CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended December 31, 2018 and 2017

(Expressed in US dollars)

(Unaudited)

Notice to Reader

These condensed consolidated interim financial statements of Majestic Gold Corp. have been prepared by management and approved by the Audit Committee of the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these condensed consolidated interim financial statements, notes to financial statements and the related quarterly Management Discussion and Analysis.

Majestic Gold Corp.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited - expressed in US dollars)

	Note	December 31, 2018 - $ -	September 30, 2018 - $ -
ASSETS			
Current assets			
Cash	*4*	18,001,751	18,842,863
Receivables	*5*	156,346	517,542
Deposits and prepaid expenses	*6*	32,748	528,707
Inventory	*7*	4,304,029	3,117,950
Restricted cash	*11*	1,454,249	3,932,134
		23,949,123	26,939,196
Reclamation deposits	*6*	1,425,882	1,427,168
Property, plant and equipment	*8*	94,221,425	95,277,103
Exploration and evaluation assets	*9*	2	2
		119,596,432	123,643,469
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	*10*	9,869,003	11,325,568
Income taxes payable		690,511	798,519
Loans payable	*11*	14,141,853	17,057,959
		24,701,367	29,182,046
Asset retirement obligation	*13*	2,470,367	2,451,862
Security deposit for financial guarantee	*12*	727,125	1,456,346
Deferred tax liabilities		1,690,832	1,693,269
		29,589,691	34,783,523
EQUITY			
Share capital	*14*	123,005,743	123,005,743
Reserves	*14*	6,589,193	7,055,486
Deficit		(58,770,979)	(59,836,126)
Equity attributable to owners of parent		70,823,957	70,225,103
Equity attributable to non-controlling interests	*19*	19,182,784	18,634,843
Total equity		90,006,741	88,859,946
		119,596,432	123,643,469
Nature of operations	*1*		
Commitments	*8, 20*		
Contingency	*11*		
Subsequent events	*11, 21*		

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

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

Majestic Gold Corp.
Condensed Consolidated Interim Statements of Comprehensive Loss
(Unaudited - expressed in US dollars)

		Three months ended December 31,	
		2018	2017
		- $ -	- $ -
	Notes		
Gold revenue	*17*	7,269,247	8,819,018
Cost of sales			
Operating expenses	*17*	3,185,594	4,395,056
Depreciation and depletion	*8,17*	1,044,768	915,269
Gross profit		3,038,885	3,508,693
Administrative expenses			
General and administrative	*17*	726,107	697,331
Profit before other items		2,312,778	2,811,362
Other items			
Finance expense	*17*	213,418	229,160
Finance income		(101,518)	(35,207)
Foreign exchange income		(7,230)	(601)
Gain on sale of investment		-	(126,045)
		104,670	67,307
Net income before income tax		2,208,108	2,744,055
Income tax		570,732	406,850
Net income for the period		1,637,376	2,337,205
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations		(490,581)	1,574,053
Total other comprehensive income (loss) for the period		(490,581)	1,574,053
Total comprehensive income for the period		1,146,795	3,911,258
Net income for the period attributable to:			
Owners of the parent		1,065,147	1,562,213
Non-controlling interests		572,229	774,992
		1,637,376	2,337,205
Comprehensive income for the period attributable to:			
Owners of the parent		598,854	2,741,424
Non-controlling interest		547,941	1,169,834
		1,146,795	3,911,258
Income 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		1,047,726,381	912,265,216

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

Majestic Gold Corp.
Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited - expressed in US dollars)

	Note	Number of shares	Share capital - $ -	Share-based payment reserve - $ -	Foreign currency translation reserve - $ -	Deficit - $ -	Total - $ -	Non-controlling interest - $ -	Total equity - $ -
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
Comprehensive income									
Net profit for the period		-	-	-	-	1,562,213	1,562,213	774,992	2,337,205
Other comprehensive income		-	-	-	1,179,211	-	1,179,211	394,842	1,574,053
Total comprehensive income for the period		-	-	-	1,179,211	1,562,213	2,741,424	1,169,834	3,911,258
Balance, December 31, 2017		912,265,216	105,995,607	12,889,899	(1,146,296)	(62,671,003)	55,068,207	17,962,376	73,030,583
Balance, September 30, 2018		1,047,726,381	123,005,743	11,593,055	(4,537,569)	(59,836,126)	70,225,103	18,634,843	88,859,946
Comprehensive income									
Net profit for the period		-	-	-	-	1,065,147	1,065,147	572,229	1,637,376
Other comprehensive loss		-	-	-	(466,293)	-	(466,293)	(24,288)	(490,581)
Total comprehensive income (loss) for the period		-	-	-	(466,293)	1,065,147	598,854	547,941	1,146,795
Balance, December 31, 2018		1,047,726,381	123,005,743	11,593,055	(5,003,862)	(58,770,979)	70,823,957	19,182,784	90,006,741

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

Majestic Gold Corp.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - expressed in US dollars)

	Three months ended December 31,	
	2018	2017
	- $ -	- $ -
Cash provided from (used for):		
Operating activities:		
Net income for the period	1,637,376	2,337,205
Items not involving cash:		
Depreciation and depletion	1,109,234	982,176
Finance expense	213,418	229,160
Income tax expense	570,732	406,850
Gain on sale of gold futures	-	(126,045)
Changes in non-cash working capital balances:		
Receivables	361,196	80,735
Deposits and prepaid expenses	495,959	(507,595)
Inventory	(1,182,451)	(55,193)
Accounts payable and accrued liabilities	(1,811,231)	524,327
Deferred revenue	-	(2,009,575)
Effect of foreign exchange on working capital	374,349	(516,952)
Income tax paid	(677,031)	(570,061)
Interest paid	(189,102)	(198,235)
Net cash provided from operating activities	902,449	576,797
Investing activities:		
Expenditures on property, plant and equipment	(207,779)	(330,875)
Proceeds on sales of gold futures	-	126,045
Reclamation deposit	(765)	(549,198)
Net cash provided from (used for) investing activities	(208,544)	(754,028)
Financing activities:		
Restricted cash	1,735,936	(755,869)
Loan advances	5,366,933	5,948,692
Loan repayments	(8,245,693)	(6,802,824)
Net cash used for financing activities	(1,142,824)	(1,610,001)
Effect of foreign exchange on cash and cash equivalents	(392,193)	159,378
Net decrease in cash and cash equivalents	(841,112)	(1,627,854)
Cash, beginning	18,842,863	10,227,054
Cash, ending	18,001,751	8,599,200

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

(Unaudited - expressed in US dollars)

1. Nature of operations

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

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

These unaudited condensed consolidated interim financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company has completed its mining and production facilities and is now working towards achieving and maintaining efficient production and increased positive cash flows from operations. At December 31, 2018, the Company has a working capital deficiency of $752,244 and additional financing will be required to settle all debts as they become due and to further develop its business. 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 condensed consolidated interim 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 unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are based on International Financial Reporting Standards ("IFRS") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") issued and outstanding as at February 28, 2019, the date the audit committee to the board of directors approved these unaudited condensed consolidated interim financial statements for issue.

Basis of preparation

These unaudited condensed consolidated interim financial statements, prepared in conformity with IAS 34, follow the same accounting policies and methods of computation as the most recent audited annual consolidated financial statements.

Since these unaudited condensed consolidated interim financial statements do not include all disclosures required by the International Financial Reporting Standards ("IFRS") for annual financial statements, they should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2018.

Basis of consolidation

The condensed consolidated interim financial statements include the accounts of the Company and its controlled entities. All inter- company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

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

	Country of incorporation	Percentage as at December 31, 2018	Percentage as at September 30, 2018
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.

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

Use of estimates (continued)
Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include:

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

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

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

(i) Market factors such as a decrease in the price of gold or an increase in market interest rates:
(ii) 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 December 31, 2018, there are indicators of impairment of the Company's Songjiagou Gold Mine (Note 8) which comprises the Company's primary 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 Chinese Renminbi "CNY"; and

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.

(Unaudited - expressed in US dollars)

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.

Comparative figures
Certain comparative figures have been reclassified to conform to the current period's presentation.

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

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2018 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 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 December 31, 2018, cash of $11,318,286 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

		December 31, 2018		September 30, 2018
Sales taxes receivable	$	54,896	$	21,753
Other receivables		101,450		495,789
Total	$	156,346	$	517,542

(Unaudited - expressed in US dollars)

6. Deposits and prepaid expenses

	December 31, 2018	September 30, 2018
Current:		
Prepayment for mining supplies and services	$ -	$ 502,659
Rent deposit	9,714	12,950
Other advances and prepayments	23,034	13,098
	32,748	528,707
Non-current:		
Reclamation deposits	1,425,882	1,427,168
Total	$ 1,458,630	$ 1,955,875

Reclamation Deposits

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

7. Inventory

	December 31, 2018	September 30, 2018
Gold concentrate	$ 2,406,143	$ 1,099,097
Ore stockpile	937,858	939,210
Raw material	960,028	1,079,643
Total	$ 4,304,029	$ 3,117,950

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, 2018	$ 1,481,139	$ 506,985	$45,403,127	$ 52,669,104	$14,277,933	$114,338,288
Additions	39,909	651	(52,069)	216,988	2,300	207,779
Foreign exchange adjustment	(1,922)	(1,784)	(65,642)	(86,728)	(20,424)	(176,500)
At December 31, 2018	1,519,126	505,852	45,285,416	52,799,364	14,259,809	114,369,567
Accumulated depreciation						
At September 30, 2018	(947,991)	(364,060)	(8,937,409)	(8,811,725)	-	(19,061,185)
Depreciation and depletion	(52,283)	(12,183)	(468,242)	(576,526)	-	(1,109,234)
Foreign exchange adjustment	1,089	1,154	10,392	9,642	-	22,277
At December 31, 2018	(999,185)	(375,089)	(9,395,259)	(9,378,609)	-	(20,148,142)
Net book value						
At September 30, 2018	$ 533,148	$ 142,925	$36,465,718	$ 43,857,379	$14,277,933	$ 95,277,103
At December 31, 2018	$ 519,941	$ 130,763	$35,890,157	$ 43,420,755	$14,259,809	$ 94,221,425

Songjiagou Gold Mine

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

(Unaudited - expressed in US dollars)

8. Property, plant and equipment (continued)

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 September 1, 2018, the Company entered into an amendment to its May 1, 2014 mining agreement with Dahedong and rescinded previous amendments dated January 1, 2018 and January 1, 2017. The September 1, 2018 amendment has an effective date of October 1, 2017 ("Agreement"), whereby mining operations will be carried out by Zhongjia. Zhongjia will now be responsible for carrying on mining operations and all related costs of developing the mine; mining, transporting, and processing ore. Dahedong will continue to retain ownership and responsibility for the removal of all waste material, at their cost, for the remaining life of the Agreement which expires in August 2041. Dahedong will be available, if required, to provide assistance in the direction and coordination of the mining operations at no cost.

At December 31, 2018, the Company had a balance due to Dahedong of $5,672,024 (September 30, 2018 – $5,680,202) (Note 10). The amount bears no interest, unsecured, and due on demand.

Songjiagou North Underground
The Songjiagou North Underground project ("Songjiagou North") 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 is an underground development which the Company anticipates to be completed in fiscal 2019. During the first quarter of 2019, the Company initiated mining on the first three levels.

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

		December 31, 2018		September 30, 2018
Trade and other payables	$	4,196,979	$	5,645,366
Amount due to Dahedong (Note 8 and 15)		5,672,024		5,680,202
Total	$	9,869,003	$	11,325,568

11. Loans payable

		December 31, 2018		September 30, 2018
Balance, beginning	$	17,057,959	$	16,944,078
Accrued interest and fees		191,499		796,164
Banker's acceptance notes		1,032,517		7,114,250
Loan advances		4,334,416		14,123,131
Loan and interest repayments		(8,434,795)		(21,364,517)
Foreign exchange adjustment		(39,743)		(555,147)
Balance, ending	$	14,141,853	$	17,057,959

(Unaudited - expressed in US dollars)

11. Loans payable (continued)

At December 31, 2018, the loans outstanding consist of:

(i) a $2,908,499 (CNY 20,000,000) (September 30, 2018 - $2,912,692) one year loan bearing an interest at 5.3505% per annum. The loan is guaranteed by a third party. On November 6, 2018, the loan was renewed with an interest rate of 5.655% per annum and a new maturity date is November 6, 2019;

(ii) a $1,454,249 (CNY 10,000,000) (September 30, 2018 - $1,456,346) one year loan bearing an interest at 0.5075% per month. The loan is guaranteed by certain third parties, including Dahedong. The loan was repaid on November 13, 2018 and renewed on November 14, 2018 with an interest rate of 0.525625% per month and a maturity date is November 13, 2019;

(iii) a $1,454,249 (CNY 10,000,000) (September 30, 2018 - $1,456,346) one year loan bearing an interest at 7.63% per annum. The loan is guaranteed by Dahedong, the owner of Dahedong and by certain third parties. The loan was repaid on January 2, 2019 (Note 23);

(iv) a $2,908,499 (CNY 20,000,000) (September 30, 2018 - $2,912,692) one year loan bearing an interest at 5.0025% per annum and repayable on April 2, 2019. The loan is guaranteed by Dahedong, the owner of Dahedong and the company that provides gold concentrate refining services to the Company;

(v) a $4,362,748 (CNY 30,000,000) (September 30, 2018 - $4,369,038) one year loan bearing an interest at 5.655% per annum and repayable on September 13, 2019. The loan is guaranteed by a third party;

(vi) a $1,032,517 (CNY 7,100,000) (September 30, 2018 - $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 on June 4, 2019;

(vii) accrued interest of $21,094 (CNY 145,049) (September 30, 2018 - $18,710) relating to the above loans; and

(viii) at September 30, 2018, the Company had $3,932,135 (CNY 27,000,000) series of banker's acceptance notes. The notes were secured by the restricted cash. The notes were repaid during the period ended December 31, 2018.

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 ($2,305,422) 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:

		December 31, 2018		September 30, 2018
Balance, beginning	$	2,451,862	$	2,442,059
Additions and changes in estimates of net present value		(2,691)		(2,367)
Accretion (Note 17)		21,919		91,966
Foreign exchange adjustment		(723)		(79,796)
Balance, ending	$	2,470,367	$	2,451,862

(Unaudited - expressed in US dollars)

13. Asset retirement obligation (continued)

The Company's asset retirement obligation consists of costs associated with mine reclamation and closure activities on the Songjiagou Gold Mine (Note 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% (December 31, 2017 – 3.70%) and an inflation rate of 1.6% (December 31, 2017 – 1.6%). 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 1,047,726,381 common shares issued and outstanding as at December 31, 2018 and September 30, 2018.

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.

A summary of the Company's outstanding stock options as at December 31, 2018 is 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	2.08

The continuity for stock options for the three months ended December 31, 2018 is as follows:

Expiry date	Exercise price	Balance September 30, 2018	Issued	Exercised	Expired/ Cancelled	Balance December 31, 2018
January 28, 2021	CAD$0.12	27,700,000	-	-	-	27,700,000
Weighted average exercise price		CAD$0.12	$ -	$ -	$ -	CAD$0.12

(Unaudited - expressed in US dollars)

14. Share capital and Reserves (continued)

d) Share purchase warrants

The continuity for share purchase warrants for the three months ended December 31, 2018 is as follows:

Expiry date	Exercise price	Balance September 30, 2018	Issued	Exercised	Expired/ Cancelled	Balance December 31, 2018
January 31, 2019	CAD$0.155	5,000,000	-	-	-	5,000,000
Weighted average exercise price		CAD$0.155	$ -	$ -	$ -	CAD$0.155

The weighted average life of share purchase warrants outstanding at December 31, 2018 was 0.08 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 three months ended December 31, 2018 and 2017:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Consulting fees charged by companies controlled by directors and officers of the Company-includes key management personnel compensation	$ 155,956	$ 160,268
Interest charged by Dahedong	-	6,173
	$ 155,956	$ 166,441

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

	Three months ended December 31, 2018	Three months ended December 31, 2017
Short-term employee benefits–management fees	$ 59,038	$ 61,347
Director fees	39,207	40,741
	$ 98,245	$ 102,088

(Unaudited - expressed in US dollars)

15. Related party transactions and balances (continued)

Related party balances

		December 31, 2018		September 30, 2018
Amounts due from companies controlled by Directors and Officers of the Company (Note 5)	$	-	$	4,966
Amounts due to Dahedong (Note 10)		5,672,024		5,680,202
		5,672,024		5,685,168

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 $6,695 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

17. Revenue and Expenses

Revenue

		Three months ended December 31, 2018		2017
Sales of gold bullion	$	7,190,326	$	8,730,422
Other revenue		78,921		88,596
Total	$	7,269,247	$	8,819,018

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 $78,921 under this agreement as other revenue during the three months ended December 31, 2018 (2017 - $88,596).

Cost of sales

		Three months ended December 31, 2018		2017
Mining and Milling fees	$	3,777,751	$	3,601,356
Depreciation and depletion (Note 8)		1,044,768		915,269
Smelting costs		276,942		291,734
Resource taxes		247,942		205,215
Other direct costs		185,025		164,715
Changes in ending gold concentrate inventory		(1,302,066)		132,036
Total	$	4,230,362	$	5,310,325

(Unaudited - expressed in US dollars)

17. Revenue and Expenses (continued)

General and administrative

	Three months ended December 31, 2018	2017
Consulting and management fees	$ 144,375	$ 123,602
Financial advisory	15,144	-
Depreciation (Note 8)	64,466	66,907
Office and general	133,461	142,793
Professional fees	-	-
Salaries	247,759	246,013
Shareholder communications	1,369	1,197
Travel	119,533	116,819
Total	$ 726,107	$ 697,331

Finance expense

	Three months ended December 31, 2018	2017
Interest expenses (Note 11)	$ 191,499	$ 206,436
Accretion of asset retirement obligation (Note 13)	21,919	22,724
Total	$ 213,418	$ 229,160

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 December 31, 2018.

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.

(Unaudited - expressed in US dollars)

19. Non-controlling interest (continued)

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

		December 31, 2018		September 30, 2018
Current:				
Assets	$	16,129,170	$	18,362,235
Liabilities		(18,867,743)		(23,370,780)
Total current net liabilities		(2,738,573)		(5,008,545)
Non-current				
Assets		95,639,573		96,694,976
Liabilities		(6,909,730)		(6,897,626)
Total non-current net assets		88,729,843		89,797,350
Balance, ending	$	85,991,270	$	84,788,805

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

		Three months ended December 31,		
		2018		2017
Revenue	$	7,269,247	$	8,819,018
Net income before income tax		2,514,100		3,031,175
Income tax expense		(570,732)		(406,850)
Net income		1,943,368		2,624,325
Other comprehensive income (loss)		(2,879,887)		(2,846,103)
Comprehensive income (loss)	$	(936,519)	$	(221,778)

20. Commitments

Operating lease commitments

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

		2019		2020		2021		Total
Operating lease commitments:								
Office premises	$	17,709	$	24,682	$	10,515	$	52,906

21. Subsequent events

Subsequent to December 31, 2018, the Company:

(i) repaid its bank loan for CNY 10,000,000 ($1,454,249) on January 2, 2019;

(ii) entered into a loan for CNY 6,000,000 ($873,375) on January 4, 2019, with an interest rate of 7.63% per annum and the maturity date is December 9, 2019;

(iii) entered into an agreement for a CNY 10,000,000 ($1,455,625) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due July 3, 2019;

(iv) entered into an agreement for a CNY 10,000,000 ($1,489,537) 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 August 21, 2019; and

(v) had 5,000,000 warrants expire unexercised on January 31, 2019.