CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended December 31, 2017 and 2016

(Expressed in US dollars)

(Unaudited)

Notice to Reader

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

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

	Note	December 31, 2017 - $ -	September 30, 2017 - $ -
ASSETS			
Current assets			
Cash	*4*	8,599,200	10,227,054
Receivables	*5*	1,806,257	1,886,992
Deposits and prepaid expenses	*6*	808,666	301,071
Inventory	*7*	1,665,266	1,573,339
Restricted cash	*11*	3,227,591	2,404,388
		16,106,980	16,392,844
Reclamation deposits	*6*	1,565,882	985,102
Property, plant and equipment	*8*	89,699,966	88,348,473
Exploration and evaluation assets	*9*	2	2
		107,372,830	105,726,421
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	*10*	11,778,982	11,555,868
Deferred revenue	*21*	-	2,009,575
Income taxes payable		794,522	939,079
Loans payable	*11*	16,469,725	16,944,078
		29,043,229	31,448,600
Asset retirement obligation	*13*	2,520,749	2,442,059
Security deposit for financial guarantee	*12*	2,305,422	2,254,114
Deferred tax liabilities		472,847	462,323
		34,342,247	36,607,096
EQUITY			
Share capital	*14*	105,995,607	105,995,607
Reserves	*14*	11,743,603	10,564,392
Deficit		(62,671,003)	(64,233,216)
Equity attributable to owners of parent		55,068,207	52,326,783
Equity attributable to non-controlling interests	*19*	17,962,376	16,792,542
Total equity		73,030,583	69,119,325
		107,372,830	105,726,421

Nature of operations	*1*
Commitments	*8, 20*
Contingency	*11*
Subsequent events	*11, 22*

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)

	Notes	Three months ended December 31, 2017 - $ -	2016 - $ -
Gold revenue	*17*	8,819,018	4,078,820
Cost of sales			
Operating expenses	*17*	4,395,056	2,661,840
Depreciation and depletion	*8,17*	915,269	483,791
Gross profit		3,508,693	933,189
Administrative expenses			
General and administrative	*17*	697,331	684,756
Profit before other items		2,811,362	248,433
Other items			
Finance expense	*17*	229,160	231,239
Finance income		(35,207)	(42,627)
Foreign exchange income		(601)	(3,383)
Gain on sales of investment		(126,045)	-
		67,307	185,229
Net income before income tax		2,744,055	63,204
Income tax (recovery)		406,850	(256,496)
Net income for the period		2,337,205	319,700
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations		1,574,053	(2,325,743)
Total other comprehensive income (loss) for the period		1,574,053	(2,325,743)
Total comprehensive income (loss) for the period		3,911,258	(2,006,043)
Net income for the period attributable to:			
Owners of the parent		1,562,213	146,491
Non-controlling interests		774,992	173,209
		2,337,205	319,700
Comprehensive income (loss) for the period attributable to:			
Owners of the parent		2,741,424	(1,573,385)
Non-controlling interest		1,169,834	(432,658)
		3,911,258	(2,006,043)
Income per share attributable to owners of the parent- basic and diluted		0.00	0.00
Weighted average number of common shares outstanding - basic and diluted		912,265,216	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)

			Attributable to owners of the parent							
		Number of shares	Share subscriptions received in advance	Share capital	Share-based payment reserve	Foreign currency translation reserve	Deficit	Total	Non-controlling interest	Total equity
	Note		-$-	- $ -	- $ -	- $ -	- $ -	- $ -	- $ -	- $ -
Balance, September 30, 2016		839,765,216	-	99,893,830	11,496,993	(2,562,121)	(66,458,969)	42,369,733	15,271,198	57,640,931
Share subscriptions received in advance		-	7,289,730	-	-	-	-	7,289,730	-	7,289,730
Comprehensive income (loss)										
Net profit for the period		-	-	-	-	-	146,491	146,491	173,209	319,700
Other Comprehensive loss		-	-	-	-	(1,719,876)	-	(1,719,876)	(605,867)	(2,325,743)
Total comprehensive income (loss) for the period		-	-	-	-	(1,719,876)	146,491	5,716,345	(432,658)	(2,006,043)
Balance, December 31, 2016		839,765,216	7,289,730	99,893,830	11,496,993	(4,281,997)	(66,312,478)	48,086,078	14,838,540	62,924,618
Balance, September 30, 2017		912,265,216	-	105,995,607	12,889,899	(2,325,507)	(64,233,216)	52,326,783	16,792,542	69,119,325
Comprehensive income										
Net profit for the period		-	-	-	-	-	1,562,213	1,562,213	774,992	2,337,205
Other Comprehensive income		-	-	-	-	1,179,211	-	1,179,211	394,842	1,574,053
Total comprehensive income for the period		-	-	-	-	1,179,211	1,562,213	2,741,424	1,169,834	3,911,258
Balance, December 31, 2017		912,265,216	-	105,995,607	12,889,899	(1,146,296)	(62,671,003)	55,068,207	17,962,376	73,030,583

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, 2017	2016
	- $ -	- $ -
Cash provided from (used for):		
Operating activities:		
Net income for the period	2,337,205	319,700
Items not involving cash:		
Depreciation and depletion	982,176	563,270
Finance expense	229,160	231,239
Income tax expense (recovery)	406,850	(256,496)
Gain on sale of gold futures	(126,045)	-
Changes in non-cash working capital balances:		
Receivables	80,735	16,704
Deposits and prepaid expenses	(507,595)	715,786
Inventory	(55,193)	(1,713,778)
Accounts payable and accrued liabilities	524,327	69,195
Deferred revenue	(2,009,575)	-
Effect of foreign exchange on working capital	(516,952)	298,063
Income tax paid	(570,061)	(74,090)
Interest paid	(198,235)	(191,528)
Net cash provided from (used for) operating activities	576,797	(21,935)
Investing activities:		
Expenditures on property, plant and equipment	(330,875)	(10,416,578)
Proceeds on sales of gold futures	126,045	-
Reclamation deposit	(549,198)	-
Net cash used for investing activities	(754,028)	(10,416,578)
Financing activities:		
Restricted cash	(755,869)	(1,099,137)
Share subscriptions received in advance	-	7,289,730
Loan advances	5,948,692	7,904,675
Loan repayments	(6,802,824)	(6,865,357)
Net cash provided from (used for) financing activities	(1,610,001)	7,229,911
Effect of foreign exchange on cash and cash equivalents	159,378	(554,596)
Net decrease in cash and cash equivalents	(1,627,854)	(3,763,198)
Cash, beginning	10,227,054	9,037,258
Cash, ending	8,599,200	5,274,060

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

(Unaudited - expressed in US dollars)

1. Nature of operations

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

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

These unaudited condensed consolidated interim financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company has completed its mining and production facilities and is now working on maintaining efficient production and increasing its positive cash flows from operations. Should this not be achieved, the Company will continue to be dependent on raising sufficient funds to meet operational requirements. At December 31, 2017, the Company has a working capital deficiency of $12,936,249. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

2. Basis of preparation and significant accounting policies

Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are based on International Financial Reporting Standards ("IFRS") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") issued and outstanding as at February 27, 2018, the date the audit committee to the board of directors approved these unaudited condensed consolidated interim financial statements for issue.

Basis of preparation

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

Since these unaudited condensed consolidated interim financial statements do not include all disclosures required by the International Financial Reporting Standards ("IFRS") for annual financial statements, they should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2017.

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, 2017	Percentage as at September 30, 2017
Majestic Yantai Gold Ltd.	BVI	94%	94%
Yantai Zhongjia Mining Inc.	China	70.5%	70.5%

Use of estimates

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

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

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

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

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

c) Impairment of the Company's mining assets
When assessing whether there are indicators of impairment of the Company's mining property and related property, plant and equipment, the Company considers internal and external factors, including:
(i) Market factors such as a decrease in the price of gold or an increase in market interest rates:
(ii) Whether the carrying value of the Company's net assets exceeding the Company's market capitalization; and
(iii) The net cash flows generated by the assets being less than expected.

The Company has concluded that, as at December 31, 2017, there are indicators of impairment of the Company's Songjiagou Gold Mine (Note 8) which comprises the Company's sole cash generating unit.

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

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

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

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

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

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

Foreign currency translation

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

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

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

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

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

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

(Unaudited - expressed in US dollars)

4. Cash

At December 31, 2017, cash of $7,419,378 is held in China and is subject to local exchange control regulations. Chinese exchange control regulations provide for restrictions on exporting capital from China, other than through normal dividends.

5. Receivables

	December 31, 2017 - $ -	September 30, 2,017 - $ -
Sales taxes receivable	201,882	197,492
Amount owing from a related party (Note 15)	2,310	1,938
Amount receivable from gold sales	1,595,340	1,683,078
Other receivables	6,725	4,484
Total	1,806,257	1,886,992

6. Deposits and prepaid expenses

	December 31, 2017 - $ -	September 30, 2,017 - $ -
Current:		
Prepayment for mining supplies and services	52,274	272,238
Rent deposit	14,535	11,670
Other advances and prepayments	741,857	17,163
	808,666	301,071
Non-current:		
Reclamation deposits	1,565,882	985,102
Total	2,374,548	1,286,173

Reclamation Deposits

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

7. Inventory

	December 31, 2017 - $ -	September 30, 2017 - $ -
Gold concentrate	308,212	432,603
Ore stockpile	1,357,054	1,140,736
Total	1,665,266	1,573,339

(Unaudited - expressed in US dollars)

8. Property, plant and equipment

	Heavy machinery and equipment	Office furniture and equipment	Mill	Songjiagou Gold Mine	Songjiagou North Area	Total
	- $ -	- $ -	- $ -	- $ -	- $ -	- $ -
Cost						
At September 30, 2017	1,396,577	528,662	46,946,300	47,976,423	6,989,436	103,837,398
Additions	3,067	54,179	59,496	19,466	194,667	330,875
Foreign exchange adjustment	31,841	(89,164)	1,069,593	1,095,064	162,464	2,269,798
At December 31, 2017	1,431,485	493,677	48,075,389	49,090,953	7,346,567	106,438,071
Accumulated depreciation						
At September 30, 2017	(764,819)	(443,417)	(7,410,107)	(6,870,582)	-	(15,488,925)
Depreciation and depletion	(50,584)	(16,323)	(439,057)	(476,212)	-	(982,176)
Foreign exchange adjustment	(18,252)	91,572	(175,992)	(164,332)	-	(267,004)
At December 31, 2017	(833,655)	(368,168)	(8,025,156)	(7,511,126)	-	(16,738,105)
Net book value						
At September 30, 2017	631,758	85,245	39,536,193	41,105,841	6,989,436	88,348,473
At December 31, 2017	597,830	125,509	40,050,233	41,579,827	7,346,567	89,699,966

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

Mining operations at Songjiagou Gold Mine are carried out by Dahedong pursuant to a January 1, 2017 mining agreement between the Company and Dahedong. Under the agreement, Dahedong is 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 exercises full and final authority for the direction and supervision of the mining operations.

At December 31, 2017, the Company had a balance due to Dahedong of $5,762,480 (September 30, 2017 – $5,561,415) (Note 10). The amount bears no interest, unsecured, and due on demand. During the period ended December 31, 2017, the Company incurred $3,601,356 (2016 - $3,913,964) in mining and processing fees to Dahedong (Note 17).

Songjiagou North

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

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

9. Exploration and evaluation assets

Other properties

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

(Unaudited - expressed in US dollars)

10. Accounts payable and accrued liabilities

	December 31, 2017 - $ -	September 30, 2017 - $ -
Trade and other payables	6,016,502	5,994,453
Amount due to Dahedong (Note 8 and 15)	5,762,480	5,561,415
Total	11,778,982	11,555,868

11. Loans payable

	December 31, 2017 - $ -	September 30, 2017 - $ -
Balance, beginning	16,944,078	19,775,928
Accrued interest and fees	206,436	863,220
Banker's acceptance notes	1,437,047	4,380,494
Loan advances	4,511,645	16,825,535
Loan and interest repayments	(7,001,059)	(24,878,013)
Foreign exchange adjustment	371,578	(23,086)
Balance, ending	16,469,725	16,944,078

At December 31, 2017, the loans outstanding consist of:

(i) a $1,536,948 (CNY 10,000,000) (September 30, 2017 - $1,502,743) one year loan bearing an interest at 8.5% per annum. The loan is guaranteed by Dahedong, the owner of Dahedong and by certain third parties. The loan was repaid on January 3, 2018. On January 5, 2018, a new loan was issued, with an interest rate of 7.63% per annum and a new maturity date is January 3, 2019 (Note 22);

(ii) a $3,073,896 (CNY 20,000,000) (September 30, 2017 - $3,005,485) one year loan bearing an interest at 4.785% per annum and repayable on April 13, 2018. The loan is guaranteed by the owner of Dahedong, the company that provides gold concentrate refining services to the Company;

(iii) a $4,610,845 (CNY 30,000,000) (September 30, 2017 - $4,508,228) one year loan bearing an interest at 5.655% per annum and repayable on August 21, 2018. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;

(iv) a $3,073,896 (CNY 20,000,000) (September 30, 2017 - $3,005,485) one year loan bearing an interest at 5.3505% per annum and repayable on November 6, 2018. The loan is guaranteed by the company that provides gold concentrate refining services to the Company;

(v) a $1,536,948 (CNY 10,000,000) (September 30, 2017 - $1,502,743) one year loan bearing an interest at 0.489375% per month. The loan was repaid on November 11, 2017. The loan is guaranteed by certain third parties, including Dahedong. On November 14, 2017, the Company entered into a new loan, with an interest rate of 0.5075% per month and a maturity date is November 13, 2018;

(vi) a $768,474 (CNY 5,000,000) (September 30, 2017 - $751,371) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due February 28, 2018;

(vii) a $922,169 (CNY 6,000,000) (September 30, 2017 - $22,541) series of banker's acceptance notes. The notes are secured by the restricted cash. The remaining balance of the notes, if any, will bear interest at a daily rate of 0.05% should the restricted cash be insufficient to cover the notes presented for payment. These notes are due March 20, 2018;

(viii) a $537,932 (CNY 3,500,000) (September 30, 2017 - $Nil) series of banker's acceptance notes. The notes

(Unaudited - expressed in US dollars)

11. Loans payable (continued)

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 8, 2018;

(ix) accrued interest of $408,616 (CNY 2,658,619) (September 30, 2017 - $391,368) which includes $397,432 of accrued interest payable to Dahedong.

12. Financial guarantee

On December 28, 2016, Zhongjia entered into a financial guarantee agreement whereby it has provided an unsecured financial guarantee of a CNY 50,000,000 five year unsecured bank loan to Yantai Baiheng Gold Ltd. ("Baiheng"). The nature of the financial guarantee is such that the bank loan will become payable by Zhongjia should Baiheng default on the bank loan. As security, Baiheng has pledged its two mining permits to Zhongjia as well as providing a refundable security deposit of CNY 15,000,000 ($2,305,422) to Zhongjia for the duration of the loan. Should Baiheng go into default, the two mining permits will become transferable to Zhongjia and the security deposit will become non-refundable to Baiheng. Further, in the event of default, Dahedong will become liable for the entire amounts that Zhongjia will make on behalf of Baiheng. If Dahedong is not able to repay the liabilities, it will transfer 5% out of its 25% interest in Zhongjia to Majestic Yantai.

13. Asset retirement obligation

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

	December 31, 2017 - $ -	September 30, 2017 - $ -
Balance, beginning	2,442,059	2,625,922
Additions and changes in estimates of net present value	-	(189,742)
Accretion (Note 17)	22,724	-
Foreign exchange adjustment	55,966	5,879
Balance, ending	2,520,749	2,442,059

The Company's asset retirement obligation consists of costs associated with mine reclamation and closure activities on the Songjiagou Gold Mine (Note 8). These activities, which are site specific, include costs for earthworks, re-contouring, re-vegetation, water treatment and demolition. In calculating the fair value of the Company's asset retirement obligations, the Company used a risk-free rate of 3.70% (2017 – 3.70%) and an inflation rate of 1.6% (2017 – 1.6%). The majority of the expenditures are expected to occur in or after 2032.

14. Share capital and Reserves

a) Authorized:

Unlimited number of common shares without par value.

b) Issued share capital:

The Company had 912,265,216 common shares issued and outstanding as at December 31, 2017 and September 30, 2017.

On February 9, 2018, the Company issued 64,724,919 common shares at CAD$0.15 per common share for total proceeds of CAD$9,708,738 (USD $7,700,000) pursuant non-brokered private placement (the "Offering"). In connection with the Offering, the Company paid aggregate finder's fee to two arms-length individuals by issuing 3,236,246 common shares and incurred share issue costs of CAD$36,004 (USD$28,555).

(Unaudited - expressed in US dollars)

14. Share capital and Reserves (continued)

c) Stock Options

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

A summary of the Company's outstanding stock options as at December 31, 2017 is as follows:

Exercise Price	Expiry Date	Options outstanding	Weighted average exercise price	Weighted average remaining contractual life in years
CAD$0.12	January 28, 2021	27,700,000	CAD$0.12	3.08

The continuity for stock options for the three months ended December 31, 2017 is as follows:

Expiry date	Exercise price	Balance September 30, 2017	Issued	Exercised	Expired/ Cancelled	Balance December 31, 2017
January 28, 2021	CAD$0.12	27,700,000	-	-	-	27,700,000
Weighted average exercise price		CAD$0.12	$ -	$ -	$ -	CAD$0.12

d) Share purchase warrants

The continuity for share purchase warrants for the three months ended December 31, 2017 is as follows:

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

The weighted average life of share purchase warrants outstanding at December 31, 2017 was 1.08 years.

e) Reserves

Share-based payment reserve

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

Foreign currency translation reserve

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

(Unaudited - expressed in US dollars)

15. Related party transactions and balances

Related party transactions

The Company incurred the following related party transactions during the three months ended December 31, 2017 and 2016:

	Three months ended December 31, 2017	2016
	-$-	-$-
Consulting fees charged by companies controlled by directors and officers of the Company-includes key management personnel compensation	160,238	150,307
Mining and milling services charged by Dahedong (Note 8)	3,601,356	3,913,964
Interest charged by Dahedong	6,173	19,156
	3,767,767	4,083,427

Key management personnel compensation

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

	Three months ended December 31, 2017	2016
	-$-	-$-
Short-term employee benefits–management fees	61,347	58,461
Director fees	40,741	38,825
	102,088	97,286

Related party balances

	December 31, 2017	September 30, 2017
	- $ -	- $ -
Amounts due from companies controlled by Directors and Officers of the Company (Note 5)	(2,310)	(1,938)
Amounts due to Dahedong (Note 10)	5,762,480	5,561,415
Loan amounts due to Dahedong (Note 11)	397,432	1,885,193
	6,157,602	7,444,670

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

16. Segmented information

The Company operates in one industry segment, being the exploration, development and operation of mining properties in China. All of the Company's capital assets are located in China, except office furniture and equipment with a net book value of $6,583 located in the Company's head-office in Vancouver, Canada. All of the Company's revenues are earned in China.

(Unaudited - expressed in US dollars)

17. Revenue and Expenses

Revenue

	Three months ended December 31, 2017	2016
	-$-	-$-
Sales of gold bullion	8,730,422	3,991,927
Other revenue	88,596	86,893
Total	8,819,018	4,078,820

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 $88,596 under this agreement as other revenue during the three months ended December 31, 2017 (2016 - $86,893).

Cost of sales

	Three months ended December 31, 2017	2016
	-$-	-$-
Contractor costs paid to Dahedong (Note 8 and 15)	3,601,356	3,913,964
Depreciation and depletion (Note 8)	915,269	483,791
Smelting costs	291,734	102,972
Resource taxes	205,215	124,829
Other direct costs	164,715	239,847
Changes in ending gold concentrate inventory	132,036	(1,719,772)
Total	5,310,325	3,145,631

General and administrative

	Three months ended December 31, 2017	2016
	-$-	-$-
Consulting and management fees	123,602	154,685
Depreciation (Note 8)	66,907	79,479
Office and general	142,793	137,420
Professional fees	-	510
Salaries	246,013	191,105
Shareholder communications	1,197	561
Travel	116,819	120,996
Total	697,331	684,756

Finance expense

	Three months ended December 31, 2017	2016
	-$-	-$-
Interest expenses (Note 11)	206,436	212,966
Accretion of asset retirement obligation (Note 13)	22,724	18,273
Total	229,160	231,239

18. Risks and capital management

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

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

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

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

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

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

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

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

Interest Rate Risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash and reclamation deposits held in bank accounts that earn interest at variable interest rates. The Company's loans payable accrues interest at fixed rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as of December 31, 2017.

(Unaudited - expressed in US dollars)

18. 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.

19. Non-controlling interest

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

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

	December 31, 2017 -$-	September 30, 2017 -$-
Current:		
Assets	14,808,084	14,814,852
Liabilities	(23,132,796)	(25,755,421)
Total current net liabilities	(8,324,712)	(10,940,569)
Non-current		
Assets	91,257,284	89,325,739
Liabilities	(5,898,428)	(5,693,268)
Total non-current net assets	85,358,856	83,632,471
Balance, ending	77,034,144	72,691,902

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

	Three months ended December 31, 2017 -$-	2016 -$-
Revenue	8,819,018	4,078,850
Net income before income tax	3,031,175	329,514
Income tax expense (recovery)	(406,850)	256,496
Net income	2,624,325	586,010
Other comprehensive income (loss)	(2,846,103)	2,940,664
Comprehensive income (loss)	(221,778)	3,526,674

20. Commitments

Operating lease commitments

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

	2018 $	2019 $	2020 $	2021 $	Total $
Operating lease commitments:					
Office premises	17,934	25,396	26,841	11,434	81,606

21. Deferred revenue

During the period ended December 31, 2017, Zhongjia delivered 48kg's of finished gold to its smelter as settlement of the amount borrowed and outstanding at September 30, 2017.

22. Subsequent events

Subsequent to December 31, 2017, the Company:

(i) repaid its bank loan for CNY 10,000,000 ($1,502,743) on January 3, 2018, and entered into a loan for CNY 10,000,000 ($1,540,832) on January 5, 2018, with an interest rate 7.63% per annum and a new maturity date is January 3, 2019; and

(ii) completed a non-brokered private placement (the "Offering") on February 9, 2018 by issuing 64,724,919 common shares at CAD$0.15 per common share for total proceeds of CAD$9,708,738 (USD $7,700,000). In connection with the Offering, the Company paid aggregate finder's fee to two arms-length individuals by issuing 3,236,246 common shares and incurred share issue costs of CAD$36,004 (USD$28,555).