

**MAJESTIC GOLD CORP.**

**Consolidated Financial Statements  
Three and nine months ended June 30, 2008**

**(Unaudited – Prepared by Management)**

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# MAJESTIC GOLD CORP.

Consolidated Balance Sheets  
Three and nine months ended June 30, 2008 and 2007  
(Unaudited – Prepared by Management)  
See notes to financial statements

	June 30, 2008	September 30, 2007
	(Unaudited)	(Audited)
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 275,244	\$ 921,452
Accounts receivable	197,246	121,053
GST receivable	24,849	41,924
Prepaid expenses	35,350	177,828
Investments (note 6)	321,172	533,216
	853,861	1,795,473
Deposits	135,123	135,123
Restricted cash (note 4)	1,476,292	151,368
Mineral properties (note 5)	13,941,649	12,168,701
	\$ 16,406,925	\$ 14,250,665
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 636,213	\$ 1,265,629
Due to shareholders and related parties (note 8)	837,085	45,397
Loan payable	2,000,000	-
	3,473,298	1,311,026
<b>Shareholders' Equity</b>		
Share capital (note 7)	26,206,878	24,712,878
Share subscriptions received in advance	541,901	-
Contributed surplus	1,791,117	875,817
Accumulated other comprehensive income	201,172	413,216
Deficit	(15,807,442)	(13,062,272)
	13,000,236	12,939,639
	\$ 16,406,925	\$ 14,250,665
Going-concern (note 1)		
Subsequent events (note 11)		

Approved on behalf of the Board:

"Rod Husband"

Director

"Al Korelin"

Director

# MAJESTIC GOLD CORP.

Consolidated Statement of Operations and Deficit  
 Three and nine months ended June 30, 2008 and 2007  
 (Unaudited – Prepared by Management)  
 See notes to financial statements

	2008 (Three months) June 30	2007 (Three months) June 30	2008 (Nine months) June 30	2007 (Nine months) June 30
<b>Expenses</b>				
Consulting fees	\$ 118,800	\$ 22,555	\$ 1,180,600	\$ 145,226
Office supplies and management services	176,510	98,129	318,666	310,891
Professional fees	25,431	71,783	84,666	225,679
Regulatory fees	1,798	2,373	31,966	20,607
Rent	123,250	9,000	169,000	29,155
Shareholder relations, logistics and support (note 5 (h))	117,237	110,217	561,527	383,979
Bonus share issue	400,000	-	400,000	-
Telecommunications	5,346	11,271	27,839	30,872
Foreign exchange loss	141	12,032	9,996	15,943
	968,512	337,360	2,784,260	1,162,352
<b>Other expenses (income):</b>				
Write-down of mineral property	(10,908)	-	(36,102)	-
Interest income	(1,533)	14,293	(2,987)	30,044
	(12,441)	14,293	(39,089)	30,044
<b>Net loss for the period</b>	<b>\$ 956,072</b>	<b>\$ 323,067</b>	<b>\$ 2,745,171</b>	<b>\$ 1,132,308</b>
<b>Deficit, Beginning of period</b>	<b>13,062,272</b>	<b>11,055,702</b>	<b>13,062,273</b>	<b>10,246,461</b>
<b>Deficit, End of Period</b>	<b>\$14,018,344</b>	<b>\$11,378,769</b>	<b>\$ 15,807,442</b>	<b>\$ 11,378,769</b>
<b>Basic Loss per Share</b>	<b>\$ 0.02</b>	<b>\$ 0.01</b>	<b>\$ 0.03</b>	<b>\$ 0.02</b>
<b>Other comprehensive income (loss):</b>				
Unrealized income (loss) on marketable securities	(91,604)	222,510	(212,044)	611,764
<b>Comprehensive loss for the period</b>	<b>(1,047,676)</b>	<b>222,510</b>	<b>(2,957,215)</b>	<b>611,764</b>

# MAJESTIC GOLD CORP.

Consolidated Statement of Cash Flows  
 Three and nine months ended June 30, 2008 and 2007  
 (Unaudited – Prepared by Management)  
 See notes to financial statements

	2008 (Three months) June 30	2007 (Three months) June 30	2008 (Nine months) June 30	2007 (Nine months) June 30
Cash provided by (used in):				
Operations:				
Loss for the period	\$ (1,047,676)	\$ (323,067)	\$ (2,957,215)	\$ (1,132,308)
Items not involving cash:				
Stock based compensation	-	-	915,000	-
Bonus share issue	400,000	-	400,000	-
Write-down of mineral property	(10,908)	-	(36,102)	-
Unrealized loss on investment	91,604	-	212,044	-
Change in non-cash working capital items:				
Accounts receivable	(26,897)	-	(76,193)	1,230
GST receivable	12,389	7,221	17,075	3,963
Prepaid expenses	89,488	5,865	142,478	(88,364)
Accounts payable and accrued liabilities	(208,144)	108,304	(629,415)	244,050
	(700,144)	(201,677)	(2,012,028)	(971,429)
Investments:				
Mineral properties and deferred exploration	(681,955)	(962,470)	(1,736,846)	(2,635,367)
Restricted Cash	(1,461,002)	(81,364)	(1,324,924)	(18,646)
	(2,142,957)	(1,043,834)	(3,061,770)	(2,654,013)
Financing:				
Due to shareholders and related parties	518,018	-	791,688	-
Share capital issued for cash, net of costs	-	2,867,245	1,094,000	4,367,245
Share subscriptions received in advance	79,401	-	512,901	85,000
Cash proceeds from loan	2,000,000	-	2,000,000	-
	2,597,419	2,867,245	4,427,589	4,452,245
Increase (Decrease) of Cash	(245,682)	1,621,734	(646,208)	826,803
Cash, Beginning of period	520,926	871,169	921,452	1,666,100
Cash, End of period	\$ 275,244	\$ 2,492,903	\$ 275,244	\$ 2,492,903

## 1. Nature of operations and going concern

The Company is incorporated under the *Business Corporations Act* (British Columbia) and its principal business activity is the acquisition, exploration and development of resource properties.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable.

The ability of the Company to continue as a going concern and the underlying value and recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the ability of the Company to obtain the necessary financing to pay its liabilities and meet its commitments as they become due and to complete the exploration and development of mineral properties, the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, and future profitable production or sufficient proceeds from the disposition thereof.

Further, the Company has reported net losses of \$2,745,171 and \$3,126,312 for nine months ended June 30, 2008 and the year ended September 30, 2007, respectively, and has an accumulated deficit of \$15,807,442 as at June 30, 2008 and \$13,062,272 at September 30, 2007. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then material adjustments would be necessary to the carrying values of assets and liabilities and the balance sheet classifications used.

## 2. Significant accounting policies

### a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

The consolidated financial statements include the accounts of the Company and its integrated 90% owned British Virgin Island subsidiaries, Majestic Tianshan Gold Inc. ("MTG"), Majestic Yantai Gold Ltd. ("MYG"), Majestic Jiaodong Gold Ltd. ("MJG"), Majestic Shandong Gold Ltd. ("MSG"), and Majestic Zhaoyuan Gold Ltd. ("MZG") and its wholly owned British Virgin Island subsidiary, Majestic China Mining Corp. ("MCMC"). All significant intercompany amounts and transactions have been eliminated.

### b) Cash and cash equivalents

Cash equivalents consist of highly liquid, short-term investments that are readily convertible to known amounts of cash, with original maturities of three months or less.

### c) Mineral properties

The Company defers all costs related to investments in mineral properties on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and

## 2. Significant accounting policies (Continued)

development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or allowed to lapse

All mineral resource property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to operations.

### d) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs.

### e) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

## 2. Significant accounting policies (Continued)

### f) Foreign currency translation

The functional currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- i. Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- ii. Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and Interest income and expenses, at the average rate of exchange for the year.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

### g) Stock-based compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

### h) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Diluted loss per share is not presented where the effects of various conversions and exercise of options and warrants would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

### i) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include

## 2. Significant accounting policies (Continued)

the determination of environmental and asset retirement obligations, rates for depletion and amortization, the impairment of mineral property interests, fair value of investments, valuation allowance for future tax assets and determining the variables used in the calculation of stock-based compensation. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

## 3. Financial instruments

### a) Financial instruments

Effective October 1, 2006, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 “financial instruments – recognition and measurement” which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Company classifies its debt and investments into held-to-maturity, trading, or available-for-sale categories. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale. Held-to-maturity securities are recorded as either short-term or long-term on the balance sheet based on the contractual maturity date and are stated at amortized cost. Investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings.

Debt and investments not classified as held-to-maturity or as trading are classified as available-for-sale and carried at fair value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders' equity.

On the date of adoption, the Company remeasured its financial assets and liabilities as appropriate. Any adjustment of the previous carrying amount is recognized as an adjustment of the balance of retained earnings at the beginning of the fiscal year, except when a financial asset is classified as available-for-sale. For available-for-sale financial assets, the adjustment has been included as the opening balance as a separate component of accumulated other comprehensive income, which will be subsequently recognized in net income when the financial assets are disposed of.

The fair value of substantially all investments is determined by quoted market prices. The fair value of warrants held by the Company as an investment is determined using the intrinsic value method, being the quoted market price of the share less the exercise price of the warrant. Gains or losses on securities sold are based on the specific identification method.

### b) Comprehensive income

Effective October 1, 2006, the Company adopted the CICA Handbook Section 1530 “comprehensive income” which establishes standards for presentation and disclosure of

### 3. Financial instruments (Continued)

comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which GAAP requires to be recognized in a period, but excluded from net income for that period.

Accordingly, the Company now reports a consolidated statement of comprehensive income (loss) and includes the account "Accumulated Other Comprehensive Income" in the shareholders' equity section of the consolidated balance sheet.

c) Fair value

The carrying values of cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, and due to shareholders and related parties approximate their fair values because of the short-term maturity of these instruments.

d) Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short-term maturity of its monetary assets and liabilities.

e) Credit risk

The Company is exposed to credit risk with respect to its accounts receivable.

### 4. Restricted cash

Trans American Industries Ltd. ("TSA") subscribed for 1,800,000 common shares of the Company during the year ended September 30, 2005 for proceeds of \$960,000. The terms of an Option and Shareholder Agreement between the Company and TSA, dated January 14, 2005, and as amended August 22, 2005, restricted the proceeds from this share issuance to be used for exploration expenditures on the Shandong Project. Effective February 1, 2007, TSA amended the terms of the Option and Shareholder Agreement whereby funds are further restricted to exploration expenditures on the Jing Cheng Interest in the Shandong Project (note 5(d)). At June 30, 2008, the remaining restricted balance is \$216.

The Company arranged with RAB Special Situations (Master) Fund Limited to borrow \$2,000,000. The proceeds from the loan are restricted for the purpose of making the Company's final capital contribution to Yantai Zhongjia Mining Inc., the Chinese joint venture company that holds the rights to the Song Jiaguo gold project (see note 5(d)). At June 30, 2008, the remaining restricted balance is \$1,476,076.

MAJESTIC GOLD CORP.  
Notes to Consolidated Financial Statements  
For the Period ended June 30, 2008

## 5. Mineral properties

<b>Sawayaerdun, China:</b>														
Investigations	\$	122,156	\$	-	\$	-	\$	122,156	\$	-	\$	-	\$	122,156
Acquisition		472,303		287,164		-		759,467		7,802		-		767,269
Exploration:														
Assays and analysis		218,028		82,002		-		300,030		17,156		-		317,186
Exploration work (note 6 i)		600,751		252,610		-		853,361		275,170		-		1,128,531
Drilling		2,003,151		277,543		-		2,280,694		25,392		-		2,306,086
Geological and geochemical		1,282,471		183,252		-		1,465,723		(15,997)		-		1,449,726
Logistics and support (note 6ii)		316,169		89,826		-		405,995		14,039		-		420,034
Future income taxes relating to the above		36,000		-		-		36,000		-		-		36,000
		5,051,029		1,172,397		-		6,223,426		323,562		-		6,546,988
<b>Fushan, China:</b>														
Acquisition	\$	132,717	\$	-	\$	(132,717)	\$	-	\$	-	\$	-	\$	-
Exploration:														
Assays and analysis		28,956		38,513		(67,469)		-		-		-		-
Exploration work (note 6 i)		178,740		87,883		(266,623)		-		15,931		(15,931)		-
Drilling		180,577		38,484		(219,061)		-		27,081		(27,081)		-
Geological and geochemical		205,127		24,927		(230,054)		-		12,931		(12,931)		-
Logistics and support (note 6ii)		55,585		15,094		(70,679)		-		-		-		-
Capital equipment		1,636		-		(1,636)		-		-		-		-
Future income taxes relating to the above		7,000		-		(7,000)		-		-		-		-
		790,338		204,901		(995,239)		-		55,943		(55,943)		-
<b>Muping, China:</b>														
Investigations	\$	6,250	\$	-	\$	-	\$	6,250	\$	-	\$	-	\$	6,250
Acquisition		132,716		-		-		132,716		-		-		132,717
Exploration:														
Assays and analysis		203,311		565,538		-		768,849		(14,325)		-		754,524
Exploration work (note 6 i)		294,043		373,999		-		668,042		406,249		-		1,074,291
Drilling		1,130,957		242,602		-		1,373,559		306,133		-		1,679,692
Geological and geochemical		789,090		846,474		-		1,635,564		319,741		-		1,955,305
Logistics and support (note 6ii)		179,218		130,763		-		309,981		41,315		-		351,296
Capital equipment		117,104		18,936		-		136,040		453,018		-		589,058
Future income taxes relating to the above		15,000		-		-		15,000		-		-		15,000
		2,867,689		2,178,312		-		5,046,001		1,512,131		-		6,558,133
<b>Shandong Project, China:</b>														
Acquisition	\$	246,044	\$	-	\$	-	\$	246,044	\$	(150,000)	\$	-	\$	96,044
Exploration:														
Exploration work (note 6 i)		81,553		38,650		-		120,203		39,380		-		159,583
Geological and geochemical		241,527		35,895		-		277,422		16,166		-		293,588
Future income taxes relating to the above		5,000		-		-		5,000		-		-		5,000
		\$574,124		\$74,545		-		\$648,669		(\$94,454)		-		554,215
<b>Jingang, China:</b>														
Exploration:	\$		\$		\$		\$		\$		\$		\$	
Assays and analysis		8,778		36,277		-		45,055		1		-		45,056
Exploration work (note 6 i)		35,877		59,864		-		95,741		31,249		-		126,990
Drilling		-		60,000		-		60,000		-		-		60,000
Geological and geochemical		24,820		19,563		-		44,383		-		-		44,383
Logistics and support (note 6ii)		3,039		2,387		-		5,426		458		-		5,884
		72,514		178,091		-		250,605		31,708		-		282,313
Totals:		9,355,694		3,808,246		(995,239)		12,168,701		1,828,890		(55,943)		13,941,649

## 5. Mineral properties (Continued)

(a) Sawayaerdun, China:

During the year ended September 30, 2004, MTG entered into a joint venture agreement with a party in China to acquire up to a 90% interest in the Sawayaerdun Gold Project in the Xinjiang province of China. In order for the Company to earn its interest, the Company is required to contribute 100% of the exploration and development costs, including the following minimum cumulative exploration expenditures over four years:

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December 31, 2004	US\$ 300,000
December 31, 2005	US\$ 700,000
December 31, 2006	US\$ 1,350,000
December 31, 2007	US\$ 2,000,000

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The Company agreed to give to a third party 150,000 common shares of the Company as a finder's fee and 7% of expenses incurred by the Company on the property until such time that the Company has earned its interest in the Sawayaerdun Gold Project. The third party has the right to convert its 10% interest in the subsidiary into common shares of the Company at the then market price of shares of the Company based on the then current valuation of the interest. The 150,000 common shares were issued on November 7, 2003, and were valued at \$1.27 each, being the closing price of the shares on the date of issuance. The total fair value of \$190,500 has been capitalized as a mineral property acquisition cost. A cash payment of \$109,955 (2005 - \$38,522) was made during the year ended September 30, 2006. These amounts have been capitalized as a mineral property acquisition cost.

During the year ended September 30, 2007, MTG entered into a mining license transfer agreement with a Chinese government agency. The Chinese government agency is required by December 15, 2007 to transfer the mining license of Sawayaerdun gold mine to MTG joint venture in exchange for 10% of MTG's equity in the MTG joint venture (transfer application was filed subsequent to September 30, 2007). This would leave MTG's total interest in the Sawayaerdun Gold Project at 80%. MTG is required to pay the Chinese government agency 3,000,000 Chinese Renminbi before December 15, 2007 for reimbursement of exploration expenditures previously made by the Chinese government agency (paid subsequent to September 30, 2007). MTG paid the required amount.

As at June 30, 2008, the Company has made the qualifying exploration expenditures to confirm its interest in the Sawayaerdun Gold Project.

## 5. Mineral properties (continued)

### (b) Fushan, China:

In May 2004, MYG entered into a Co-operation Contract with Shandong Yantai Fushan DJY Gold Mine, China to acquire up to a 60% interest in Yantai Jinfu Mining Inc., a Chinese Co-operation Company that has been established to hold the exploration rights to the Fushan

Gold Project in the Shandong province of China. The Company is required to contribute a minimum of US\$2,436,054 in exploration costs over four years to earn its 60% interest; otherwise, it will be deemed that the Company has abandoned all rights and interests in the Co-operation Company.

Upon establishment of the Co-operation Company, the Company issued on March 22, 2005 150,000 common shares of the Company to a third party as a finder's fee. The common shares were valued at \$0.85 per share, being the closing price of the shares on the date of issuance. The total fair value of \$127,500 has been capitalized as a mineral property acquisition cost. Subsequent to September 30, 2007, the Company abandoned all rights and interests in the Co-operation Company, and accordingly, has written down the carrying value of the property to \$nil.

### (c) Muping, China:

In May 2004, MJG entered into a Co-operation Contract with Shandong Yantai Muping Gold Mine, China to acquire a 60% interest in Yantai Zhong Jia Mining Inc., a Chinese Co-operation Company that has been established to hold the exploration rights to the Muping Gold Project in the Shandong province of China. The Company is required to contribute a minimum of US\$4,263,094 in exploration costs over four years; otherwise, it will be deemed that the Company has abandoned all rights and interests in the Co-operation Company.

Upon establishment of the Co-operation Company, the Company issued on March 22, 2005 150,000 common shares of the Company to a third party as a finder's fee. The common shares were valued at \$0.85 per share, being the closing price of the shares on the date of issuance. The total fair value of \$127,500 has been capitalized as a mineral property acquisition cost.

### (d) Shandong Project - Muping, China:

In January 2005, the Company and TSA entered into an Option and Shareholder Agreement to work jointly to identify, explore and develop targets in an area (the "Area of Interest") on the Jiaodong Peninsula in Shandong Province in the People's Republic of China (the "Shandong Project"). The Shandong Project includes three of the thirteen exploration licenses that the Company presently has under option from Shandong Yantai Muping Gold Mine, China (note 5(c)). The Dazai, Shugzehuang and Chenjiguo licenses (the "Shandong Licenses") lie within the Shandong Project and have been included by the Company in the Option and Shareholder Agreement with TSA. All remaining licenses subject to the Co-operation Contract with Shandong

#### **5. Mineral properties (continued)**

Yantai Muping Gold Mine, China are excluded from this agreement. TSA can earn 50% of MJG's option to earn a 60% interest in the Shandong

Licenses, along with an equal share in all other properties that are acquired in the Area of Interest by subscribing to a private placement of units of the Company for gross proceeds of not less than \$750,000 (the "Initial Placement Funds"). Each unit subscribed to will consist of one common share and one non-transferable share purchase warrant, exercisable into one additional common share for a period of one year. All funding provided by TSA is to be spent exclusively in the Area of Interest.

In August 2005, the Company and TSA amended their Option and Shareholder Agreement. The amendment to the Option and Shareholder Agreement increased the Initial Placement Funds to \$960,000.

TSA will earn its 50% interest in the Shandong Project upon receipt and expenditure by the Company of the Initial Placement Funds. Upon TSA earning its 50% interest in the Shandong Project, a third party is to receive 150,000 common shares of the Company as a finder's fee.

As part of the Company's March 2005 private placement, TSA subscribed to 800,000 units of the Company at a price of \$0.70 per unit for gross proceeds of \$560,000. TSA complied with the terms of the amended Option and Shareholder Agreement by subscribing to an additional 1,000,000 units of the Company at a price of \$0.40 per unit for gross proceeds of \$400,000 as part of the Company's August 2005 private placement.

Two new licenses have been granted and applications on four additional licenses have been filed for which approvals are pending with respect to the Shandong Project.

In October 2005, MJG entered into a Co-operation Contract with Yantai Jinze Mining and Technology Ltd. to acquire a 90% interest in Yantai Jinze Gold Inc., a Chinese Co-operation Company that has been established to hold the exploration rights to certain properties located in the vicinity of Yantai City in the province Shandong. The Company is required to contribute a minimum of \$1,000,000 in exploration costs over three years; otherwise, it will be deemed that the Company has abandoned all rights and interests in the Co-operation Company.

Upon establishment of the Co-operation Company, the Company issued on September 6, 2006, 150,000 common shares of the Company to a third party as a finder's fee. The common shares were valued at \$0.54 per share, being the closing price of the shares on the date of issuance. The total fair value of \$81,000 has been capitalized as a mineral property acquisition cost.

## 5. Mineral properties (continued)

On April 1, 2008, the Company arranged with RAB Special Situations (Master) Fund Limited (lender), to borrow C\$2,000,000 for the purpose of making the Company's final capital contribution to Yantai Zhongjia Mining Inc., the Chinese joint venture company that holds the rights to Song Jiaguo gold project, located on the Jiadong Peninsula of Shandong Province in eastern China. The resulting vesting of the Company's 60% interest in the joint venture company will allow Majestic to participate in the distribution of proceeds from a test mining/bulk sampling program at the Song Jiaguo gold project that commenced in 2007.

The Loan proceeds will be advanced to the Company on the following terms:

- (i) the Loan proceeds have been advanced upon acceptance of a filing to be made by the Company with the TSX Venture Exchange and will be repayable together with accrued interest on September 30, 2008, subject to the right of the Company to prepay the loan in whole or in part after the "Interest Initiation Date" and subject to the right of the lender to require prepayment of all or a portion of the Loan on not less than 10 days notice after the Interest Initiation Date;
- (ii) the loan will not bear interest until the Interest Initiation Date, which will be four months and one week after the date of the loan advance, or approximately August 1, 2008;
- (iii) the loan bears interest at the rate of 30% per annum from and after the Interest Initiation Date so that, assuming an Interest Initiation Date of approximately August 1, 2008 and repayment on or before September 30, 2008, interest will be paid for not more than two months (with the intention on the part of the Company to prepay the loan principal as soon as possible after the Interest Initiation Date to minimize the interest payable);
- (iv) If the loan is not repaid by the due date, in addition to the interest, the Company will be required to pay a \$25,000 re-commitment fee at the beginning of each month during which the loan thereafter remains outstanding. In addition to the above, there is a due diligence and legal fee of up to a maximum of \$20,000 payable to the lender.
- (v) the loan is evidenced by a promissory note and is unsecured; and
- (vi) the Company has issued to the lender, as an incentive and bonus for making the loan, 6,250,000 shares of the Company at the deemed price of \$0.064 per share.

There is no relationship between the lender and the Company except for the lender's shareholdings in the Company. The lender and its affiliates currently own a total of 7,000,000 Company shares. The lender will therefore own a total of 13,250,000 of 67,030,809 outstanding Company shares on closing, or 19.77% of the Company's outstanding shares. The bonus shares will be subject to a four month hold period from their date of issue. The loan will not be convertible.

On April 8, 2008, the loan arrangements were approved by the TSX Venture Exchange.

## 5. Mineral properties (continued)

### (e) Jingang, China

In July 2006, MZG entered into a Co-operation Contract with China Shandong No. 3 Mineral and Geological Exploration Institute. The subsidiary has the right to acquire a 70% interest in Yantai Ludi Jingang Gold Mining Inc., a Chinese Co-operation Company that has been established to hold the exploration rights to the Jingang Gold Project in the Shandong province of China. The Company is required to contribute a minimum of \$567,125 in exploration costs over four years; otherwise, it will be deemed that the Company has abandoned all rights and interests in the Co-operation Company.

### (f) Realization of assets

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

#### Title to mineral property interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

#### Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing

**5. Mineral properties (continued)**

environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

(g) Option agreement

On November 14, 2006, Central China Goldfields ("CCG") signed an option agreement with the Company whereby CCG has an option to acquire 50% of the issued shares of MCMC in exchange for \$12,250,000. MCMC is to indirectly hold all of the Company's mineral property interest in China. The funds would be strictly used by the Company for the exploration and development of the Chinese projects. On November 30, 2006, CCG advanced \$1,500,000 to the Company in accordance with the option agreement.

The option payments are due as follows:

November 30, 2006	\$ 1,500,000
December 31, 2006	\$ 1,500,000
January 31, 2007	\$ 4,500,000
December 31, 2007	\$ 4,750,000

In the event that CCG does not comply with the above provisions prior to earning the initial interest, CCG has the right to terminate the option and convert all proceeds it has advanced to common shares of the Company. The conversion price for the first \$3,000,000 CCG advanced to the Company is \$0.50 per share. CCG failed to pay \$1,500,000 to the Company on December 31, 2006 causing the option agreement between CCG and the Company to terminate. CCG converted its \$1,500,000 advance into 3,000,000 common shares of the Company.

(h) Logistics and support

This heading (previously called "Transportation or travel") has been changed to better reflect the nature of the costs being incurred.

(i) Exploration work

This heading (previously called "Camp costs and project management") has been changed to "Exploration work" to better reflect the nature of the costs being incurred.

## 6. Investments

The Company's investments have been classified as available-for-sale and consist of the following:

Central China Goldfields plc		June 30, 2008		September 30, 2007	
	Number of shares	Cost	Fair value	Cost	Fair value
Shares	3,000,000	\$120,000	\$321,172	\$120,000	\$533,216
Warrants	3,500,000	\$20,000	-	\$20,000	-

The Company entered into an agreement that prohibits the sale of Central China Goldfields plc shares until May 30, 2006 and an orderly market agreement which restricts trading of the shares from May 30, 2006 to March 30, 2007.

## 7. Share capital

(a) Authorized:

100,000,000 common shares without par value

(b) Issued:

	Number of Shares	Amount
Balance, September 30, 2006	46,673,309	\$20,149,842
Issued in respect of a property option agreement with Central China Goldfields (note 5 (g))	3,000,000	1,500,000
Issued in respect of private placement	8,357,500	3,063,036
Balance, September 30, 2007	58,030,809	24,712,878
Issued in respect of private placements (note 7 (d))	2,750,000	1,100,000
Issued as bonus shares (note 7 (e))	6,250,000	400,000
Private placement fees	-	(6,000)
Balance, June 30, 2008	67,030,809	26,206,878

**7. Share capital (Continued)**

(c) Shares held in escrow:

The Company has nil (2006 - nil) performance shares issued and held in escrow. During the year ended September 30, 2006, 111,508 performance shares held in escrow were returned to treasury for \$nil proceeds. Accordingly, \$48,371 representing the pro-rate share capital for 111,508 shares was transferred from share capital to contributed surplus.

(d) Private placements:

Issued on January 18, 2008, 250,000 common shares at \$0.40 and 2,500,000 common shares at \$0.40. Each common share comes with one warrant exercisable at \$0.60.

(e) Bonus shares:

Issued to RAB Special Situations (Master) Fund Limited as an incentive and bonus for making the loan for the Song Jiaguo gold project (see note 5 (d) (vi)), 6,250,000 common shares at the deemed price of \$0.064 per share.

(f) Share purchase warrants:

The following presents the continuity of share purchase warrants outstanding

Issue date	Balance September 30, 2007	Issued	Exercised	Expired/ cancelled	Balance June 30 2008	Exercise price	Expiry date
March 16, 2006	2,500,000	0	0	2,500,000	0	\$0.50	March 16, 2008
June 1, 2007	0	4,166,250	0	0	4,166,250	\$0.60	June 1, 2009
June 1, 2007	0	128,000	0	0	128,000	\$0.60	June 1, 2009
January 18, 2008	0	1,375,000	0	0	1,375,000	\$0.60	January 18, 2010
	2,500,000	5,669,250	0	0	5,669,250	\$0.58	

**7. Share capital (Continued)**

(g) 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.

On October 7, 2005, the Company granted to third party consultants 500,000 stock options at an exercise price of \$0.70 per share exercisable to January 9, 2011. These options all vest 100% upon the date of the grant.

On January 9, 2006, the Company granted to directors 150,000 stock options and to third party consultants 600,000 stock options, at an exercise price of \$0.53 per share exercisable to January 9, 2011. These options all vest 100% upon the date of the grant.

On March 20, 2006, the Company granted to third party consultants 120,000 stock options at an exercise price of \$0.53 per share exercisable to March 20, 2011. These options all vest 100% upon the date of the grant.

On October 3, 2007, the Company granted to its directors, officers and consultants, options to purchase 4,500,000 shares of the Company at a price of \$0.30 per share to October 3, 2012.

On October 3, 2007, a total of 559,500 stock options of which 50,000 were exercisable at \$0.35, 359,500 exercisable at \$0.53 and 150,000 exercisable at \$0.60, were repriced to be exercisable at \$0.30 each.

The continuity of share purchase options is as follows:

	Number of options	Exercise price
Balance, September 30, 2006	2,124,500	\$ 0.46
Expired/Cancelled	(1,490,000)	\$ 0.70
Exercised	(25,000)	\$ 0.35
Balance, September 30, 2007	609,500	\$0.37
Granted	4,500,000	\$0.30
Expired/Cancelled	(350,000)	\$0.36
Balance June 30, 2008	4,759,500	\$0.30

## 7. Share capital (Continued)

The following table summarizes information about the stock options outstanding and exercisable at June 30, 2008 and September 30, 2007:

Expiry Date	Exercise Price	Number of Shares	
		June 30, 2008	Sept. 30, 2007
June 6, 2008	\$ 0.20	Expired	50,000
October 1, 2008	\$ 0.60	Cancelled	150,000
May 4, 2009	\$ 0.30	50,000	50,000
January 9, 2011	\$ 0.30	284,500	359,000
October 3, 2012	\$ 0.30	4,425,000	-
		5,059,500	2,124,500

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following assumptions:

	2008	2007	2006
Weighted average			
Risk-free interest rate	3.55-4.23%	n/a	3.55-4.12%
Expected dividend yield	0	n/a	0
Expected stock price volatility	82-111.87%	n/a	99.42-111.87%
Expected option life in years	5	n/a	5

As a result of options granted by the Company on October 3, 2007, the Company has recorded a stock-based compensation expense totaling \$915,300, calculated using the Black-Scholes option pricing model. This expense of \$915,300 was allocated as follows: consulting fees of \$691,560 and office supplies and management services of \$223,740.

As a result of options granted by the Company during the years ended September 30, 2007 and 2006, the Company has recorded a stock-based compensation expense totaling \$nil (2006 - \$654,769), calculated using the Black-Scholes option pricing model. In 2006, stock-based compensation expense of \$654,769 was allocated as follows: consulting fees of \$184,359, shareholder relations, travel and entertainment of \$282,456 and office supplies and management services of \$187,955.

## 7. Share capital (continued)

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

(h) Share subscriptions receivable:

The share subscriptions receivable as at June 30, 2008 of \$541,901 pertains to subscription agreements not yet complete.

## 8. Related party transactions

The amounts due to shareholders and related parties are unsecured, have no formal terms of repayment and are composed of amounts owed to the President and Directors and companies owned by the President and Directors totaling \$837,085. Prepaid expenses includes approximately \$nil (2007 - \$nil) advanced to a director in respect of the normal course of operations.

The Company was charged the following amounts by directors or corporations controlled by directors of the Company:

	2008	2007
Reimbursable expenses	\$180,900	\$165,904
Consulting fees	232,622	117,000
Travel and promotion	-	108,342
	\$419,379	\$391,246

These transactions occurred in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 9. Income taxes

The reconciliation of income tax benefit computed at statutory rates to the reported income tax benefit is as follows:

	2007	2006
	34.12%	34.12%
Income tax benefit computed at Canadian statutory rates	\$ 1,067,000	\$ 609,000
Permanent differences not recognized in year	(287,000)	(226,000)
Unrecognized tax losses	(780,000)	(383,000)
Income tax benefit per financial statements	\$ 0	\$ 0

### 9. Income taxes (continued)

As at September 30, 2007 and 2006, the tax effect of the significant components within the Company's future tax assets and liabilities are as follows:

	2007	2006
Future income tax assets:		
Canadian non-capital loss carry-forwards	\$ 1,906,000	\$ 1,214,000
Canadian capital losses	4,400	4,400
Canadian resource related deductions	811,000	548,200
Share issuance costs and other	173,000	130,900
Total gross future income tax assets	2,894,400	1,897,500
Valuation allowance	(2,894,400)	(1,897,500)
Net future income tax assets	\$ 0	\$ 0

As at September 30, 2007, the Company has non-capital loss carry-forwards for Canadian income tax purposes of approximately \$5,586,000 (2006 - \$3,794,000), which expire as follows:

2008	\$ 73,000
2009	\$ 130,000
2010	\$ 264,000
2014	\$ 759,000
2015	\$ 1,202,000
2026	\$ 1,171,000
2027	\$ 1,987,000

The Company also has capital loss carry-forwards of approximately \$27,000, which can be used to offset future capital gains. The valuation allowance reflects the Company's estimate that the tax assets will likely not be realized and consequently have not been recorded in these financial statements.

### 10. Segment information

The Company operates in one industry segment, being mineral property exploration. Details of the Company's mineral properties by geographic location are detailed in note 6. Total assets attributable to China (note 5) as at June 30, 2008 are \$13,941,648 (September 30, 2007 - \$12,828,150) with the remainder of the assets attributable to Canada.

**11. Subsequent events**

On August 28, the Company will complete a private placement of 50,000,000 units up to \$0.07 per unit, for aggregate gross proceeds of up to \$3,500,000. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share in the capital of the Company for two years from the date of issue at the price of \$0.10.