Majestic Gold Corp.

Consolidated Financial Statements
September 30, 2013 and 2012

(Expressed in US dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Majestic Gold Corp.;

We have audited the accompanying consolidated financial statements of Majestic Gold Corp., which comprise the consolidated statements of financial position as at September 30, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Majestic Gold Corp. as at September 30, 2013 and 2012, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, B.C.
January 27, 2014

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

	Note	September 30, 2013 - $ -	September 30, 2012 - $ -
ASSETS			
Current assets			
Cash and cash equivalents	*4*	16,365,423	24,974,244
Receivables	*5*	541,233	590,520
Deposits and prepaid expenses	*6*	404,466	352,521
Inventory	*7*	3,962,213	2,082,493
Investments	*8*	26,243	82,714
		21,299,578	28,082,492
Property, plant and equipment	*9*	83,570,664	81,412,558
Exploration and evaluation assets	*10*	2	2
Deferred tax assets	*23*	370,256	1,011,872
		105,240,500	110,506,924
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	*11*	6,599,394	6,698,951
Income taxes payable	*23*	67,889	1,233,877
Loans payable	*12*	15,879,791	13,316,710
		22,547,074	21,249,538
Asset retirement obligations	*13*	2,535,792	2,538,356
Deferred income	*14*	-	12,710,161
		25,082,866	36,498,055
SHAREHOLDERS' EQUITY			
Share capital	*15*	99,893,830	99,893,830
Reserves	*15*	13,180,353	12,234,469
Deficit		(52,378,998)	(38,766,227)
Equity attributable to owners of parent		60,695,185	73,362,072
Equity attributable to non-controlling interests	*21*	19,462,449	646,797
Total equity		80,157,634	74,008,869
		105,240,500	110,506,924

Nature of operations	*1*
Commitments	*12 and 22*
Subsequent evens	*24*

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

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

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

	Note	Years ended September 30, 2013 - $ -	2012 - $ -
Gold revenue	*19*	26,410,668	31,670,269
Cost of goods sold	*19*	20,038,644	19,841,998
Gross profit		6,372,024	11,828,271
Selling and administrative expenses			
General and administrative	*19*	8,186,310	8,497,960
Recovery of receivable previously impaired	*10*	-	(870,294)
		8,186,310	7,627,666
Income (loss) before other items		(1,814,286)	4,200,605
Other items			
Distribution of net profit	*9*	1,379,481	2,722,596
Finance expense	*19*	2,050,549	2,934,022
Finance income		(231,751)	(117,460)
Foreign exchange		72,569	39,431
Gain on settlement of accounts payable and accrued liabilities		(155,086)	-
Impairment of investments		12,717	-
Write-down of receivables		68,731	-
		3,197,210	5,578,589
Net loss before income tax		(5,011,496)	(1,377,984)
Income tax expense	*23*	852,059	692,797
Net loss for the year		(5,863,555)	(2,070,781)
Other comprehensive income:			
Item that will not be reclassified to profit or loss			
Exchange differences on translation of parent		(577,121)	953,239
Items that may be subsequently reclassified to profit or loss			
Unrealized gain on investments recognized in net loss		12,717	-
Unrealized loss on investments		(56,471)	(62,198)
Exchange differences on translating foreign operations		1,507,151	525,463
Total other comprehensive income for the year		886,276	1,416,504
Total comprehensive loss for the year		(4,977,279)	(654,277)
Net loss for the year attributable to:			
Owners of the parent		(5,447,808)	(2,307,179)
Non-controlling interests		(415,747)	236,398
		(5,863,555)	(2,070,781)
Comprehensive loss for the year attributable to:			
Owners of the parent		(4,501,924)	(908,665)
Non-controlling interest		(475,355)	254,388
		(4,977,279)	(654,277)
Loss per share attributable to owners of the parent - basic and diluted		(0.01)	(0.00)
Weighted average number of common shares outstanding - basic and diluted		839,765,216	675,235,313

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

Majestic Gold Corp.
Consolidated Statements of Changes in Equity
(Expressed in US dollars)

		Attributable to owners of the parent								
	Number of shares	Share capital	Share-based payment reserve	Convertible loan reserve	Foreign currency translation reserve	Available-for-sale-reserve	Deficit	Total	Non-controlling interest	Total equity
		- $ -	- $ -	- $ -	- $ -	- $ -	- $ -	- $ -	- $ -	- $ -
Balance, September 30, 2011	566,350,582	56,980,226	9,606,940	10,105,455	38,594	106,068	(36,459,048)	40,378,235	392,409	40,770,644
Comprehensive loss										
Net income (loss) for the year	-	-	-	-	-	-	(2,307,179)	(2,307,179)	236,398	(2,070,781)
Other Comprehensive income (loss)	-	-	-	-	1,460,712	(62,198)	-	1,398,514	17,990	1,416,504
Total comprehensive loss for the year	-	-	-	-	1,460,712	(62,198)	(2,307,179)	(908,665)	254,388	(654,277)
Share issues:										
Private placement	197,500,000	33,688,068	962,515	-	-	-	-	34,650,583	-	34,650,583
Finders' fees	25,000,000	4,264,313	121,838	-	-	-	-	4,386,151	-	4,386,151
Convertible loan	50,914,634	10,532,893	-	(10,105,455)	-	-	-	427,438	-	427,438
Share issue costs	-	(5,571,670)	-	-	-	-	-	(5,571,670)	-	(5,571,670)
Total share issuances	273,414,634	42,913,604	1,084,353	(10,105,455)	-	-	-	33,892,502	-	33,892,502
Balance, September 30, 2012	839,765,216	99,893,830	10,691,293	-	1,499,306	43,870	(38,766,227)	73,362,072	646,797	74,008,869
Balance, September 30, 2012	839,765,216	99,893,830	10,691,293	-	1,499,306	43,870	(38,766,227)	73,362,072	646,797	74,008,869
Comprehensive loss										
Net loss for the year	-	-	-	-	-	-	(5,447,808)	(5,447,808)	(415,747)	(5,863,555)
Other Comprehensive income (loss)	-	-	-	-	989,754	(116)	-	989,638	(59,608)	930,030
Unrealized loss on investments classified as available for sale	-	-	-	-	-	(56,471)	-	(56,471)	-	(56,471)
Impairment recognized on investments classified as available for sale	-	-	-	-	-	12,717	-	12,717	-	12,717
Total comprehensive loss for the year	-	-	-	-	989,754	(43,870)	(5,447,808)	(4,501,924)	(475,355)	(4,977,279)
Exchange of Profit Sharing Agreement for Non-Controlling Interest	-	-	-	-	-	-	(8,164,963)	(8,164,963)	19,291,007	11,126,044
Balance, September 30, 2013	839,765,216	99,893,830	10,691,293	-	2,489,060	-	(52,378,998)	60,695,185	19,462,449	80,157,634

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

Majestic Gold Corp.
Consolidated Statements of Cash Flows
(Expressed in US dollars)

	Years ended September 30, 2013 - $ -	2012 - $ -
Cash provided from (used for):		
Operating activities		
Net loss for the year	(5,863,555)	(2,070,781)
Items not involving cash:		
Depreciation of property, plant and equipment	1,815,298	1,623,820
Amortization of deferred income	(194,859)	(229,652)
Finance expense	2,050,549	2,934,022
Income tax expense	852,059	692,797
Gain on settlement of accounts payable and accrued liabilities	(155,086)	-
Impairment of investments	12,717	-
Changes in non-cash working capital balances:		
Receivables	49,287	(295,995)
Deposits and prepaid expenses	(51,945)	(223,160)
Inventory	(1,788,604)	508,005
Accounts payable and accrued liabilities	(2,881,596)	1,231,039
Interest paid	(1,249,857)	(3,285,897)
Incomes taxes paid	(691,180)	(470,792)
Net cash provided by (used in) operating activities	(8,096,772)	413,406
Investing activities:		
Expenditures on property, plant and equipment	(850,209)	(34,949,886)
Net cash used in investing activities	(850,209)	(34,949,886)
Financing activities		
Share capital issued for cash, net of costs	-	33,478,431
Loan advances	12,571,712	17,740,149
Loan repayments	(12,045,886)	(5,859,173)
Net cash provided by financing activities	525,826	45,359,407
Effect of foreign exchange on cash and cash equivalents	(187,666)	615,244
Net (decrease) increase in cash and cash equivalents	(8,608,821)	11,438,171
Cash and cash equivalents, beginning	24,974,244	13,536,073
Cash and cash equivalents, ending	16,365,423	24,974,244

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

1. Nature of operations

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

The head office, principal address and the registered and records office of the Company are located at 535 Thurlow Street, Suite 502, Vancouver, British Columbia, Canada, V6E 3L2.

These consolidated financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company has completed its mining and production facilities and is now working towards achieving and maintaining 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 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 consolidated financial statements have been prepared in accordance with International Accounting Standard 1, Presentation of Financial Statements ("IAS 1") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are based on International Financial Reporting Standards ("IFRS") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") issued and outstanding as at January 27, 2014, the date the board of directors approved these annual consolidated financial statements for issue.

Basis of preparation

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in US dollars unless otherwise noted.

Basis of consolidation

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

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

	Country of incorporation	Percentage as at September 30, 2013	Percentage as at September 30, 2012
Majestic Yantai Gold Ltd.	BVI	94%	94%
Yantai Zhongjia Mining Inc.	China	70.5%	94%

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. Significant accounting policies and basis of preparation (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 Muping Property. 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) Other significant estimates

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

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

a) The determination of functional currency

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

b) The determination of control

Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits generally accompanying a shareholding of more than one half of the voting rights. Control can also be impacted by agreements and other arrangements made with other investors. Management has determined that the Company has control over all subsidiaries consolidated in these financial statements.

2. Significant accounting policies and basis of preparation (continued)

Use of judgments (continued)

c) The determination of whether certain items of property, plant and equipment meet the definition of an asset

Substantial components of the Company's property, plant and equipment were constructed by a third party and legal title does not transfer until the Company has paid its share of the costs in full. An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. The Company has concluded the noted property, plant and equipment does meet this definition and accordingly has recognized this as an asset in its financial statements.

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.

Property, plant and equipment

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

Subsequent costs to repair or enhance are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Depreciation of machinery and mobile equipment, vehicles and office furniture and equipment is calculated on a straight-line basis over a three to ten year life as appropriate. Certain items of property, plant and equipment including the Company's New Mill and its related assets are amortized over the estimated life of the mine using the units-of-production ("UOP") method based on the recoverable ounces from the indicated resources.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

2. Significant accounting policies and basis of preparation (continued)

Mining properties

Mining properties include acquisition costs, costs previously capitalized during the exploration and evaluation stage, and mine development costs. Mining properties are stated at cost less accumulated depreciation and are accounted for on an individual project basis. When production commences, these costs are amortized using the UOP method, based on recoverable ounces from the indicated resources.

Non-recoverable costs for projects determined not to be commercially feasible are expensed in the period in which the determination is made or when the carrying value of the project is determined to be impaired.

Exploration and evaluation expenditures

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties as exploration and evaluation expenditures until the properties are placed in production, abandoned, sold or considered to be impaired in value. When a production decision has been made on a property, exploration and evaluation expenditures are reclassified to mining properties. If no minable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value. Exploration costs that do not relate to any specific property are expensed as incurred.

Borrowing costs

Borrowing costs attributable to the acquisition or construction of qualifying assets that take a substantial period of time to make ready for their intended use are added to the cost of the assets, until such time as the assets are substantially complete and ready for their intended use. All other borrowing costs are expensed in the period in which they are incurred.

Inventory

Inventory consists of gold concentrate and ore stockpile. Gold concentrate and ore stockpiles are physically measured or estimated and valued at the lower of average production cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Asset retirement obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of the asset retirement obligation estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the asset retirement obligation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. Accretion expense, representing the increase in the provision due to the passage of time, is recorded in finance costs in the statement of comprehensive loss.

The Company's estimates of asset retirement obligations could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for mineral property interests.

2. Significant accounting policies and basis of preparation (continued)

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and is expected to generate taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) of the applicable jurisdiction that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Impairment of assets

The carrying amount of the Company's non-financial assets, other than deferred tax assets if any, is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

2. Significant accounting policies and basis of preparation (continued)

Share-based payments

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and recorded over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using a Black–Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Loss per share

Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company.

Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired or issued. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. The Company has no financial assets classified as fair value through profit or loss.

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

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company has no held-to-maturity investments.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to- maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. Financial assets classified as available-for-sale includes investments.

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

2. Significant accounting policies and basis of preparation (continued)

Financial instruments (continued)

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

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

The Company does not have any material derivative financial assets and liabilities.

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

The Company's investments are classified as level 1.

Provisions
A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Revenue Recognition
Revenue from gold sales is recognized as revenue only when there is evidence of a sale arrangement, amounts are determinable, collection is reasonably assured and the Company no longer retains control over the goods sold. Revenue from the lease of the Company's underground mine is recognized on a straight line basis over the term of the lease.

Share Capital
Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

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

2. Significant accounting policies and basis of preparation (continued)

New standards adopted during the year
The Company elected to early adopted the following new accounting standards:

IFRS 10 "Consolidated Financial Statements"
This new standard replaces IAS 27 "Consolidated and Separate Financial Statements", and SIC-12 "Consolidation – Special Purpose Entities". IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12, and requires continuous assessment of control over an investee.

IFRS 11 "Joint Arrangements"
This new standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under previous IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes lAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

IFRS 12 "Disclosure of Interests in Other Entities"
This new standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carried forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with,

The adoption of IFRSs 10 and 11 did not have any impact on the consolidated financial statements of the Company.

The additional disclosures required by IFRS 12 are included in Note 21.

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

A number of new standards, amendments to standards and interpretations are not yet effective as of September 30, 2013, and have not been applied in preparing these condensed consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

New standard IFRS 9 "Financial Instruments"
This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effect date of this new standard has not been specified.

New standard IFRS 13 "Fair value measurement"
This new standard replaces the fair value measurement guidance currently included in various other IFRS standards with a single definition of fair value and extensive application guidance. IFRS 13 provides guidance on how to measure fair value and does not introduce new requirements for when fair value is required or permitted. It also establishes disclosure requirements to provide users of the financial statements with more information about fair value measurements. IFRS 13 is effect for annual periods beginning on or after January 1, 2013.

New interpretation IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"
This new IFRIC clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32 "Financial Instruments: Presentation"
These amendments address inconsistencies when applying the offsetting requirements, and are effective for annual periods beginning on or after January 1, 2014.

(Expressed in US dollars)

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

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. Cash and cash equivalents

	September 30, 2013 - $ -	September 30, 2012 - $ -
Cash	7,478,931	5,280,845
Term deposits	8,886,492	19,693,399
Total	16,365,423	24,974,244

Cash of $5,411,987 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

	September 30, 2013 - $ -	September 30, 2012 - $ -
Trade receivables	429,024	472,942
HST and VAT receivable	24,440	-
Other receivables	87,769	117,578
Total	541,233	590,520

6. Deposits and prepaid expenses

	September 30, 2013 - $ -	September 30, 2012 - $ -
Prepayment for mining supplies and services	306,200	309,389
Rent deposit	26,223	30,342
Other advances and prepayments	72,043	12,790
Total	404,466	352,521

7. Inventory

	September 30, 2013 - $ -	September 30, 2012 - $ -
Gold concentrate	2,249,545	330,759
Ore stockpile	1,712,668	1,751,734
Total	3,962,213	2,082,493

(Expressed in US dollars)

8. Investment

	Number	September 30, 2013 -$-	Number	September 30, 2012 -$-
Balance, beginning	500,000	82,714	500,000	144,912
Decrease in fair value	-	(56,471)	-	(62,198)
Balance, ending	500,000	26,243	500,000	82,714

The investment consists of 500,000 shares of Bullabulling Gold Limited:

The valuation of the shares has been determined by reference to the closing price of the shares on the London Stock Exchange. At September 30, 2013, the closing price was $0.052 per share (September 30, 2012 - $0.165). The cost of this investment was $38,844 (CAD$40,000).

9. Property, plant and equipment

	Machinery and equipment - $ -	Office furniture and equipment - $ -	Mill - $ -	Mining property - $ -	Construction in progress (CIP) - $ -	Total - $ -
Cost						
Balance, October 1, 2011	159,019	64,232	43,666,729	30,704,800	-	74,594,780
Additions	310,065	69,154	-	3,576,379	4,473,913	8,429,511
Foreign exchange adjustment	1,604	1,386	431,208	303,606	487	738,291
Balance, September 30, 2012	470,688	134,772	44,097,937	34,584,785	4,474,400	83,762,582
Additions	171,116	284,373	3,067,630	2,306,875	327,868	6,157,862
Transfer from CIP	-	-	-	-	(4,455,776)	(4,455,776)
Disposal	(56,009)	-	-	-		(56,009)
Foreign exchange adjustment	(41,039)	3,518	1,362,207	1,066,728	(13,280)	2,378,134
Balance, September 30, 2013	544,756	422,663	48,527,774	37,958,388	333,212	87,786,793
Accumulated depreciation						
Balance, October 1, 2011	(32,482)	(8,580)	(238,672)	(438,656)	-	(718,390)
Depreciation	(55,699)	(25,469)	(777,104)	(765,548)	-	(1,623,820)
Foreign exchange adjustment	(753)	(201)	(2,443)	(4,417)	-	(7,814)
Balance, September 30, 2012	(88,934)	(34,250)	(1,018,219)	(1,208,621)	-	(2,350,024)
Depreciation	(75,399)	(109,722)	(901,689)	(728,488)	-	(1,815,298)
Disposal	56,009	-	-	-	-	56,009
Foreign exchange adjustment	(16,266)	2,279	(44,993)	(47,836)		(106,816)
Balance, September 30, 2013	(124,590)	(141,693)	(1,964,901)	(1,984,945)	-	(4,216,129)
Net book value						
Balance, September 30, 2012	381,754	100,522	43,079,718	33,376,164	4,474,400	81,412,558
Balance, September 30, 2013	420,166	280,970	46,562,873	35,973,443	333,212	83,570,664

9. Property, plant and equipment (continued)

Muping Property

In May 2004, the Company, through its 94% owned subsidiary Majestic Yantai Gold Ltd. ("Majestic Yantai"), acquired an interest in thirteen exploration licenses located in the Chinese province of Shandong (the "Muping Property"). The Company acquired these licenses as part of a co-operation contract with Shandong Yantai Muping Gold Mine, China. This agreement provided an option to acquire a 60% interest in Yantai Zhongjia Mining Inc. ("JVCo"), a Chinese co- operation company that was established to hold the rights to the Muping Property. In order to secure its rights and interest in JVCo, Majestic Yantai was required to contribute a minimum of CNY 35,000,000 in exploration costs by March 2009 (completed). During the years ended September 30, 2008 and 2007, nine of the thirteen exploration licenses were abandoned, leaving four exploration licenses that now comprise the Muping Property.

During the year ended September 30, 2010, the Company entered into the following Agreements relating to the Muping Property:

(i) On February 11, 2010, the Company entered into an Acquisition Agreement ("Agreement") with Yantai Dahedong Processing Co. Ltd ("Dahedong") to acquire the remaining 40% ("Muping JV Interest") of JVCo. As part of the transaction, JVCo acquired the Mining Permit required to commence mining operations;

(ii) On September 1, 2010, the Company entered into a Declaration of Trust and Profit Sharing Agreement ("Profit Sharing Agreement") with Dahedong which, among other matters, outlined the basis by which the mining operations and share of profits, as defined in the Agreement, are to be conducted and distributed. The Profit Sharing Agreement was a re-affirmation of essential arrangements as outlined in the original Agreement of February 11, 2010; and

(iii) On September 29, 2010, the Company entered into Addendum No. 1 to the Agreement.

The Muping JV Interest was initially transferred from its holders to Dahedong. The agreement then provided for this interest to be transferred to Majestic Yantai. Upon completion of the acquisition of the Muping JV Interest by Majestic Yantai, the Company's interest in JVCo and the Muping Mineral Property increased from 54% to 94%.

The Company entered into the Agreement and the Profit Sharing Agreement to facilitate commencement of mining operations at the Muping Property. The Agreements provided that Dahedong will carry on mining operations on the Muping Property. In addition, Dahedong will process ore mined from the property at facilities owned by it.

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

Significant terms of the Agreement are as follows:

(i) As compensation for the use of Dahedong's mining assets and equipment during the Mining Term, Dahedong will be entitled to 25% of the net profits ("Net Profits"), as defined in the Agreement, of JVCo derived from mining operations during the Mining Term. Net Profits is determined based on revenues less mining and processing costs, refining costs, royalties and production taxes, income taxes and costs to fund future reclamation work;

(ii) 100% of all revenue received by JVCo will accrue to the sole benefit of JVCo;

(iii) To cover Dahedong's operational costs, Dahedong will receive CNY75 per tonne ("Mining Fee") for all mining, transporting and processing services required to produce concentrate suitable for delivery to a refinery or smelter.

9. Property, plant and equipment (continued)

The Mining Fee will be paid only from revenue from mining operations so that no cost, expense or liability will accrue to or be payable by JVCo with respect to mining operations, and the Mining Fee will be paid to Dahedong from revenue before any revenue is distributed to any participant in JVCo. On October 5, 2011, the Mining Fee was revised resulting in Mining Fees ranging between CNY40 and CNY75 per tonne for open pit operations and CNY92.5 and CNY130 for underground operations, subject to achieving specified recovery rates. The Mining Fees are based on ranges of ore head grade; and

(iv) Dahedong is primarily responsible for dealings with Chinese governmental authorities and interest groups in carrying out mining operations.

As subsequently revised in the Addendum No.1 to the Agreement, the Agreement also provides for construction of a new mill and related facilities (collectively the "New Mill") in accordance with the following terms:

(i) Dahedong will construct one New Mill with an output of approximately 6,000 tonnes per day at a budgeted cost of CAD$50,000,00;
(ii) Dahedong shall complete the procedures for the acquisition and lease of land to be occupied by the New Mill, obtain necessary approvals, complete filing procedures, and coordinate the supply of utilities such as water and electric power for the New Mill;
(iii) Dahedong shall be responsible for 25% of the costs incurred in the construction of the New Mill including permitting, leasing and licensing costs, and JVCo shall be responsible for 75% of construction costs;
(iv) Ownership of the New Mill shall be vested in JVCo;
(v) Dahedong will be responsible to pay all construction costs in the first instance;
(vi) JVCo will reimburse Dahedong for 100% of JVCo's share of construction costs out of JVCo's share of Net Profits before any Net Profits are paid or distributed by JVCo to the Company;
(vii) JVCo's share of construction costs will be paid only from JVCo's share of Net Profits so that no cost, expense or other liability will accrue to or be payable by JVCo otherwise than out of Net Profits;
(viii) JVCo will pay to Dahedong a financing fee equal to 10% of JVCo's share of construction costs out of JVCo's share of Net Profits after JVCo's share of construction costs have been paid in full and before any Net Profits are paid or distributed by JVCo to the Company;
(ix) Title to the New Mill shall not be transferred to JVCo until JVCo has reimbursed Dahedong for JVCo's share of construction costs out of JVCo's share of Net Profits; and
(x) JVCO shall have the right, but not the obligation, to pay or reimburse Dahedong for all or any portion of JVCo's share of construction costs from other sources of funding which may be available to JVCo from time to time. Such payments would offset the agreed minimum payments from revenues.

During the year ended September 30, 2013, the Company entered into the following Addendum Agreements relating to the Muping Property:

1. On October 1, 2012, the Company entered into Addendum No. 2 to the Agreement.

Significant terms of Addendum No. 2 are as follows:

<u>Loan Financing</u>
(i) JVCo is authorized to enter into certain loan arrangements (the "Loans");
(ii) The Loan proceeds will be applied first to eliminate the construction debts, and any Loan proceeds remaining after elimination of the construction debts will be retained by JVCo for working capital;
(iii) JVCo will be solely responsible for payment of the Loans and interest thereon, and other costs associated with the Loans, and all costs of any other borrowings by JVCo to fund construction debts, including Village Relocation Costs (collectively the "Borrowing Costs"), such that none of Dahedong, Majestic or Majestic Yantai will be responsible for payment of any portion of the Loans or Borrowing Costs;
(iv) Sales proceeds will hereafter be applied first to pay Mining Fees and second to pay JVCo expenses, so that the amount of sales proceeds remaining after such payments have been made will constitute Net Profits of JVCo;
(v) JVCo's unpaid share of construction costs will be paid only from the 75% share of Net Profits of JVCo otherwise payable to Majestic Yantai, unless otherwise agreed in writing by the Company;

9. Property, plant and equipment (continued)

Village Relocation

(vi) The Village Relocation Project is acknowledged to be an addition to the New Mill project and the Village Relocation Costs are acknowledged to be additional construction costs to be borne as to 75% by JVCo and as to 25% by Dahedong;
(vii) Dahedong will pay 100% of Village Relocation Costs in the first instance, including JVCo's 75% share of Village Relocation Costs;
(viii) JVCo's share of Village Relocation Costs will be repaid or reimbursed to Dahedong only from Net Profits of JVCo otherwise payable to Majestic Yantai;
(ix) JVCo will have the right, but not the obligation, to pay or reimburse Dahedong for all or any portion of JVCo's share of Village Relocation Costs from other sources of funding which may be available to JVCo from time to time;
(x) For greater certainty, to the extent that Village Relocation Costs incurred by Dahedong prior to the date of the Addendum No. 2 constitute JVCo construction debts, such Village Relocation Costs may be repaid or reimbursed using Loan proceeds; and
(xi) Until such time as JVCo has reimbursed Dahedong for 100% of JVCo's share of construction costs out of JVCo's share of Net Profits, the 75% of Net Profits which would otherwise be paid to Majestic Yantai pursuant to the Agreement will be paid to Dahedong and applied towards JVCo's share of construction costs (including Village Relocation Costs).

2. On December 31, 2012, the Company entered into Addendum No. 3 to the Agreement.

Significant terms of Addendum No. 3 are as follows:

(i) Commencing from and after January 1, 2013, JVCo will use sale proceeds first to pay the Mining Fee to Dahedong, debt obligations of JVCo to third parties and JVCo expenses (collectively "JVCo Expenses and Loan Obligations");
(ii) From and after January 1, 2013, after payment of JVCo Expenses and Loans, the remaining sales proceeds of JVCo will be distributed as follows:

    (a) first, 75% which belongs to Majestic Yantai to Dahedong until the Dahedong debt has been paid in full, together with interest on the unpaid balance of the Dahedong debt at the rate of 10% per annum; 25% to Dahedong, and
    (b) thereafter, 75% to Majestic Yantai and 25% to Dahedong; and

(iii) From and after January 1, 2013, all capital expenses agreed to be incurred on or in respect of the Muping Property will be paid as to 75% by JVCo and 25% by Dahedong for so long as Dahedong is entitled to receive at least 25% of Net Profits.

3. On May 30, 2013, the Company entered into an Equity Exchange Agreement ("Exchange Agreement").

Significant terms of the Exchange Agreement are as follows:

(i) the Profit Sharing Agreement will be terminated effective as at, and from and after, January 1, 2013, and, as consideration therefor, Majestic Yantai will transfer a 25% beneficial interest in JVCo to Dahedong, effective as at January 1, 2013;
(ii) Dahedong and JVCo will continue with the mining arrangement; and
(iii) from and after January 1, 2013, Dahedong will continue to provide the use of facilities it owns to JVCo as provided in the Agreement, but at no cost to JVCo, and at no cost Majestic Yantai or the Company.

The Exchange Agreement was approved by the TSX-V on July 25, 2013. As a result, Dahedong's interest in JVCo has been accounted for as a non-controlling interest commencing July 25, 2013 (Note 21).

At September 30, 2013, the Company had a balance owing to Dahedong of $2,698,884 (2012 - $1,685,957) (Note 11).

(Expressed in US dollars)

10. Exploration and evaluation assets

Sawayaerdun, China

Pursuant to a joint venture agreement entered into during the year ended September 30, 2004 with a party in China and the completion of the required minimum cumulative exploration expenditures, the Company acquired a 90% interest in the Sawayaerdun Project in the Xinjiang Province, China.

On April 19, 2009, the Company entered into an agreement to sell their interest to for CNY 45,500,000. The Company's share of the proceeds was CNY 40,950,000.

On September 8, 2009, upon the approval of the transaction by the China Xinjiang Bureau of Geology and Mineral Resources, the Company received the first installment of the Purchase Price, CNY 25,000,000. On July 30, 2010, the Company received the second installment of the Purchase Price, CNY 15,000,000. At September 30, 2011, due to uncertainty of collection, an allowance for the collectability of the remaining balance of CNY 5,500,000 ($821,951) was recorded.

On August 31, 2012, the Company received payment of CNY 5,500,000 ($870,294) which was recorded as a recovery of a receivable previously impaired.

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

	September 30, 2013 - $ -	September 30, 2012 - $ -
Trade and other payables	3,786,022	4,615,439
Amount due to Dahedong (Note 9 and 17)	2,698,884	1,685,957
Amounts due to related parties (Note 17)	114,488	397,555
Total	6,599,394	6,698,951

12. Loans payable

	September 30, 2013 - $ -	September 30, 2012 - $ -
Balance, beginning	13,316,710	1,458,162
Accrued interest and fees	1,319,656	387,073
Banker's acceptance notes	977,772	-
Loans advances	12,571,712	17,740,149
Loans and interest repayments	(12,737,066)	(5,989,404)
Foreign exchange adjustment	431,007	(279,270)
Balance, ending	15,879,791	13,316,710

At September 30, 2013, the loans outstanding consist of:

(i) a $4,171,827 (CNY 25,600,000) (2012 - $3,513,214) series of loans bearing an interest rate payable of 0.7% per month. The loans are repayable in ten months from the date of cash advances. The loans are secured by gold sales revenue generated by JVCo;

(ii) a $1,629,620 (CNY 10,000,000) (2012 - $1,582,529) one year loan bearing an interest repayable of 9.184% per annum. The loan is repayable on January 21, 2014. The loan is guaranteed by certain third parties, including Dahedong. On January 9, 2014 the loan was renewed, with an interest rate of 6% per annum and a new maturity date is January 9, 2015;

(Expressed in US dollars)

12. Loans payable (continued)

(iii) a $4,888,860 (CNY 30,000,000) (2012 - $4,747,587) one year loan bearing an interest repayable of 6.6% per annum. The loan is repayable on August 23, 2014. The loan is guaranteed by the owner of Dahedong and the company that provides gold concentrate refining services to the Company;

(iv) a $977,772 (CNY 6,000,000) (2012 - $Nil) series of banker's acceptance notes bearing a 0.05% handling fee and a daily interest rate payable of 0.005%. The notes are redeemable in six months from the date of issue. The notes are guaranteed by certain third parties;

(v) a $3,259,240 (CNY 20,000,000) (2012 - $3,165,058) one year loan bearing an interest repayable of 7.2% per annum. The loan is repayable on August 18, 2014. The loan is guaranteed by Dahedong, the owner of Dahedong and the company that provides gold concentrate refining services to the Company; and

(vi) Accrued interest of $952,472 (CNY 5,844,753) (2012 - $308,322) relating to the above loans.

13. Asset retirement obligation

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

	September 30, 2013 - $ -	September 30, 2012 - $ -
Balance, beginning	2,538,356	2,104,461
Additions and changes in estimates of net present value	169,437	330,229
Accretion (Note 19)	92,591	82,875
Foreign exchange adjustment	(264,592)	20,791
Balance, ending	2,535,792	2,538,356

The Company's asset retirement obligation consists primarily of costs associated with mine reclamation and closure activities on the Muping Property. 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 4.5% (2012 – 3.6%) and an inflation rate of 3.0% (2012 – 3.6%). The majority of the expenditures are expected to occur in or after 2021.

14. Deferred income

	September 30, 2013 - $ -	September 30, 2012 - $ -
Balance, beginning	12,710,161	12,711,066
Addition	682,440	102,864
Amortization (Note 19)	(194,859)	(229,652)
Exchange of Profit Sharing Agreement for Non-Controlling Interest in JVCo (Note 9 and 21)	(13,590,989)	-
Foreign exchange adjustment	393,247	125,883
Balance, ending	-	12,710,161

Pursuant to the Exchange Agreement dated May 30, 2013, between the Company and Dahedong (Note 9), the Company terminated the Profit Sharing Agreement with Dahedong in exchange for the transfer of a Non-Controlling Interest in JVCo to Dahedong which resulted in the reversal of the deferred income balance.

(Expressed in US dollars)

15. 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 September 30, 2013 and September 30, 2012.

Share issuances for the year ended September 30, 2012:

On November 3, 2011, a $10,105,455 (CAD$10,000,000) convertible loan (Note 16) was converted into 48,780,489 common shares of the Company at a price of CAD$0.205 per share. In addition, deemed interest in the amount of $427,438 (CAD$437,500) was converted into 2,134,145 common shares of the Company at a price of CAD$0.205 per share. A total of 50,914,634 common shares were issued.

On June 22, 2012, the Company completed a non-brokered private placement of 197,500,000 units ("Units") at a price of CAD$0.18 per Unit for gross proceeds of $34,650,583 (CAD$35,550,000). Each Unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of CAD$0.20 until June 22, 2014. The Company allocated $962,515 of the proceeds to the share-based payment reserve, being the fair value of the warrants determined as being the difference between the issue price and the market price of the Company's shares on the date the Units were issued. The Company paid $1,096,538 (CAD$1,125,000) and issued 25,000,000 units ("Finders Unit") as finders' fee in connection with this private placement. Each Finder's Unit comprised one common share and one common share purchase warrant issued on the same terms as the private placement Units. The Finder's Units were recorded at a value of $4,386,151, which was determined based on the private placement issue price of CAD$0.18 per unit. $121,838 of the value recorded for the Finders' Units was allocated to the share-based payment reserve, being the fair value of the warrants. Cash share issue costs were $88,981.

c) Share Purchase Warrants

At September 30, 2013 and 2012, there were 222,500,000 share purchase warrants outstanding that were issued in connection with the June 22, 2012 private placement. These warrants have an exercise price of CAD$0.20 and expire on June 22, 2014.

d) Stock Options

The maximum number of common shares issuable under the terms of the Company's Amended Incentive Stock Option Plan, dated February 15, 2005, shall not exceed 10% of the issued and outstanding shares of the Company at the time the stock options are granted, less the number of shares, if any, subject to prior stock options issued.

The Company granted no stock options during the years ended September 30, 2013 and 2012.

Details of stock options outstanding as at September 30, 2013 is as follows:

Number of options	Exercise price	Expiry date
16,625,000	CAD$0.12	June 22, 2015
24,700,000	CAD$0.20	September 14, 2016
41,325,000		

The weighted average exercise price is CAD$0.17 and the weighted average contractual life outstanding is 2.46 years.

Subsequent to September 30, 2013, the expiry date of 3,025,000 of the stock options set to expire on June 22, 2015 was revised to November 14, 2014. 3,300,000 of the stock options set to expire on June 22, 2015 and 4,200,000 of the stock options set to expire on September 14, 2016 were cancelled (Note 24).

15. Share capital and reserves (continued)

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.

Convertible loan reserve
The convertible loan reserve records the equity component of convertible instruments with liability and equity components. On conversion, the amount recorded is 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.

16. Convertible loan

On July 26, 2011, the Company arranged a $10,539,000 (CAD$10,000,000) convertible loan to advance the Muping Property. The loan had a one-year term and the loan principal was convertible at the option of the lender in whole or in part into common shares of the company until 12 months from the date of the loan advance at the price of CAD$0.205 per share. The loan bore interest at a rate of 7.5% per year, payable on maturity, and accrued and unpaid interest was convertible at the option of the lender in whole or in part into shares of the company until 12 months from the date of the loan advance at market price at the time of conversion.

The borrower also agreed to a 90-day period for reciprocal due diligence reviews and discussions for the possible further involvement of the lender in the Muping Property. In the event that no further agreement was reached between the lender and the company during the 90-day period, then the loan and a minimum of seven months interest automatically converted to shares in the company, the loan at a price of CAD$0.205 per share and the interest at the higher of per CAD$0.205 per share or the market price of the Company's shares at conversion.

As the Company was not obliged to negotiate a further agreement with the lender during the 90-day period it had no obligation to settle the loan in cash or other assets of the Company. As a result of not having an obligation to settle the loan in cash or other assets of the Company, the principal of loan was classified as equity.

As the deemed interest component of the loan was convertible at the higher of per CAD$0.205 per share or the market price of the Company's shares at conversion it did not meet the "fixed-for-fixed" criteria required for equity classification and accordingly was recorded as a liability. Therefore, $433,545 of the proceeds was allocated to liabilities, determined using a discount rate of 25%. During the year ended September 30, 2012, the Company recorded a loan interest expense of $7,488 relating to the convertible loan (Note 19).

On November 3, 2011, the convertible loan and interest were converted into common shares of the Company. Accordingly, $10,105,455 previously recorded in equity in the convertible loan reserve and $427,438 recorded as a liability relating to the interest component was transferred to share capital.

(Expressed in US dollars)

17. Related party transactions and balances

Related party transactions

The Company incurred the following related party transactions during the year:

	Year ended September 30, 2013 -$-	Year ended September 30, 2012 -$-
Consulting fees charged by companies controlled by directors and officers of the Company	1,187,365	2,234,845
Rent and administrative fees charged by companies controlled by directors or officers of the Company	36,631	26,653
Legal fees charged by a law firm jointly controlled by a former Director	71,141	171,680
Legal fees included in share issue costs charged by a law firm jointly controlled by a former director	-	30,309
Mining and milling services charged by Dahedong	17,151,624	15,701,388
Finance fee charged by Dahedong	62,864	2,456,586
Interest charged by Dahedong	575,438	-
	19,085,063	20,621,461

Key management personnel compensation

	Year ended September 30, 2013 -$-	Year ended September 30, 2012 -$-
Short-term employee benefits–management fees	379,033	260,087

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

Related party balances

	September 30, 2013 - $ -	September 30, 2012 - $ -
Amounts due to companies controlled by Directors and Officers of the Company (Note 11)	114,488	397,555
Amounts due to Dahedong (Note 11)	2,698,884	1,685,957
	2,813,372	2,083,512

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

18. 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 $83,453 located in the Company’s head-office in Vancouver, Canada. All of the Company’s revenues are earned in China.

(Expressed in US dollars)

19. Revenue and Expenses

Revenue

	Year ended September 30, 2013 -$-	Year ended September 30, 2012 -$-
Sales of gold bullion	25,387,862	31,116,445
Lease of underground mine	1,022,806	553,824
Total	26,410,668	31,670,269

The Company leased the mining of the underground mine to a third party for a two year period expiring March 25, 2014. The lease is for $1,122,442 (CNY 7,000,000) per annum, subject to adjustment if the price of gold falls below CYN330 per gram.

Cost of goods sold

	Year ended September 30, 2013 -$-	Year ended September 30, 2012 -$-
Contractor costs paid to Dahedong	17,151,624	15,701,388
Depreciation	1,630,177	1,542,652
Amortization of deferred income (Note 14)	(194,859)	(229,652)
Smelting costs	390,170	326,253
Resource taxes	2,098,922	974,917
Other direct costs	840,944	704,950
Changes in ending gold concentrate inventory	(1,878,334)	821,490
Total	20,038,644	19,841,998

General and administrative

	Year ended September 30, 2013 -$-	Year ended September 30, 2012 -$-
Consulting and management fees	2,370,458	3,490,356
Depreciation	185,121	81,168
Financial Advisory Services	888,010	1,010,020
Office and general	1,386,847	1,477,962
Professional fees	539,624	334,404
Salaries	821,637	800,455
Shareholder communications, transfer agent and filing fees	421,446	77,191
Travel	1,573,167	1,226,404
Total	8,186,310	8,497,960

Finance expense

	Year ended September 30, 2013 -$-	Year ended September 30, 2012 -$-
Interest on loans (Note 12)	1,319,656	387,073
Interest recorded on liability component of convertible loan (Note 16)	-	7,488
Finance fee on construction of New Mill (Notes 9 and 11)	62,864	2,456,586
Interest on amount due to Dahedong (Notes 9 and 11)	575,438	-
Accretion of asset retirement obligation (Note 13)	92,591	82,875
Total	2,050,549	2,934,022

20. Financial 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
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 and exploration company with properties and mining operations focused 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 CNY 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 and exploration programs. 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 September 30, 2013.

(Expressed in US dollars)

20. Financial risks and capital management (continued)

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 September 30, 2013, the Company has no contracts or agreements in place to mitigate these price risks.

21. 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 an other minority shareholder.

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

	September 30, 2013 - $ -	September 30, 2012 - $ -
Current:		
Assets	10,756,624	7,811,868
Liabilities	(22,115,553)	(19,446,157)
Total current net liabilities	(11,358,929)	(11,634,289)
Non-current		
Assets	83,487,213	81,395,148
Liabilities	(5,615,774)	(32,697,414)
Total non-current net assets	77,871,439	48,697,734
	66,512,510	37,063,445

(Expressed in US dollars)

21. Non-controlling interest (continued)

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

	Year ended September 30, 2013 -$-	Year ended September 30, 2012 -$-
Revenue	26,410,668	31,670,269
Net income before income tax	928,926	4,208,371
Income tax expense	852,058	692,797
Net income	76,868	3,515,574
Other comprehensive income	1,536,154	254,391
Comprehensive income	1,613,022	3,769,965

Pursuant to the Exchange Agreement dated May 31, 2013 (Note 9), Majestic Yantai transferred a 25% beneficial interest in JVCo to Dahedong in exchange for the termination of the Profit Sharing Agreement. This transaction resulted in the reversal of deferred income of $13,590,989 (Note 14), an increase of the deferred tax asset of $126,765, the recognition of a non-controlling interest of $19,291,007 and an increase in the amount owing to Dahedong of $3,706,430 offset by a reversal of a Net Profit share owing to Dahedong of $1,114,720. The excess of $8,164,963 was charged to deficit.

22. Commitments

Operating lease commitments

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

On June 1, 2011, the Company entered into a 5-year lease agreement, whereby the Company is required to pay $8,157 per month for rental of the head office premises. Total basic rent over the remaining lease period is $261,013.

	2014 $	2015 $	2016 $	Total $
Operating lease commitments:				
Office premises	97,880	97,880	65,253	261,013

23. Income tax

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

	Year ended September 30, 2013 -$-	Year ended September 30, 2012 -$-
Current income tax expense:		
Current income tax charge	66,437	1,896,958
Adjustment to current tax expense for a previous period	-	(192,401)
	66,437	1,704,557
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	785,622	(1,011,760)
Total	852,059	692,797

(Expressed in US dollars)

23. Income tax (continued)

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

	Year ended September 30, 2013	Year ended September 30, 2012
	-$-	-$-
Net loss for the year	(5,011,496)	(1,377,984)
Expected income tax recovery at local staturoy tax rates	(1,252,874)	(368,235)
Non-deductible items and other permanent differences	710,311	(358,486)
Adjustment to current tax epxnese for a previous period	-	(192,401)
Effect of tax rate changes	6,657	53,690
Temporary differences not recognized	1,387,965	1,558,229
Total	852,059	692,797

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

	September 30, 2013	September 30, 2012
	- $ -	- $ -
Property, plant and equipment	(144,516)	340,036
Deferred income	-	(74,959)
Finance expense	828,265	788,821
Asset retirement obligation	65,399	40,664
Inventory	(562,386)	(82,690)
Other temporary differences	183,494	-
	370,256	1,011,872

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

	September 30, 2013	September 30, 2012
	- $ -	- $ -
Non-capital losses	31,321,126	25,549,049
Share issue costs	3,681,164	5,466,661
Property, plant and equipment	65,425	4,082
	35,067,715	31,019,792

These temporary differences can be used to offset taxable income in the future. The non-capital losses expire in the years 2015 through 2033. The share issue costs are amortized into taxable income (loss) over a five year period.

Chinese tax law requires that a withholding tax of 10% is applied to dividends paid by Chinese subsidiaries to foreign parent companies. At September 30, 2013, there were distributable profits in the amount of $5,139,726 (2012 – $4,438,335) for which no deferred tax liabilities has been recognized as the Company is able to control the timing of the reversal of temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

24. Subsequent events

Subsequent to September 30, 2013:

(i) the expiry date of 3,025,000 of the stock options set to expire on June 22, 2015 was revised to November 14, 2014;
(ii) 3,300,000 of the stock options set to expire on June 22, 2015 and 4,200,000 of the stock options set to expire on September 14, 2016 were cancelled; and
(iii) the Company, pursuant to a retirement agreement, issued a severance payment of $1,000,000 to a company controlled by the Company's former President and Chief Executive Officer.