



**CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2020**

*(Expressed in US dollars)*

*(Unaudited)*

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

		March 31, 2020	December 31, 2019
	<i>Note</i>	- \$ -	- \$ -
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	4	25,362,395	23,918,724
Receivables	5	12,824	15,489
Deposits and prepaid expenses	6	3,711,359	1,602,153
Inventory	7	3,686,377	4,360,466
		<u>32,772,955</u>	<u>29,896,832</u>
Reclamation deposits	6	1,316,450	1,338,400
Property, plant and equipment	8	63,617,655	66,071,097
Exploration and evaluation assets	9	41,972	22,245
Deferred tax assets		1,330,937	1,354,163
		<u>99,079,969</u>	<u>98,682,737</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	10	10,492,085	10,760,789
Income taxes payable		1,012,428	697,644
Loans payable	11	12,715,139	12,937,035
		<u>24,219,652</u>	<u>24,395,468</u>
Asset retirement obligation	13	3,037,776	3,057,207
Other long-term liabilities	19	1,423,873	1,476,575
		<u>28,681,301</u>	<u>28,929,250</u>
<b>EQUITY</b>			
Share capital	14	123,005,743	123,005,743
Reserves	14	5,609,862	7,407,198
Deficit		(64,437,170)	(65,835,781)
Equity attributable to owners of parent		64,178,435	64,577,160
Equity attributable to non-controlling interests	20	6,220,233	5,176,327
Total equity		<u>70,398,668</u>	<u>69,753,487</u>
		<u>99,079,969</u>	<u>98,682,737</u>
Nature of operations	1		
Commitments	9, 19		
Contingencies	12		

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 Income**  
(Unaudited - expressed in US dollars)

		Three months ended March 31, 2020 - \$ -	Three months ended Mach 31, 2019 - \$ -
	<i>Notes</i>		
Gold revenue	17	10,311,908	11,083,726
Cost of sales			
Operating expenses	17	4,680,138	5,673,159
Depreciation and depletion	8, 17	1,641,076	1,530,194
Gross profit		3,990,694	3,880,373
General and administrative	17	839,976	746,953
Profit before other items		3,150,718	3,133,420
Other items			
Finance expense	17	241,288	215,313
Finance income		(557,858)	(155,128)
Foreign exchange loss		14,571	3,323
Other expenses (income)		290,402	(31,035)
		(11,597)	32,473
Net income before income tax		3,162,315	3,100,947
Income tax expense		1,008,753	901,646
Net income for the period		2,153,562	2,199,301
Other comprehensive income (loss)			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation of parent		310,079	131,700
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations		(1,818,460)	2,122,031
Total other comprehensive income (loss) for the period		(1,508,381)	2,253,731
Total comprehensive income for the period		645,181	4,453,032
Net income for the period attributable to:			
Owners of the parent		1,420,096	1,425,547
Non-controlling interests		733,466	773,754
		2,153,562	2,199,301
Comprehensive income (loss) for the period attributable to:			
Owners of the parent		(398,725)	3,195,904
Non-controlling interest		1,043,906	1,257,128
		645,181	4,453,032
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	1,047,726,381

*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	Attributable to owners of the parent							Non-controlling interest	Total equity
			Share capital	Share-based payment reserve	Special Reserve	Foreign currency translation reserve	Deficit	Total			
			- \$ -	- \$ -	- \$ -	- \$ -	- \$ -	- \$ -	- \$ -	- \$ -	- \$ -
Restated balance, December 31, 2018		1,047,726,381	123,005,743	11,593,055	330,524	(4,211,717)	(67,419,336)	63,298,269	4,053,650	67,351,919	
Comprehensive income											
Net income for the period		-	-	-	-	-	1,425,547	1,425,547	773,754	2,199,301	
Other Comprehensive income		-	-	-	-	1,794,645	-	1,794,645	459,086	2,253,731	
Total comprehensive income for the period		-	-	-	-	1,794,645	1,425,547	3,220,192	1,232,840	4,453,032	
Balance, March 31, 2019		1,047,726,381	123,005,743	11,593,055	330,524	(2,417,072)	(65,993,789)	66,518,461	5,286,490	71,804,951	
Balance, December 31, 2019		1,047,726,381	123,005,743	11,593,055	407,408	(4,593,265)	(65,835,781)	64,577,160	5,176,327	69,753,487	
Safety production cost		-	-	-	14,170	7,315	(21,485)	-	-	-	
Comprehensive income (loss)											
Net income for the period		-	-	-	-	-	1,420,096	1,420,096	733,466	2,153,562	
Other Comprehensive loss		-	-	-	-	(1,818,821)	-	(1,818,821)	310,440	(1,508,381)	
Total comprehensive income for the period		-	-	-	-	(1,818,821)	1,420,096	(398,725)	1,043,906	645,181	
Balance, March 31, 2020		1,047,726,381	123,005,743	11,593,055	421,578	(6,404,771)	(64,437,170)	64,178,435	6,220,233	70,398,668	

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

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

	Three months ended March 31, 2020 - \$ -	Three months ended March 31, 2019 - \$ -
Cash provided from (used for):		
Operating activities:		
Net income for the period	2,153,562	2,199,301
Items not involving cash:		
Depreciation and depletion	1,634,009	1,597,137
Finance expense	206,888	215,313
Income tax expense	1,008,753	901,646
Write-down of exploration and evaluation assets	-	2
Changes in non-cash working capital balances:		
Receivables	2,665	(541,726)
Deposits and prepaid expenses	(2,109,206)	(115,507)
Inventory	608,561	1,369,165
Accounts payable and accrued liabilities	(148,764)	(262,114)
Effect of foreign exchange on working capital	(3,540)	(403,476)
Income tax paid	(676,954)	(585,933)
Interest paid	(189,320)	(192,830)
<b>Net cash provided from operating activities</b>	<b>2,486,654</b>	<b>4,180,978</b>
Investing activities:		
Expenditures on property, plant and equipment	(295,409)	(134,740)
Exploration and evaluation assets	(19,727)	-
Reclamation deposits	-	(412)
<b>Net cash used for investing activities</b>	<b>(315,136)</b>	<b>(135,152)</b>
Financing activities:		
Restricted cash	-	(2,175,207)
Payment of loan guarantee	-	(732,118)
Loan advances	-	4,545,945
Loan repayments	-	(1,564,688)
<b>Net cash provided from financing activities</b>	<b>-</b>	<b>73,932</b>
Effect of foreign exchange on cash	(727,847)	502,313
Net increase in cash	1,443,671	4,622,071
Cash, beginning	23,918,724	18,001,751
Cash, ending	25,362,395	22,623,822

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

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three-month period ended March 31, 2020 and 2019**  
**(Unaudited - expressed in US dollars)**

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**1. Nature of operations**

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

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 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. At March 31, 2020, the Company has a working capital of \$8,553,303. In the opinion of the directors, the Company will have necessary funds to finance its working capital and capital expenditure requirements for the next twelve months following March 31, 2020 based on the consideration that the Company is expected to remain profitable and continue to generate operating cash inflow from its future business operations.

**2. Basis of preparation, significant accounting policies and judgements**

**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 July 27, 2020, 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 December 31, 2019.

These unaudited condensed consolidated interim financial statements of the Company are presented in US dollars unless otherwise noted.

**Basis of consolidation**

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

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

	Country of incorporation	Percentage as at March 31, 2020	Percentage as at December 31, 2019
Sinogold Resources Holdings Group Co. Ltd.	Cayman Island	94%	94%
Majestic Yantai Gold Ltd.	BVI	94%	94%
Yantai Zhongjia Mining Inc.	China	70.5%	70.5%

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

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

**COVID-19 estimation uncertainty**

Since mid-January 2020, there has been a widespread of COVID-19, which has been categorized by the World Health Organization as a pandemic in March 2020 within the PRC and globally outside the PRC. COVID-19 had affected more than 200 countries. As a result, businesses in major cities in the PRC, including Yantai city where the Company's operations are located, had been temporarily suspended in order to contain and mitigate the current outbreak.

To comply with the PRC government's measures to contain and mitigate the COVID-19 outbreak, the Company also had suspended its back office administrative functions in the PRC for around three weeks in February 2020. During this period, the Company had experienced a temporary suspension in the delivery of our gold concentrate to the gold refineries although there was no suspension in the mining and processing operations. The Company resumed normal operations on February 24, 2020 and has not experienced any interruptions in operations since.

**Use of estimates**

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

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

**a) The useful lives of property, plant and equipment**

Depreciation is calculated on the straight-line basis to write off the cost of each item of plant and equipment and ROU asset to its residual value over its estimated useful life. Useful lives are determined based on management's past experience with similar assets, estimated changes in technologies and in the case of mining related plant and equipment, estimated mine lives. If the estimated useful lives change significantly, adjustment of depreciation will be provided in the future year.

The useful lives of the Company's mining properties and infrastructure are based on indicated gold resource and probable reserve 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 and reserve estimates could significantly impact the expected useful lives of the Company's mineral property and related infrastructure.

**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 and Songjiagou Underground Mine. These estimates are 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 assets, 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 March 31, 2020, there are no indicators of impairment of the Company's mining properties and related assets.

**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.

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**2. Basis of preparation, significant accounting policies and judgements (continued)**

**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 is the Canadian dollar, the functional currency of Sinogold Resources Holdings Group Co., Ltd and Majestic Yantai Gold Ltd. is the Hong Kong 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.

**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 accounting standards, interpretations and amendments**

**New accounting standards, interpretations and amendments issued not yet applied**

A number of new standards, amendments to standards and interpretations are issued but not yet applied as of March 31, 2020, in preparing these consolidated financial statements.

**IFRS 3 *Business Combinations Amendments***

The IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations*. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. These amendments are effective for annual periods beginning on or after January 1, 2020. The Company does not expect the adoption of these amendments to IFRS 3 will have a significant impact on its consolidated financial statements.

Other accounting pronouncements with future effective dates are either not applicable or not expected to have a significant impact on the Company's consolidated financial statements.



**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three-month period ended March 31, 2020 and 2019**  
**(Unaudited - expressed in US dollars)**

**4. Cash**

At March 31, 2020, cash of \$21,370,177 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**

		March 31, 2020		December 31, 2019
Sales taxes receivable	\$	8,065	\$	6,751
Other receivables		4,759		8,738
<b>Total</b>	<b>\$</b>	<b>12,824</b>	<b>\$</b>	<b>15,489</b>

**6. Deposits and prepaid expenses**

		March 31, 2020		December 31, 2019
Current:				
Prepayment for mining supplies and services		113,260	\$	274,880
Rent deposit		6,169		6,738
Other prepayments and deposits		3,591,930		1,320,535
		<u>3,711,359</u>		<u>1,602,153</u>
Non-current:				
Reclamation deposits		1,316,450		1,338,400
<b>Total</b>	<b>\$</b>	<b>5,027,809</b>	<b>\$</b>	<b>2,940,553</b>

**Reclamation Deposits**

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

**7. Inventory**

		March 31, 2020		December 31, 2019
Gold concentrate	\$	1,637,136	\$	1,999,887
Ore stockpile		1,143,303		1,578,398
Raw material		905,938		782,181
<b>Total</b>	<b>\$</b>	<b>3,686,377</b>	<b>\$</b>	<b>4,360,466</b>

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three-month period ended March 31, 2020 and 2019**  
**(Unaudited - expressed in US dollars)**

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**8. Property, plant and equipment**

**Songjiagou Gold Mine**

The Company's principal mining property is 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 has been renewed and is valid until May 17, 2031. 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").

**Songjiagou North Underground Mine**

The Songjiagou North Underground Mine is also owned by Zhongjia and 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.

As at March 31, 2020 and December 31, 2019, Right-of-Use Assets included prepaid land leases and building leases.

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three-month period ended March 31, 2020 and 2019**  
**(Unaudited - expressed in US dollars)**

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

	Motor Vehicles	Office furniture and equipment	Building	Machinery	Mining Infrastructure	Mineral Property	Right-of-Use Assets	Total
<b>Cost</b>								
At December 31, 2019	590,587	498,156	13,009,592	23,858,988	32,372,991	8,993,249	17,933,274	97,256,837
Additions	1,833	-	-	-	68,321	-	225,255	295,409
Foreign exchange adjustment	(10,158)	(9,138)	(223,139)	(409,227)	(556,297)	(154,251)	(315,639)	(1,677,849)
At March 31, 2020	582,262	489,018	12,786,453	23,449,761	31,885,015	8,838,998	17,842,890	95,874,397
<b>Accumulated depreciation</b>								
At December 31, 2019	(506,458)	(411,206)	(4,967,580)	(10,257,236)	(6,940,177)	(2,324,928)	(5,778,155)	(31,185,740)
Depreciation and depletion	6,171	6,519	(201,087)	(382,402)	(847,071)	(60,060)	(156,079)	(1,634,009)
Foreign exchange adjustment	8,593	7,176	88,265	181,750	131,930	40,792	104,501	563,007
At March 31, 2020	(491,694)	(397,511)	(5,080,402)	(10,457,888)	(7,655,318)	(2,344,196)	(5,829,733)	(32,256,742)
<b>Net book value</b>								
At December 31, 2019	\$ 84,129	\$ 86,950	\$ 8,042,012	\$ 13,601,752	\$ 25,432,814	\$ 6,668,321	\$ 12,155,119	\$ 66,071,097
At March 31, 2020	\$ 90,568	\$ 91,507	\$ 7,706,051	\$ 12,991,873	\$ 24,229,697	\$ 6,494,802	\$ 12,013,157	\$ 63,617,655

As at March 31, 2020, certain of the Company's property, plant and equipment with a cost of \$11,560,000 were pledged to banks to secure the Company's loans payable (Note 11).

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three-month period ended March 31, 2020 and 2019**  
**(Unaudited - expressed in US dollars)**

**9. Exploration and evaluation assets**

	Sunset/Sunrise Mineral Claims	First Adelaide East Project	China Projects	Total
At December 31, 2019	\$ 841	\$ 21,404	\$ -	\$ 22,245
Acquisition costs	-	19,727	-	19,727
At March 31, 2020	\$ 841	\$ 41,131	\$ -	\$ 41,972

**Fair Adelaide East Project**

On December 15, 2019, the Company entered into the option agreement ("FAE Agreement") to acquire 51% ownership of a gold exploration project in Western Australia known as the Fair Adelaide East Project (the "FAE Project"). The FAE Project is located near Kalgoorlie-Boulder City, Western Australia, 520 km northeast of Perth, Australia, and is comprised of 8 contiguous prospecting license Tenements covering 1,321.82 hectares.

Under the terms of the FAE Agreement, the Company has the option to acquire a 51% in FAE Project by making the following option payments and exploration expenditures:

- paying the Optionor AUD\$30,000 on execution of this letter, a further AUD\$30,000 on or before December 2020 and spending a total AUD\$2,000,000 in exploration expenditures the project during the ensuing two years ending December 15, 2023, provided that the Company spends a minimum of AUD\$500,000 on the project during the year commencing December 15, 2021, and ending December 15, 2022.
- Alternatively, the Company may elect to acquire a 51% interest in fewer than the full 8 Tenements by making the two cash payments of AUD\$30,000 as in a) above and electing to expend a minimum of ADU\$250,000 on any one or any number of Tenements each and relinquishing the balance of the Tenements back to the Optionor, again provided the Company expends a minimum of ADU\$500,000 during the year commencing December 15, 2021 and ending December 15, 2023 .

**Sunset-Sunrise Property**

In November 2019, the Company acquired the Sunset and Sunrise mineral claims which are located in the Cassiar District of British Columbia by making a payment of \$841.

**10. Accounts payable and accrued liabilities**

		March 31, 2020	December 31, 2019
Trade and other payables	\$	4,316,942	\$ 4,023,433
Provisions		1,461,939	\$ 1,877,839
Amount due to Dahedong (Note 16)		4,713,204	4,859,517
Total	\$	10,492,085	\$ 10,760,789

The balance due to Dahedong of \$4,713,204 (December 31, 2019 – \$4,859,517) bears no interest, is unsecured, and due on demand.

The provisions consist of a provision for the relocation of villages surrounding the mine and a provision for penalties that arise from overdue tax payment and other penalties.

**Majestic Gold Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three-month period ended March 31, 2020 and 2019**  
**(Unaudited - expressed in US dollars)**

**10. Accounts payable and accrued liabilities (continued)**

A continuity of the Company's provisions that are included in accounts payable and accrued liabilities are as follows:

	Provision for relocation	Provision for penalties	Total
Balance, December 31, 2019	\$ 551,176	\$ 1,326,663	\$ 1,877,839
Utilized during the period	(389,623)	-	(389,623)
Effect of foreign exchange	(3,523)	(22,754)	(26,277)
Balance, March 31, 2020	\$ 158,030	\$ 1,303,909	\$ 1,461,939

**11. Loans Payable**

	March 31, 2020	December 31, 2019
Balance, beginning	\$ 12,937,035	\$ 17,057,959
Accrued interest and fees	189,320	954,720
Banker's acceptance notes	-	5,740,528
Loan advances	-	18,867,908
Loan and interest repayments	(189,320)	(29,469,127)
Foreign exchange adjustment	(221,896)	(214,953)
Balance, ending	\$ 12,715,139	\$ 12,937,035

At March 31, 2020, the loans outstanding consist of:

- (i) a \$2,821,034 (CNY 20,000,000) (December 31, 2019 - \$2,870,264) one-year loan bearing an interest at 5.0025% per annum and repayable on April 4, 2020. The loan is guaranteed by Dahedong, the owner of Dahedong and the company that provides gold concentrate refining services to the Company;
- (ii) a \$4,231,550 (CNY 30,000,000) (December 31, 2019 - \$4,305,396) one-year loan bearing an interest at 5.655% per annum and repayable on September 18, 2020. The loan is guaranteed by a third party;
- (iii) a \$2,821,034 (CNY 20,000,000) (December 31, 2019 - \$2,870,264) one-year loan bearing an interest at 5.655% per annum and repayable on November 6, 2020. The loan is guaranteed by a third party;
- (iv) a \$1,410,517 (CNY 10,000,000) (December 31, 2019 - \$1,435,132) one-year loan bearing an interest at 6.31% per annum and repayable on November 13, 2020. The loan is guaranteed by certain third parties, including Dahedong;
- (v) a \$1,410,517 (CNY 10,000,000) (December 31, 2019 - \$1,435,132) one-year loan bearing an interest at 7.70% per annum. The loan is guaranteed by Dahedong, the owner of Dahedong and by certain third parties. The loan is repayable on December 9, 2020; and
- (vi) accrued interest of \$20,488 (CNY 145,250) (December 31, 2019 - \$20,845) relating to the above loans.

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**12. Financial guarantees**

At March 31, 2020, the Company had provided the following financial guarantees:

- (i) 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. Should Baiheng go into default, the two mining permits will become transferable to Zhongjia. 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. At March 31, 2020, Baiheng has repaid CNY 15,000,000 of the bank borrowing.
- (ii) On November 14, 2018, Zhongjia entered into a financial guarantee agreement whereby it provided a financial guarantee of a CNY 20,000,000 bank loan to Dahedong from November 14, 2018 to November 13, 2020.
- (iii) At March 31, 2020, Zhongjia had provided a financial guarantee for the bank borrowing of CNY 20,000,000 to an external party.
- (iv) At March 31, 2020, the Zhongjia had provided a joint and several guaranty for an external party’s debt. The contingent liability under this matter approximately ranged from CNY 6,950,000 to CNY 50,000,000 (excluding relevant financing interest and other fees incurred).

**13. Asset retirement obligation**

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

	March 31, 2020	December 31, 2019
Balance, beginning	\$ 3,057,207	\$ 2,451,862
Additions and changes in estimates of net present value	-	386,607
Accretion (Note 17)	33,516	245,694
Foreign exchange adjustment	(52,947)	(26,956)
Balance, ending	\$ 3,037,776	\$ 3,057,207

The Company’s asset retirement obligation consists of costs associated with mine reclamation and closure activities on the Songjiagou Gold Mine and Songjiagou North Underground 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 3.20% (2019 – 3.20%). 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 March 31, 2020 and December 31, 2019.

**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

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

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 three-month period ended March 31, 2020 is as follows:

Expiry date	Exercise price	Balance December 31, 2019	Issued	Exercised	Expired/Cancelled	Balance March 31, 2020
January 28, 2021	CAD\$0.12	23,100,000	-	-	(2,400,000)	20,700,000
Weighted average exercise price		CAD\$0.12	\$ -	\$ -	\$ -	CAD\$0.12

The weighted average life of stock options outstanding at March 31, 2020 was 0.83 years.

**d) Reserves**

**Share-based payment reserve**

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

**Foreign currency translation reserve**

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

**Special reserve**

Pursuant to a Notice regarding Safety Production Expenditure jointly issued by the Ministry of Finance and the State Administration of Work Safety of the PRC in February 2012, Zhongjia is required to establish a safety fund surplus reserve based on the volume of mineral ore extracted. The safety fund can only be transferred to retained earnings to offset safety related expenses as and when they are incurred, including expenses related to safety protection facilities and equipment improvement and maintenance as well as safety production inspection, appraisal, consultation and training.

**15. Related party transactions and balances**

**Related party transactions**

The Company incurred the following related party transactions during the three-month periods ended March 31, 2020 and 2019:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Consulting fees charged by companies controlled by directors and officers of the Company-includes key management personnel compensation	\$ 109,822	\$ 156,703

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

**Key management personnel compensation**

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

	Three months ended March 31, 2020	Three months ended March 31, 2019
Short-term employee benefits—management fees	\$ 44,670	\$ 58,680
Director fees	14,889	40,290
	\$ 59,559	\$ 98,970

**Related party balances**

	March 31, 2020	December 31, 2019
Amounts due to companies controlled by Directors and Officers of the Company	\$ 1,749	\$ 21,794
Amounts due to Dahedong (Note 10)	4,713,204	4,859,517
	\$ 4,714,953	\$ 4,881,311

Dahedong is a related party on the basis that it is controlled by significant shareholders 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 \$4,828 located in the Company's head-office in Vancouver, Canada. The Company's exploration and evaluation assets are located in Australia and Canada (Note 9). All of the Company's revenues are earned in China.

Revenue from each of the major customers which amounted to 10% or more of the Company's revenue for the three-month period ended March 31, 2020 and 2019 is as follows:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Customer A	\$ 1,795,169	\$ 3,700,028
Customer B	8,516,739	7,383,698
Total	\$ 10,311,908	\$ 11,083,726

**17. Revenue and Expenses**

**Revenue**

	Three months ended March 31, 2020	Three months ended March 31, 2019
Sales of gold bullion	\$ 10,311,908	\$ 11,083,726



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

**Cost of sales**

	Three months ended March 31, 2020	Three months ended March 31, 2019
Mining and Milling fees	\$ 3,375,589	\$ 3,623,629
Depreciation and depletion (Note 8)	1,641,076	1,530,194
Smelting costs	166,784	252,092
Resource taxes	365,023	331,974
Other direct costs	63,159	67,380
Changes in ending gold concentrate inventory	709,583	1,398,084
<b>Total</b>	<b>\$ 6,321,214</b>	<b>\$ 7,203,353</b>

**General and administrative**

	Three months ended March 31, 2020	Three months ended March 31, 2019
Consulting and management fees (Note 15)	\$ 152,032	\$ 104,588
Financial advisory	219,539	1,244
Depreciation (Note 8)	(7,067)	66,943
Office and general	103,859	134,594
Professional fees	3,580	51,027
Salaries	270,259	265,349
Shareholder communications	13,374	14,578
Travel	84,400	108,630
<b>Total</b>	<b>\$ 839,976</b>	<b>\$ 746,953</b>

**Finance expense**

	Three months ended March 31, 2020	Three months ended March 31, 2019
Interest expenses and finances charges for lease liabilities and loans payable (Note 11)	207,772	192,859
Accretion of asset retirement obligation (Note 13)	33,516	22,454
<b>Total</b>	<b>\$ 241,288</b>	<b>\$ 215,313</b>

**18. Risks and capital management**

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

**Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash 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.

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

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company plans to ensure that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in interest bearing accounts which are available on demand. Management believes the Company has sufficient cash on hand to finance operations for the next twelve months. The Company's accounts payable and accrued liabilities are generally due on demand. The maturity of the Company's loans are disclosed in Note 11.

**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.

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 March 31, 2020.

*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.

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**19. Other long-term liabilities**

Other long-term liabilities are comprised of the following:

	March 31, 2020	December 31, 2019
Lease liability	\$ 19,407	\$ 27,010
Village distribution	1,404,466	1,449,565
<b>Total</b>	<b>\$ 1,423,873</b>	<b>\$ 1,476,575</b>

**Village distribution liability**

Pursuant to investment agreements, the Company is required to make payments of CNY 1,068,800 (\$150,756) per annum to certain individuals registered as villagers in the village adjacent to the Songjiagou Gold Mine until the year 2032. The liability reflects the present value of the required payments, discounted using the Company's incremental borrowing rate of 4.90%.

**Lease liability**

The Company has a lease liability related to its office premise of \$19,407, being the present value of future lease payments of \$15,970 in 2020 and \$3,437 in 2021.

**20. 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.

The following is the summarized consolidated statement of financial position of Sinogold:

	March 31, 2020	December 31, 2019
Current:		
Assets	\$ 27,756,673	\$ 25,262,739
Liabilities	(68,430,197)	(73,261,529)
<b>Total current net liabilities</b>	<b>(40,673,524)</b>	<b>(47,998,790)</b>
Non-current		
Assets	66,625,876	68,730,883
Liabilities	(4,442,242)	(4,506,772)
<b>Total non-current net assets</b>	<b>62,183,634</b>	<b>64,224,111</b>
<b>Balance, ending</b>	<b>\$ 21,510,110</b>	<b>\$ 16,225,321</b>

The following is the summarized consolidated statement of comprehensive loss of Sinogold:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Revenue	\$ 10,311,908	\$ 11,114,761
Net income before income tax	3,545,129	3,886,159
Income tax expense	(1,008,753)	(901,646)
Net income	2,536,376	2,984,513
Other comprehensive income (loss)	(1,811,506)	2,045,480
<b>Comprehensive income</b>	<b>\$ 724,870</b>	<b>\$ 5,029,993</b>