



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended December 31, 2015 and 2014

(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)

		December 31, 2015 - \$ -	September 30, 2015 - \$ -
	<i>Note</i>		
ASSETS			
Current assets			
Cash and cash equivalents	4	5,260,025	6,981,718
Receivables	5	502,695	1,216,523
Deposits and prepaid expenses	6	216,512	560,116
Inventory	7	6,310,156	3,735,154
Investments	8	123,870	196,449
Restricted cash	12	4,674,380	3,147,723
		17,087,638	15,837,683
Property, plant and equipment			
Property, plant and equipment	9	77,145,379	79,754,509
Exploration and evaluation assets	10	2	2
Deferred tax assets		85,666	87,512
		94,318,685	95,679,706
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	11	10,219,000	9,612,691
Loans payable	12	20,779,442	20,684,412
		30,998,442	30,297,103
Asset retirement obligation			
Asset retirement obligation	13	2,536,971	2,570,427
		33,535,413	32,867,530
EQUITY			
Share capital			
Share capital	14	99,893,830	99,893,830
Reserves			
Reserves	14	9,038,125	10,060,581
Deficit			
Deficit		(64,093,617)	(63,544,618)
Equity attributable to owners of parent			
Equity attributable to owners of parent		44,838,338	46,409,793
Equity attributable to non-controlling interests			
Equity attributable to non-controlling interests	19	15,944,934	16,402,383
Total equity		60,783,272	62,812,176
		94,318,685	95,679,706
Nature of operations			
Nature of operations	1		
Commitment			
Commitment	9, 20		
Subsequent events			
Subsequent events	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,	
		2015	2014
		- \$ -	- \$ -
	<i>Note</i>		
Gold revenue	17	4,444,460	6,762,892
Cost of goods sold	17	4,540,638	6,855,263
Gross profit (loss)		(96,178)	(92,371)
Selling and administrative expenses			
General and administrative	17	707,370	753,718
Loss before other items		(803,548)	(846,089)
Other items			
Finance expense	17	292,783	338,029
Finance income		(410,837)	(53,346)
Foreign exchange		(5,195)	(1,111)
Gain on sales of investment	8	(46,954)	(10,347)
Loss on investment in gold futures	8	31,224	-
		(138,979)	273,225
Net loss before income tax		(664,569)	(1,119,314)
Income tax expense (recovery)		(2,489)	42,393
Net loss for the period		(662,080)	(1,161,707)
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Realized gain on investments recognized in net loss		-	(10,347)
Exchange differences on translating foreign operations		(1,366,824)	(43,780)
Total other comprehensive loss for the period		(1,366,824)	(54,127)
Total comprehensive loss for the period		(2,028,904)	(1,215,834)
Net loss for the period attributable to:			
Owners of the parent		(548,999)	(924,188)
Non-controlling interests		(113,081)	(237,519)
		(662,080)	(1,161,707)
Comprehensive loss for the period attributable to:			
Owners of the parent		(1,571,455)	(900,397)
Non-controlling interest		(457,449)	(315,437)
		(2,028,904)	(1,215,834)
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		839,765,216	839,765,216

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)

	Number of shares	Attributable to owners of the parent							Non-controlling interest	Total equity
		Share capital	Share-based payment reserve	Foreign currency translation reserve	Available-for-sale-reserve	Deficit	Total			
		- \$ -	- \$ -	- \$ -	- \$ -	- \$ -	- \$ -			
Balance, September 30, 2014	839,765,216	99,893,830	10,691,293	1,786,804	10,568	(58,688,929)	53,693,566	18,254,092	71,947,658	
Comprehensive loss							-			
Net loss for the period	-	-	-	-	-	(924,188)	(924,188)	(237,519)	(1,161,707)	
Other Comprehensive loss (gain)	-	-	-	34,359	(221)	-	34,138	(77,918)	(43,780)	
Realized gain on sale of investment classified as available for sale	-	-	-	-	(10,347)	-	(10,347)	-	(10,347)	
Total comprehensive loss for the period	-	-	-	34,359	(10,568)	(924,188)	(900,397)	(315,437)	(1,215,834)	
Balance, December 31, 2014	839,765,216	99,893,830	10,691,293	1,821,163	-	(59,613,117)	52,793,169	17,938,655	70,731,824	
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 period	-	-	-	-	-	(548,999)	(548,999)	(113,081)	(662,080)	
Other Comprehensive loss (gain)	-	-	-	(1,022,456)	-	-	(1,022,456)	(344,368)	(1,366,824)	
Total comprehensive loss for the period	-	-	-	(1,022,456)	-	(548,999)	(1,571,455)	(457,449)	(2,028,904)	
Balance, December 31, 2015	839,765,216	99,893,830	10,691,293	(1,653,168)	-	(64,093,617)	44,838,338	15,944,934	60,783,272	

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,	
	2015	2014
	- \$ -	- \$ -
Cash provided from (used for):		
Operating activities		
Net loss for the period	(662,080)	(1,161,707)
Items not involving cash:		
Depreciation of property, plant and equipment	968,534	690,860
Finance expense	292,783	338,029
Income tax expense (recovery)	(2,489)	42,393
Loss on fair value adjustment of gold futures	31,224	-
Gain on sale of investments	(46,954)	(10,347)
Changes in non-cash working capital balances:		
Receivables	713,828	(88,410)
Deposits and prepaid expenses	303,048	391,136
Inventory	(2,817,543)	989,309
Accounts payable and accrued liabilities	(653,398)	(3,845,087)
Interest paid	(1,785,373)	(227,837)
Net cash used for operating activities	(3,658,420)	(2,881,661)
Investing activities:		
Expenditures on property, plant and equipment	(30,626)	(976,259)
Proceeds on sales of investments	242,311	34,362
Investment in gold futures	(154,606)	-
Net cash provided from (used for) investing activities	57,079	(941,897)
Financing activities:		
Restricted cash	(1,526,657)	-
Loan advances	6,172,820	10,086,498
Loan repayments	(3,130,233)	(5,066,054)
Net cash provided from financing activities	1,515,930	5,020,444
Effect of foreign exchange on cash and cash equivalents	363,718	(329,761)
Net increase (decrease) in cash and cash equivalents	(1,721,693)	867,125
Cash and cash equivalents, beginning	6,981,718	8,812,166
Cash and cash equivalents, ending	5,260,025	9,679,291

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

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(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 full production and increased positive cash flows from operations. Should this not be achieved, the Company will continue to be dependent on raising sufficient funds to meet operational requirements. These 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. Significant accounting policies and basis of preparation

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 26, 2015, 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 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, 2015.

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, 2015	Percentage as at September 30, 2015
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

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

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

assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted prospectively in the period in which the estimates are revised.

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

a) The useful lives of property, plant and equipment

The useful lives of the Company's mining property and related property, plant and equipment is based on indicated gold resource estimates based on a certain grade cut-off level. Assumptions that influenced cut-off grade include the expected future price of gold, projected operating costs and discount rates. Changes to these assumptions and further analysis of the Company's gold resource estimates could significantly impact the expected useful lives of the Company's 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) 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, 2015, there are indicators of impairment of the Company's Songjiagou Gold Mine (Note 9) 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 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:

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

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

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.

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 group 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, 2015, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

4. Cash and cash equivalents

	December 31, 2015 - \$ -	September 30, 2015 - \$ -
Cash	5,260,025	3,507,341
Term deposits	-	3,474,377
Total	5,260,025	6,981,718

Cash of \$1,585,024 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.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

5. Receivables

	December 31, 2015 - \$ -	September 30, 2015 - \$ -
Sales taxes receivable	260,429	260,429
Amount owing from Dahedong (Note 9 and 15)	-	952,982
Other receivables	242,266	3,112
Total	502,695	1,216,523

6. Deposits and prepaid expenses

	December 31, 2015 - \$ -	September 30, 2015 - \$ -
Prepayment for mining supplies and services	163,111	428,421
Rent deposit	18,298	18,870
Other advances and prepayments	35,103	112,825
Total	216,512	560,116

7. Inventory

	December 31, 2015 - \$ -	September 30, 2015 - \$ -
Gold concentrate	4,623,278	2,011,931
Ore stockpile	1,686,878	1,723,223
Total	6,310,156	3,735,154

8. Investment

	Total -\$-
Balance, September 30, 2015	196,449
Proceeds on sale of gold futures	(242,311)
Deposit for gold futures	154,606
Gain on sale of gold futures	46,954
Decrease in fair value of gold futures	(31,224)
Foreign exchange adjustment	(604)
Balance, December 31, 2015	123,870

(i) Derivative

During the three months ended December 31, 2015, the Company closed on a gold futures contract of 1,608 ounces for proceeds of \$242,311, with a net gain of \$46,954. The Company also entered into a new gold futures contract giving it the right to acquire 1,608 ounces of gold at an average price of \$1,152 for a period of one year.

The derivative asset of \$123,780 at December 31, 2015, reflects a deposit of \$154,606 to hold the gold futures, net of an unrealized loss of \$31,224 and foreign exchange adjustment of \$604.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

9. Property, plant and equipment

	Heavy machinery and equipment - \$ -	Office furniture and equipment - \$ -	Mill - \$ -	Mining property - \$ -	Total - \$ -
Cost					
At September 30, 2015	1,246,327	499,989	48,780,321	38,514,552	89,041,189
Additions	30,626	-	-	-	30,626
Change in asset retirement cost	-	-	-	-	-
Disposal	-	-	-	-	-
Foreign exchange adjustment	(26,733)	(12,323)	(1,028,861)	(815,787)	(1,883,704)
At December 31, 2015	1,250,220	487,666	47,751,460	37,698,765	87,188,111
Accumulated depreciation					
At September 30, 2015	(356,442)	(311,142)	(4,619,766)	(3,999,330)	(9,286,680)
Depreciation	(62,565)	(18,156)	(499,651)	(388,243)	(968,615)
Disposal	-	-	-	-	-
Foreign exchange adjustment	8,512	8,390	105,243	90,418	212,563
At December 31, 2015	(410,495)	(320,908)	(5,014,174)	(4,297,155)	(10,042,732)
Net book value					
At September 30, 2015	889,885	188,847	44,160,555	34,515,222	79,754,509
At December 31, 2015	839,725	166,758	42,737,286	33,401,610	77,145,379

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 75% held subsidiary, Yantai Zhongjia Mining Inc. ("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.

Significant terms of the New Mining Agreement are as follows:

- (i) When the grade of ore is less than or equals to 0.5g/t, Dahedong will receive:
 - a) CNY27 per tonne for ore mined and extracted and delivered to the mill for processing;
 - b) CNY38 per tonne for ore processed into concentrate; and
 - c) CNY7 per tonne for waste material mined, extracted and removed and disposed of.

- (ii) When the grade of ore is more than to 0.5g/t, Dahedong will receive:
 - a) CNY37 per tonne for ore mined and extracted and delivered to the mill for processing;
 - b) CNY38 per tonne for ore processed into concentrate; and
 - c) CNY7 for waste material mined, extracted and removed and disposed of.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

9. Property, plant and equipment (continued)

At December 31, 2015, the Company had a balance due to Dahedong of \$1,771,008 (September 30, 2015 – (\$952,982)) (Note 5 and 11). The amounts bear no interest, are unsecured, and due on demand. During the period ended December 31, 2015, the Company incurred \$5,461,533 (2014 - \$4,668,374) in mining and processing fees to Dahedong (Note 17).

10. 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.

11. Accounts payable and accrued liabilities

	December 31, 2015 -\$-	September 30, 2015 -\$-
Trade and other payables	8,447,992	9,607,572
Amount due to Dahedong (Note 9 and 15)	1,771,008	-
Amounts due to related parties (Note 15)	-	5,119
Total	10,219,000	9,612,691

12. Loans payable

	December 31, 2015 -\$-	September 30, 2015 -\$-
Balance, beginning	20,684,412	14,101,270
Accrued interest and fees	271,695	1,064,556
Banker's acceptance notes	1,485,725	6,488,766
Loan advances	4,687,095	22,211,047
Loan and interest repayments	(5,904,784)	(22,520,659)
Foreign exchange adjustment	(444,701)	(660,568)
Balance, ending	20,779,442	20,684,412

At December 31, 2015, the loans outstanding consist of:

- (i) a \$3,081,332 (CNY 20,000,000) (September 30, 2015 - \$3,147,723) one year loan bearing an interest at 5.655% per annum. The loan is repayable on November 12, 2016. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;
- (ii) a \$1,540,666 (CNY 10,000,000) (September 30, 2015 - \$1,573,861) one year loan bearing an interest at 0.453125% per month. The loan is repayable on November 15, 2016. The loan is guaranteed by certain third parties, including Dahedong;
- (iii) a \$1,540,666 (CNY 10,000,000) (September 30, 2015 - \$1,573,861) one year loan bearing an interest at 7.0% per annum. The loan was repayable on January 8, 2016. The loan is guaranteed by Dahedong, the owner of Dahedong and by certain third parties. On January 8, 2016, the loan was renewed, with an interest rate of 8.5% per annum and a new maturity date is January 7, 2017 (Note 21);
- (iv) a \$1,848,799 (CNY 12,000,000) (September 30, 2015 - \$1,888,634) 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

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

12. Loans payable (continued)

- 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, 2016;
- (v) a \$1,232,533 (CNY 8,000,000) (September 30, 2015 - \$1,259,089) 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 29, 2016;
- (vi) a \$770,333 (CNY 5,000,000) (September 30, 2015 - \$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 April 21, 2016;
- (vii) a \$308,133 (CNY 2,000,000) (September 30, 2015 - \$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 May 30, 2016;
- (viii) a \$52,383 (CNY 340,000) (September 30, 2015 - \$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 June 3, 2016;
- (ix) a \$323,540 (CNY 2,100,000) (September 30, 2015 - \$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 June 23, 2016;
- (x) a \$3,081,332 (CNY 20,000,000) (September 30, 2015 - \$3,147,723) one year loan bearing an interest at 5.91% per annum. The loan is repayable on May 17, 2016. The loan is guaranteed by the owner of Dahedong and the company that provides gold concentrate refining services to the Company;
- (xi) a \$770,333 (CNY 5,000,000) (September 30, 2015 - \$613,806) one year loan with Dahedong bearing an of 1.0% per month plus 5% if the loan is not repaid at maturity. The loan is repayable on June 6, 2016;
- (xii) a \$4,621,998 (CNY 30,000,000) (September 30, 2015 - \$4,721,584) one year loan bearing an interest at 5.52% per annum. The loan is repayable on August 26, 2016. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;
- (xiii) a \$1,540,666 (CNY 10,000,000) (September 30, 2015 - \$1,573,861) one year loan with Dahedong bearing an of 1.0% per month plus 5% if the loan is not repaid at maturity. The loan is repayable on August 27, 2016;
- (xiv) Accrued interest of \$66,730 (CNY 433,124) (September 30, 2015 - \$1,184,270) relating to the above loans.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

13. Asset retirement obligation

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

	December 31, 2015 -\$-	September 30, 2015 -\$-
Balance, beginning	2,570,427	2,466,708
Additions and changes in estimates of net present value	-	82,447
Accretion (Note 17)	21,088	104,646
Foreign exchange adjustment	(54,544)	(83,374)
Balance, ending	2,536,971	2,570,427

The Company's asset retirement obligation consists of costs associated with mine reclamation and closure activities on the Songjiagou Gold Mine (Note 9). 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 3.3% (2014 – 3.3%) and an inflation rate of 3.0% (2014 – 3.0%). The majority of the expenditures are expected to occur in or after 2023.

14. Share capital and Reserves

a) Authorized:

Unlimited number of common shares without par value.

b) Issued share capital:

The Company had 839,765,216 common shares issued and outstanding as at December 31, 2015 and September 30, 2015.

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 of stock options for the three months ended December 31, 2015, is as follows:

Expiry date	Exercise price	Balance September 30, 2015	Issued	Exercised	Expired/ Cancelled	Balance December 31, 2015
September 14, 2016	CAD\$0.20	20,500,000	-	-	-	20,500,000

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

14. Share capital and Reserves (continued)

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.

Available-for-sale reserve

The available-for-sale reserve records unrealized gains and losses arising on available-for-sale financial assets, except for impairment losses and foreign exchange gains and losses on monetary items.

15. Related party transactions and balances

Related party transactions

The Company incurred the following related party transactions during the three months ended December 31, 2015 and 2014:

	Three months ended December 31, 2015	Three months ended December 31, 2014
	-\$-	-\$-
Consulting fees charged by companies controlled by directors and officers of the Company - includes key management personnel compensation	150,826	172,080
Mining and milling services charged by Dahedong	5,461,533	4,668,374
Interest charged by Dahedong	66,716	70,375
	5,679,075	4,910,829

Key management personnel compensation

	Three months ended December 31, 2015	Three months ended December 31, 2014
	- \$ -	- \$ -
Short-term employee benefits—management fees	58,445	68,663
Director fees	36,843	41,639
	95,288	110,302

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

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

15. Related party transactions and balances (continued)

Related party balances

	December 31, 2015 -\$-	September 30, 2015 -\$-
Amounts due to companies controlled by Directors and Officers of the Company (Note 11)	-	5,119
Amounts (owing from) due to Dahedong (Note 5 and 11)	1,771,008	(952,982)
Loan amounts due to Dahedong (Note 12)	2,310,999	2,391,047
	<u>4,082,007</u>	<u>1,443,184</u>

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 \$14,866 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, 2015 -\$-	Three months ended December 31, 2014 -\$-
Sales of gold bullion	4,359,225	6,762,892
Other revenue	85,235	-
Total	<u>4,444,460</u>	<u>6,762,892</u>

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 \$85,235 under this agreement during the period ended December 31, 2015.

Cost of goods sold

	Three months ended December 31, 2015 -\$-	Three months ended December 31, 2014 -\$-
Contractor costs paid to Dahedong (Note 9 and 15)	5,461,563	4,668,374
Depreciation (Note 9)	887,894	637,733
Smelting costs	178,076	133,824
Resource taxes	398,682	257,245
Other direct costs	310,322	238,849
Changes in ending gold concentrate inventory	(2,695,899)	919,238
Total	<u>4,540,638</u>	<u>6,855,263</u>

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

17. Revenue and Expenses (continued)

General and administrative

	Three months ended December 31, 2015 -\$-	Three months ended December 31, 2014 -\$-
Consulting and management fees	158,402	180,890
Depreciation (Note 9)	80,721	53,084
Office and general	173,269	179,955
Professional fees	9,470	1,561
Salaries	196,361	213,370
Shareholder communications, transfer agent and filing fees	1,798	1,607
Travel	87,349	123,251
Total	707,370	753,718

Finance expense

	Three months ended December 31, 2015 -\$-	Three months ended December 31, 2014 -\$-
Interest expenses (Note 12)	271,695	311,758
Accretion of asset retirement obligation (Note 13)	21,088	26,271
Total	292,783	338,029

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 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 operation in China. Its mining activities involve numerous inherent risks. The Company is subject to various financial, equities markets, operational and political

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

18. Risks and capital management (continued)

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 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, 2015.

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.

Other Price Risk

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

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

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

As at December 31, 2015, the Company holds gold futures contract (Note 8). However, the Company does not use derivative instruments to hedge or reduce its price risk to gold.

Majestic Gold Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended December 31, 2015 and 2014
(Unaudited - expressed in US dollars)

19. Non-controlling interest

The Company's 75% equity interest in JVCo is held by Majestic Yantai. The non-controlling interest represents the 25% equity interest in JVCo 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 Majestic Yantai:

	December 31, 2015 -\$-	September 30, 2015 -\$-
Current:		
Assets	8,793,625	11,894,033
Liabilities	(28,120,525)	(30,078,917)
Total current net liabilities	(19,326,900)	(18,184,884)
Non-current		
Assets	77,130,515	79,733,339
Liabilities	(5,448,830)	(5,545,025)
Total non-current net assets	71,681,685	74,188,314
Balance, ending	52,354,785	56,003,430

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

	December 31, 2015 -\$-	December 31, 2014 -\$-
Revenue	4,444,460	6,762,892
Net income (loss) before income tax	(384,989)	(804,549)
Income tax expense	2,489	42,393
Net income (loss)	(387,478)	(846,942)
Other comprehensive income	3,891,426	2,766,209
Comprehensive income (loss)	3,503,948	1,919,267

20. Commitments

Operating lease commitments

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

	2016 \$	2017	2018	Total \$
Operating lease commitments:				
Office premises	43,289	20,366	8,486	72,140

21. Subsequent events

Subsequent to December 31, 2015, the Company:

- (i) renewed its bank loan for CNY 10,000,000 (\$1,540,666) on January 8, 2016 with an interest rate of 8.5% per annum and a new maturity date of January 7, 2017;
- (ii) granted 27,700,000 stock options at an exercise price of CAD\$0.12 exercisable for a term of five years under normal vesting terms.