At September 30, 2017, the Company has a working capital deficiency of $15,055,756. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

### 2. Basis of preparation and significant accounting policies

**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 26, 2018, the date the board of directors approved these consolidated financial statements for issue.

**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 net interest of the Company's most significant subsidiaries are presented below:

| | Country of incorporation | Percentage as at September 30, 2017 | Percentage as at September 30, 2016 |
|---|---|---|---|
| Majestic Yantai Gold Ltd. | BVI | 94% | 94% |
| Yantai Zhongjia Mining Inc. | China | 70.5% | 70.5% |

**Use of estimates**
The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying 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:

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

**Use of estimates (continued)**

a) The useful lives of property, plant and equipment

The useful lives of the Company's mining property and related property, plant and equipment is based on indicated gold resource estimates based on a certain grade cut-off level. Assumptions that influenced cut-off grade include the expected future price of gold, projected operating costs and discount rates. Changes to these assumptions and further analysis of the Company's gold resource estimates could significantly impact the expected useful lives of the Company's mineral property and related property, plant and equipment.

b) Asset retirement obligation

The asset retirement obligation is based on projected future costs associated with mine reclamation and closure activities on the Company's Songjiagou Gold Mine. This estimate is based on current Chinese environmental laws and regulations. Future changes to such laws and regulations as well as changes to the Company's intended mining operations could significantly impact this provision.

c) Impairment of the Company's mining assets

When assessing whether there are indicators of impairment of the Company's mining property and related property, plant and equipment, the Company considers internal and external factors, including:

(i) Market factors such as a decrease in the price of gold or an increase in market interest rates:
(ii) Whether the carrying value of the Company's net assets exceeding the Company's market capitalization; and
(iii) The net cash flows generated by the assets being less than expected.

The Company has concluded that, as at September 30, 2017, there are indicators of impairment of the Company's Songjiagou Gold Mine (Note 8) which comprises the Company's sole cash generating unit.

To determine the recoverable amount of the Company's mining assets, the Company makes estimates of the fair value less cost to sell determined based on discounted future cash flows expected to be derived from the Songjiagou Gold Mine. These projected cash flows make assumptions regarding future gold prices, the grade and recovery achieved from the ore mined, life of mine, future operating costs, future capital expenditures, and discount rates. The Company has determined that the recoverable amount exceeds the carrying value; however, significant revisions to these assumptions may result in the recognition of impairment. The resource estimate, grade, recovery, and life of mine that is expected to be achieved is based on the most recent technical report completed by a firm of independent consulting engineers. To date the Company has not achieved all the assumptions contained in the technical report.

d) Other significant estimates

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

**Use of judgments**

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

a) The determination of functional currency

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

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

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

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

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

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

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

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

Subsequent costs to repair or enhance 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 expenditure will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any 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 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 Mill and its related assets are amortized over the estimated life of the mine using the units-of-production ("UOP") method based on the recoverable ounces from the 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.

**Mining properties**
Mining properties include acquisition costs, costs previously capitalized during the exploration and evaluation stage, and 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 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 technical feasibility and commercial viability are established, or the property is abandoned, sold or considered to be impaired in value. When the technical feasibility and commercial viability of a property is established, 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.

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

**Stripping costs**
Stripping activity consist of removing mine waste materials to gain access to the mineral ore deposits. To the extent that it is probable that the stripping activity will improve the access to an identifiable ore body, costs incurred that relate to the stripping activity are capitalized to the mining asset, provided that the costs can be measured reliably. Costs that are incurred when performing stripping activity that provides benefit in the form of inventory produced is included in the cost of inventory. To date, all stripping costs have been included in the cost of inventory.

**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 income (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

**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 is expected to generate 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

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

**Income taxes (continued)**

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) of the applicable jurisdiction 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, 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 income (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 fair value or 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**

Share-based payments to employees are measured at the fair value of the instruments issued and recorded 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 share-based payment reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model. 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.

**Valuation of equity units issued in private placements**

The Company uses the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

**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

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

**Loss per share (continued)**
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 derivatives classified under investments.

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

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 marketable securities classified under investments.

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

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

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

## 2. Basis of preparation and significant accounting policies (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:

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

The Company's cash is 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.

### Restricted Cash

Restricted cash consists of deposits held as security for a series of banker's acceptance notes which are held with the financial institution issuing the notes.

### Revenue Recognition

Revenue from gold sales is recognized as revenue only 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.

### 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, 2017 and have not been applied in preparing these consolidated financial statements. Those that may have an effect on the financial statements of the Company are as follows:

### IFRS 9 Financial Instruments

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

**(Expressed in US dollars)**

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

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

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

## 4. Cash

At September 30, 2017, cash of $8,817,222 is held in China and is subject to local exchange control regulations. Chinese exchange control regulations provide for restrictions on exporting capital from China, other than through normal dividends.

## 5. Receivables

| | Year ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | - $ - | - $ - |
| Sales taxes receivable | 197,492 | 198,907 |
| Amount owing from a related party (Note 15) | 1,938 | 4,891 |
| Amount receivable from gold sales | 1,683,078 | - |
| Other receivables | 4,484 | 13,226 |
| Total | 1,886,992 | 217,024 |

## 6. Deposits and prepaid expenses

| | Year ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | - $ - | - $ - |
| Current: | | |
| Prepayment for mining supplies and services | 272,238 | 820,877 |
| Rent deposit | 11,670 | 8,611 |
| Other advances and prepayments | 17,163 | 68,609 |
| | 301,071 | 898,097 |
| Non-current: | | |
| Reclamation deposits | 985,102 | 417,398 |
| Total | 1,286,173 | 1,315,495 |

**Reclamation Deposits**
The Company is required to make reclamation deposits in respect of its expected rehabilitation obligations at the Songjiagou Gold Mine.

**(Expressed in US dollars)**

## 7. Inventory

| | Year ended September 30, 2017 | 2016 |
|---|---|---|
| | - $ - | - $ - |
| Gold concentrate | 432,603 | 103,741 |
| Ore stockpile | 1,140,736 | 1,524,295 |
| Total | 1,573,339 | 1,628,036 |

## 8. Property, plant and equipment

| | Heavy machinery and equipment | Office furniture and equipment | Mill | Songjiagou Gold Mine | Songjiagou North Area | Total |
|---|---|---|---|---|---|---|
| | - $ - | - $ - | - $ - | - $ - | - $ - | - $ - |
| Cost | | | | | | |
| At September 30, 2015 | 1,246,327 | 499,989 | 48,780,321 | 38,514,552 | - | 89,041,189 |
| Additions | 146,078 | 1,578 | 728,010 | 2,860,768 | - | 3,736,434 |
| Change in asset retirement cost | - | - | - | 98,348 | - | 98,348 |
| Foreign exchange adjustment | (61,986) | (15,833) | (2,323,336) | (1,868,343) | - | (4,269,498) |
| At September 30, 2016 | 1,330,419 | 485,734 | 47,184,995 | 39,605,325 | - | 88,606,473 |
| Additions | 61,704 | 34,936 | (336,281) | 8,271,738 | 6,825,729 | 14,857,826 |
| Change in asset retirement cost | - | - | - | (189,742) | - | (189,742) |
| Foreign exchange adjustment | 4,454 | 7,992 | 97,586 | 289,102 | 163,707 | 562,841 |
| At September 30, 2017 | 1,396,577 | 528,662 | 46,946,300 | 47,976,423 | 6,989,436 | 103,837,398 |
| Accumulated depreciation | | | | | | |
| At September 30, 2015 | (356,442) | (311,142) | (4,619,766) | (3,999,330) | - | (9,286,680) |
| Depreciation | (250,604) | (70,247) | (1,457,792) | (1,368,477) | - | (3,147,120) |
| Foreign exchange adjustment | 27,655 | 9,239 | 248,687 | 217,482 | - | 503,063 |
| At September 30, 2016 | (579,391) | (372,150) | (5,828,871) | (5,150,325) | - | (11,930,737) |
| Depreciation and depletion | (179,822) | (63,224) | (1,531,454) | (1,668,704) | - | (3,443,204) |
| Foreign exchange adjustment | (5,606) | (8,043) | (49,782) | (51,553) | - | (114,984) |
| At September 30, 2017 | (764,819) | (443,417) | (7,410,107) | (6,870,582) | - | (15,488,925) |
| Net book value | | | | | | |
| At September 30, 2016 | 751,028 | 113,584 | 41,356,124 | 34,455,000 | - | 76,675,736 |
| At September 30, 2017 | 631,758 | 85,245 | 39,536,193 | 41,105,841 | 6,989,436 | 88,348,473 |

The Company's Mining Property consists of the Songjiagou Gold Mine located in the Shandong Province of China. The Company commenced commercial gold production at the Songjiagou Gold Mine in May 2011. The Company's mining permit for the Songjiagou Gold Mine is valid until May 17, 2020. The Songjiagou Gold Mine is owned by the Company's subsidiary, Yantai Zhongjia Mining Inc. ("Zhongjia"). The Company's interest in Zhongjia is held through its 94% owned subsidiary Majestic Yantai Gold Ltd. ("Majestic Yantai"). Majestic Yantai holds 75% of the shares of Zhongjia. The remaining 25% of Zhongjia is held by Yantai Dahedong Processing Co. Ltd. ("Dahedong").

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

**(Expressed in US dollars)**

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

On January 1, 2017, the Company entered into an amendment to the New Mining Agreement ("Amended New Mining Agreement") under which the mining and processing fees have been amended such that Dahedong will be paid for carrying on mining operations as follows:

(i) When the grade of ore is less than or equal to 0.4g/t, there will be no contractor fees to be paid to Dahedong;
(ii) When the grade of ore is greater than 0.4g/t, and less than or equal to 0.6g/t, Dahedong will receive CNY60 per tonne for ore mined and processed;
(iii) When the grade of ore is greater than 0.6g/t, and less than or equal to 0.8g/t, Dahedong will receive CNY65 per tonne for ore mined and processed;
(iv) When the grade of ore is greater than 0.8g/t, and less than or equal to 1.0g/t, Dahedong will receive CNY70 per tonne for ore mined and processed;
(v) When the grade of ore is greater than 1.0g/t, Dahedong will receive CNY75 per tonne for ore mined and processed; and
(vi) Dahedong will receive CNY7 per tonne for waste material mined, extracted and removed and disposed of.

At September 30, 2017, the Company had a balance due to Dahedong of $5,561,415 (September 30, 2016 – $5,442,741) (Note 10). The amount bears no interest, unsecured, and due on demand. During the year ended September 30, 2017, the Company incurred $14,350,715 (2016 - $18,782,621) in mining and processing fees to Dahedong (Note 17).

**Songjiagou North**
The Songjiagou North project area lies immediately north of the Songjiagou open pit operation, within the project's exploration license boundary. The area underlain by precious metal mineralized vein structures was converted to a five year, 0.414 sq. km. mining license that was granted on February 18, 2016. The mining license area covers a continuation of the gold mineralization that is currently being mined in the adjacent Songjiagou Gold Mine.

The Company's current activity at the Songjiagou North property is an underground development which the Company anticipates to be completed in late fiscal 2018 or early fiscal 2019.

## 9. Exploration and evaluation assets

**Other properties**

The Company has interests in certain other exploration and evaluation assets in China. No exploration or evaluation work is currently being pursued on these assets and the carrying value was previously impaired to $2.

## 10. Accounts payable and accrued liabilities

| | Year ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | - $ - | - $ - |
| Trade and other payables | 5,994,453 | 7,398,976 |
| Amount due to Dahedong (Note 8 and 15) | 5,561,415 | 5,442,741 |
| Total | 11,555,868 | 12,841,717 |

**(Expressed in US dollars)**

## 11. Loans payable

| | Year ended September 30, 2017 | 2016 |
|---|---|---|
| | - $ - | - $ - |
| Balance, beginning | 19,775,928 | 20,684,412 |
| Accrued interest and fees | 863,220 | 944,290 |
| Banker's acceptance notes | 4,380,494 | 8,147,659 |
| Loan advances | 16,825,535 | 14,256,579 |
| Loan and interest repayments | (24,878,013) | (23,276,733) |
| Foreign exchange adjustment | (23,086) | (980,279) |
| Balance, ending | 16,944,078 | 19,775,928 |

At September 30, 2017, the loans outstanding consist of:

(i) a $3,005,485 (CNY 20,000,000) (September 30, 2016 - $2,998,771) one year loan bearing an interest at 5.655% per annum. The loan was repayable on November 11, 2017. The loan is guaranteed by the company that provides gold concentrate refining services to the Company. On November 6, 2017, the loan was renewed with an interest rate of 5.3505% per annum and a new maturity date is November 6, 2018 (Note 23);

(ii) a $1,502,743 (CNY 10,000,000) (September 30, 2016 - $1,499,385) one year loan bearing an interest at 0.489375% per month. The loan was repaid on November 11, 2017. The loan is guaranteed by certain third parties, including Dahedong. On November 14, 2017, the Company entered into a new loan, with an interest rate of 0.5075% per month and a maturity date is November 13, 2018 (Note 23);

(iii) a $1,502,743 (CNY 10,000,000) (September 30, 2016 - $Nil) one year loan with Dahedong bearing an interest rate of 0.5% per month plus 5% if the loan is not repaid at maturity. The Company repaid the loan on November 9, 2017 (Note 23);

(iv) a $1,502,743 (CNY 10,000,000) (September 30, 2016 - $1,499,385) one year loan bearing an interest at 8.5% per annum. The loan is guaranteed by Dahedong, the owner of Dahedong and by certain third parties. The loan was repaid on January 3, 2018. On January 5, 2018, a new loan was issued, with an interest rate of 0.635833% per month and a new maturity date is January 3, 2019 (Note 23);

(v) a $751,371 (CNY 5,000,000) (September 30, 2016 - $Nil) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes were repaid on October 27, 2017 (Note 22);

(vi) a $751,371 (CNY 5,000,000) (September 30, 2016 - $Nil) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due February 28, 2018;

(vii) a $22,541 (CNY 150,000) (September 30, 2016 - $Nil) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due March 20, 2018;

(viii) a $3,005,485 (CNY 20,000,000) (September 30, 2016 - $2,998,771) one year loan bearing an interest at 4.785% per annum and repayable on April 3, 2018. The loan is guaranteed by the owner of Dahedong, the company that provides gold concentrate refining services to the Company;

(ix) a $4,508,228 (CNY 30,000,000) (September 30, 2017 - $4,498,156) one year loan bearing an interest at 5.655% per annum and repayable on August 21, 2018. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;

**(Expressed in US dollars)**

## 11. Loans payable (continued)

(x) accrued interest of $391,368 (CNY 2,604,369) (September 30, 2016 - $298,913) relating to the above loans; and

(xi) at September 30, 2016, the Company had $4,348,217 (CNY 29,000,000) series of banker's acceptance notes. The notes were secured by the restricted cash. The Company also had a $1,634,330 one year loan with Dahedong bearing an interest of 0.5% per month plus 5% if the loan is not repaid at maturity. The notes and loans were repaid during the year ended September 30, 2017.

## 12. Financial guarantee

On December 28, 2016, Zhongjia entered into a financial guarantee agreement whereby it has provided an unsecured financial guarantee of a CNY 50,000,000 five year unsecured bank loan to Yantai Baiheng Gold Ltd. ("Baiheng"). The nature of the financial guarantee is such that the bank loan will become payable by Zhongjia should Baiheng default on the bank loan. As security, Baiheng has pledged its two mining permits to Zhongjia as well as providing a refundable security deposit of CNY 15,000,000 ($2,254,114) to Zhongjia for the duration of the loan. Should Baiheng go into default, the two mining permits will become transferable to Zhongjia and the security deposit will become non-refundable to Baiheng. Further, in the event of default, Dahedong will become liable for the entire amounts that Zhongjia will make on behalf of Baiheng. If Dahedong is not able to repay the liabilities, it will transfer 5% out of its 25% interest in Zhongjia to Majestic Yantai.

## 13. Asset retirement obligation

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

| | Year ended September 30, | |
|---|---|---|
| | 2017<br>- $ - | 2016<br>- $ - |
| Balance, beginning | 2,625,922 | 2,570,427 |
| Additions and changes in estimates of net present value | (189,742) | 98,348 |
| Accretion (Note 17) | - | 82,513 |
| Foreign exchange adjustment | 5,879 | (125,366) |
| Balance, ending | 2,442,059 | 2,625,922 |

The Company's asset retirement obligation consists of costs associated with mine reclamation and closure activities on the Songjiagou Gold Mine (Note 8). These activities, which are site specific, include costs for earthworks, re-contouring, re-vegetation, water treatment and demolition. In calculating the fair value of the Company's asset retirement obligations, the Company used a risk-free rate of 3.70% (2016 – 2.75%) and an inflation rate of 1.6% (2016 – 2.1%). The majority of the expenditures are expected to occur in or after 2032.

## 14. Share capital and Reserves

### a) Authorized:

Unlimited number of common shares without par value.

### b) Issued share capital:

The Company had 912,265,216 common shares issued and outstanding as at September 30, 2017 (September 30, 2016 – 839,765,216).

On January 31, 2017, the Company issued 72,500,000 units at CAD$0.135 per unit for total subscription proceeds of CAD$9,787,500 (USD $7,521,694). Each unit consisted of one common share and one common share purchase warrant, entitling the holder to purchase an additional common share at CAD$0.155 for a period of two years from date of issuance. The Company applied residual method to account for the issuance of warrants and has recorded CAD$1,812,500 (USD $1,392,906) to the share-based payment reserve. The Company incurred share issue costs of CAD$35,148 (USD$27,011).

**(Expressed in US dollars)**

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

**c) Stock Options**

The Company has a shareholder approved "rolling" stock option plan (the "Plan") in compliance with the TSX-V's policies. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares at the time of granting. The exercise price of each stock option shall not be less than the discounted market price of the Company's stock at the date of grant. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not, within a twelve month period, exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed, within a twelve month period, two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

The continuity for stock options for the years ended September 30, 2017 and 2016 are as follows:

| Expiry date | Exercise price | Balance September 30, 2015 | Issued | Exercised | Expired/ Cancelled | Balance September 30, 2016 |
|---|---|---|---|---|---|---|
| September 14, 2016 | CAD$0.20 | 20,500,000 | - | - | (20,500,000) | - |
| January 28, 2021 | CAD$0.12 | - | 27,700,000 | - | - | 27,700,000 |
| | | 20,500,000 | 27,700,000 | - | (20,500,000) | 27,700,000 |
| Weighted average exercise price | | CAD$0.20 | CAD$0.12 | - | CAD$0.20 | CAD$0.12 |

| Expiry date | Exercise price | Balance September 30, 2016 | Issued | Exercised | Expired/ Cancelled | Balance September 30, 2017 |
|---|---|---|---|---|---|---|
| January 28, 2021 | CAD$0.12 | 27,700,000 | - | - | - | 27,700,000 |
| Weighted average exercise price | | CAD$0.12 | - | - | CAD$0.12 | CAD$0.12 |

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

The fair value of stock options granted was $805,700, which was recorded as an expense to share-based compensation. The fair value of the options granted was determined using the Black-Scholes Option Pricing Model with the following assumptions: a risk free interest rate of 0.68%, an expected volatility of 73.52%, an expected life of 5 years, and a zero dividend for a weighted average fair value per option of $0.04.

Details of stock options outstanding as at September 30, 2017, are as follows:

| Exercise Price | Expiry Date | Options outstanding | Weighted average exercise price | Weighted average remaining contractual life in years |
|---|---|---|---|---|
| CAD$0.12 | January 28, 2021 | 27,700,000 | CAD$0.12 | 3.33 |

All stock options were vested and exercisable at September 30, 2017.

**(Expressed in US dollars)**

## 14. Share capital and Reserves (continued)

### d) Share purchase warrants

The continuity for share purchase warrants for the year ended September 30, 2017 is as follows:

| Expiry date | Exercise price | Balance September 30, 2016, and 2015 | Issued | Exercised | Expired/ Cancelled | Balance September 30, 2017 |
|---|---|---|---|---|---|---|
| January 31, 2019 | CAD$0.155 | - | 72,500,000 | - | - | 72,500,000 |
| Weighted average exercise price | | $ - | CAD$0.155 | $ - | $ - | CAD$0.155 |

The weighted average life of share purchase warrants outstanding at September 30, 2017 was 1.34 years.

### e) Reserves

**Share-based payment reserve**
The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments. This reserve also includes the value attributed to warrants on unit private placements. At the time that the stock options or warrants are exercised, the corresponding amount will be transferred to share capital.

**Foreign currency translation reserve**
The foreign currency translation reserve records unrealized exchange differences arising on translation of group companies that have a functional currency other than the Company's reporting currency.

## 15. Related party transactions and balances

**Related party transactions**

The Company incurred the following related party transactions during the years ended September 30, 2017 and 2016:

| | Year ended September 30, 2017 -$- | 2016 -$- |
|---|---|---|
| Consulting fees charged by companies controlled by directors and officers of the Company-includes key management personnel compensation | 623,660 | 616,428 |
| Stock-based compensation | - | 651,541 |
| Mining and milling services charged by Dahedong (Note 8) | 14,350,715 | 18,782,621 |
| Interest charged by Dahedong | 89,478 | 98,452 |
| | 15,063,853 | 20,149,042 |

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

| | Year ended September 30, 2017 -$- | 2016 -$- |
|---|---|---|
| Short-term employee benefits–management fees | 237,713 | 236,371 |
| Director fees | 160,532 | 164,551 |
| Stock-based compensation | - | 564,280 |
| | 398,245 | 965,202 |

**(Expressed in US dollars)**

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

**Related party balances**

| | Year ended September 30, 2017 -$- | 2016 -$- |
|---|---|---|
| Amounts due from companies controlled by Directors and Officers of the Company (Note 5) | (1,938) | (4,891) |
| Amounts due to Dahedong (Note 10) | 5,561,415 | 5,442,741 |
| Loan amounts due to Dahedong (Note 11 and 23) | 1,885,193 | 1,634,330 |
| | 7,444,670 | 7,072,180 |

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

### 16. Segmented information

The Company operates in one industry segment, being the exploration, development and operation of mining properties in China. All of the Company's capital assets are located in China, except office furniture and equipment with a net book value of $5,685 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

### 17. Revenue and Expenses

**Revenue**

| | Year ended September 30, 2017 -$- | 2016 -$- |
|---|---|---|
| Sales of gold bullion | 29,144,572 | 27,461,704 |
| Other revenue | 334,031 | 340,262 |
| Total | 29,478,603 | 27,801,966 |

In February 2015, the Company became party to an agreement which allows a third party use of the tailings pond for a fee of CNY 5.5 per tonne of ore processed to a maximum of 1,500 tonnes per day. The Company recorded revenue of $334,031 under this agreement as other revenue during the year ended September 30, 2017 (2016 - $340,262).

**Cost of sales**

| | Year ended September 30, 2017 -$- | 2016 -$- |
|---|---|---|
| Contractor costs paid to Dahedong (Note 8 and 15) | 14,350,715 | 18,782,621 |
| Depreciation and depletion (Note 8) | 3,200,158 | 2,826,269 |
| Smelting costs | 707,147 | 643,063 |
| Resource taxes | 1,023,175 | 1,159,166 |
| Other direct costs | 859,767 | 798,474 |
| Changes in ending gold concentrate inventory | (326,940) | 1,851,176 |
| Total | 19,814,022 | 26,060,769 |

**(Expressed in US dollars)**

### 17. Revenue and Expenses (continued)

**General and administrative**

| | Year ended September 30, 2017 -$- | 2016 -$- |
|---|---|---|
| Consulting and management fees | 641,339 | 651,593 |
| Depreciation (Note 8) | 243,046 | 320,851 |
| Office and general | 570,342 | 604,392 |
| Professional fees | 90,636 | 96,144 |
| Salaries | 1,003,441 | 977,813 |
| Shareholder communications | 30,004 | 24,915 |
| Travel | 475,401 | 360,922 |
| Total | 3,054,209 | 3,036,630 |

**Finance expense**

| | Year ended September 30, 2017 -$- | 2016 -$- |
|---|---|---|
| Interest expenses (Note 11) | 863,219 | 974,909 |
| Accretion of asset retirement obligation (Note 13) | - | 82,513 |
| Total | 863,219 | 1,057,422 |

### 18. Risks and capital management

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

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

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

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

## 18. Risks and capital management (continued)

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

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

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

### Market Risk

The significant market risks to which the Company is exposed are interest rate risk, currency risk and other commodity price risk. These are discussed further below:

*Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash and reclamation deposits 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, 2017.

*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.

## 19. Non-controlling interest

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

**(Expressed in US dollars)**

**19. Non-controlling interest (continued)**

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

| | Year ended September 30, 2017 -$- | 2016 -$- |
|---|---|---|
| Current: | | |
| Assets | 14,814,852 | 13,857,389 |
| Liabilities | (25,755,421) | (27,455,142) |
| Total current net liabilities | (10,940,569) | (13,597,753) |
| Non-current | | |
| Assets | 89,325,739 | 76,662,223 |
| Liabilities | (5,693,268) | (5,459,760) |
| Total non-current net assets | 83,632,471 | 71,202,463 |
| Balance, ending | 72,691,902 | 57,604,710 |

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

| | Year ended September 30, 2017 -$- | 2016 -$- |
|---|---|---|
| Revenue | 29,478,603 | 27,801,966 |
| Net income (loss) before income tax | 7,105,502 | (738,352) |
| Income tax expense | (2,205,909) | (508,840) |
| Net income (loss) | 4,899,593 | (1,247,192) |
| Other comprehensive loss | 247,790 | (2,728,167) |
| Comprehensive income (loss) | 5,147,383 | (3,975,359) |

## 20. Commitments

### Operating lease commitments

Refer to Note 8 for details of commitments resulting from the agreements with Dahedong.

| | 2018 $ | 2019 $ | 2020 $ | 2021 $ | Total $ |
|---|---|---|---|---|---|
| Operating lease commitments: | | | | | |
| Office premises | 23,473 | 25,530 | 26,982 | 11,495 | 87,480 |

## 21. Deferred revenue

During the year ended September 30, 2017, Zhongjia borrowed 100 kg of finished gold from its smelter which was converted to cash of $4,141,184 and agreed to settle the liability by delivering its own gold concentrate. At September 30, 2017, deferred revenue represented the remaining balance of the gold concentrate owing to the smelter which is equivalent to 48 kg's of finished gold.

**(Expressed in US dollars)**

**22. Income tax**

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

| | Year ended September 30, 2017 -$- | Year ended September 30, 2016 -$- |
|---|---|---|
| Current income tax expense | 1,672,814 | 508,840 |
| Deferred income tax expense | 533,095 | - |
| | 2,205,909 | 508,840 |

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

| | Year ended September 30, 2017 -$- | Year ended September 30, 2016 -$- |
|---|---|---|
| Net income (loss) for the year | 5,883,261 | (2,768,976) |
| Expected income tax expense (recovery) at local statutory tax rates | 1,529,648 | (719,934) |
| Non-deductible items and other permanent differences | 311,764 | 948,273 |
| Effect of tax rate changes | - | 703 |
| Temporary differences not recognized | 364,497 | 279,798 |
| Total | 2,205,909 | 508,840 |

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

| | Year ended September 30, 2017 -$- | Year ended September 30, 2016 -$- |
|---|---|---|
| Property, plant and equipment | (1,578,740) | (929,151) |
| Finance expense | 763,779 | 762,072 |
| Asset retirement obligation | 131,097 | 130,801 |
| Inventory | (109,649) | (25,896) |
| Other temporary differences | 331,190 | 145,545 |
| | (462,323) | 83,371 |

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

| | Year ended September 30, 2017 -$- | Year ended September 30, 2016 -$- |
|---|---|---|
| Non-capital losses | 43,062,197 | 31,452,818 |
| Share issue costs | 28,118 | - |
| Property, plant and equipment | 172,640 | 128,027 |
| Capital loss | 22,120 | 16,864 |
| | 43,285,075 | 31,597,709 |

These temporary differences can be used to offset taxable income in the future. The non-capital losses expire in the years 2026 through 2037. The share issue costs are amortized into taxable income (loss) over a five year period.

### 22. Income tax (continued)

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, 2017, there was no distributable profit (2016 – $Nil).

### 23. Subsequent events

Subsequent to September 30, 2017, the Company:

(i) repaid a series of banker's acceptance notes for CNY 5,000,000 ($751,371) on October 27, 2017;

(ii) renewed its loan for CNY 20,000,000 ($3,005,485) on November 6, 2017, with an interest rate 5.3505% per annum and a new maturity date is November 6, 2018;

(iii) repaid its bank loan for CNY 10,000,000 ($1,502,743) on November 11, 2017;

(iv) entered into a loan for CNY 10,000,000 ($1,508,296) on November 14, 2017, with an interest rate of 0.5075% per month and a new maturity date of November 13, 2018;

(v) repaid its loan with Dahedong for CNY 10,000,000 ($1,502,743) on November 9, 2017;

(vi) repaid its bank loan for CNY 10,000,000 ($1,502,743) on January 3, 2018;

(vii) entered into a loan for CNY 10,000,000 ($1,540,832) on January 5, 2018, with an interest rate 0.635833% per month and a new maturity date is January 3, 2019;