

Minco Gold Corporation

(An exploration stage enterprise)

Consolidated Financial Statements

For the years ended December 31, 2012, 2011, and 2010

(Canadian dollars)

Management's Responsibility for Financial Reporting

The consolidated financial statements are the responsibility of the Board of Directors and management. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by International Accounting Standard Board and include certain estimates that reflect management's best judgments on information currently available. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

The Audit Committee of the Board of Directors is composed of three Directors and meets quarterly with management and the independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, who were appointed by the shareholders. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.

Dr. Ken Cai
President and CEO

Ellen Wei, C.A.
Chief Financial Officer

Vancouver, Canada
March 28, 2013

Independent Auditor's Report

To the Shareholders of Minco Gold Corporation

We have audited the accompanying consolidated financial statements of Minco Gold Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2012 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board 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 and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, 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. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles and 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 we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Minco Gold Corporation and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

Vancouver, British Columbia
March 28, 2013

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Minco Gold Corporation
(An exploration stage enterprise)
Consolidated Statements of Financial Position
(in Canadian dollars)

	December 31, 2012	December 31, 2011
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 5)	263,054	6,696,805
Short-term investments (note 5)	5,055,480	-
Marketable securities	1,470	10,500
Receivables	78,311	52,618
Due from related parties (note 14)	10,768	449,888
Prepaid expenses and deposits	138,961	176,959
	<u>5,548,044</u>	<u>7,386,770</u>
Long-term deposit	51,277	53,127
Property, plant and equipment (note 6)	197,269	247,860
Equity investment in Minco Silver (note 8)	13,375,407	14,489,016
	<u>19,171,997</u>	<u>22,176,773</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	372,537	521,931
Accounts payable for Changkeng permit (note 7(a))	4,610,543	4,681,156
Advance from non-controlling interest (note 7(a))	2,474,123	2,512,015
Due to related party (note 14)	1,250,129	-
	<u>8,707,332</u>	<u>7,715,102</u>
Equity		
Equity attributable to owners of the parent		
Share capital (note 10(a))	41,758,037	41,758,037
Contributed surplus	7,939,681	6,982,376
Accumulated other comprehensive income	173,246	256,125
Deficits	(41,831,667)	(36,949,896)
	<u>8,039,297</u>	<u>12,046,642</u>
Non-controlling interests	2,425,368	2,415,029
Total equity	<u>10,464,665</u>	<u>14,461,671</u>
	<u>19,171,997</u>	<u>22,176,773</u>

Commitments (note 13)

Subsequent events (note 18)

Approved by the Board of Directors

(signed) Malcolm Clay Director

(signed) Robert Callander Director

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

Minco Gold Corporation

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Consolidated Statements of Income (Loss)

For the years ended December 31, 2012, 2011, and 2010

(in Canadian dollars, except per share data)

	2012	2011	2010
	\$	\$	\$
Exploration costs	1,617,289	1,963,874	1,467,641
Administrative expenses (note 14)			
Accounting and audit	164,843	246,900	140,176
Amortization	60,689	71,919	81,371
Consulting	85,932	122,654	143,350
Directors' fees	53,000	48,527	43,500
Foreign exchange gain	(872)	(17,149)	(111,901)
Investor relations	182,290	449,813	220,853
Legal and regulatory	269,795	257,354	129,804
Office and miscellaneous	283,161	316,359	396,635
Property investigation	12,748	117,605	210,416
Salaries and benefits	679,310	369,242	500,677
Share-based compensation (note 10(b))	957,305	2,264,809	383,282
Travel and transportation	79,364	63,782	85,701
	<u>2,827,565</u>	<u>4,311,815</u>	<u>2,223,864</u>
Operating loss	(4,444,854)	(6,275,689)	(3,691,505)
Gain on sale of exploration permit (note 7(b))	442,796	-	-
Unrealized loss on marketable securities	(9,030)	(14,700)	(10,500)
Finance income (expense)	180,870	(113,774)	44,506
	<u>(3,830,218)</u>	<u>(6,404,163)</u>	<u>(3,657,499)</u>
Loss for the year before loss from equity investment and dilution gain (loss)	(3,830,218)	(6,404,163)	(3,657,499)
Share of loss from equity investment in Minco Silver (note 8)	(1,032,816)	(1,443,391)	(1,246,150)
Dilution gain (loss) (note 8)	(8,398)	8,710,000	2,845,000
	<u>(4,871,432)</u>	<u>862,446</u>	<u>(2,058,649)</u>
Net income (loss) for the year from continuing operations	(4,871,432)	862,446	(2,058,649)
Earnings for the year from discontinued operations (note 9)	-	-	1,607,301
	<u>(4,871,432)</u>	<u>862,446</u>	<u>(451,348)</u>
Net income (loss) for the year	(4,871,432)	862,446	(451,348)
Net income (loss) attributable to:			
Shareholders of the Company	(4,881,771)	891,422	(401,926)
Non-controlling interest	10,339	(28,976)	(49,422)
	<u>(4,871,432)</u>	<u>862,446</u>	<u>(451,348)</u>
Earnings (loss) per share (note 12):			
Basic	(0.10)	0.02	(0.01)
Diluted	(0.10)	0.02	(0.01)
Weighted average number of common shares outstanding:			
Basic	50,348,215	50,228,592	48,582,347
Diluted	50,348,215	51,580,329	48,582,347

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

Minco Gold Corporation

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Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2012, 2011, and 2010

(in Canadian dollars)

	2012	2011	2010
	\$	\$	\$
Net income (loss) for the year	(4,871,432)	862,446	(451,348)
Other comprehensive income (loss)			
Cumulative translation adjustment from Minco Silver investment	(72,395)	251,688	(57,217)
Exchange differences on translation from functional to presentation currency	(10,484)	67,689	(6,035)
Total comprehensive income (loss) for the year	<u>(4,954,311)</u>	<u>1,181,823</u>	<u>(514,600)</u>
Comprehensive income (loss) attributable to:			
Shareholders of the Company	(4,964,650)	1,210,799	(465,178)
Non-controlling interest	10,339	(28,976)	(49,422)
	<u>(4,954,311)</u>	<u>1,181,823</u>	<u>(514,600)</u>

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

Minco Gold Corporation

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Consolidated Statements of Changes in Equity

For the years ended December 31, 2012, 2011 and 2010

(in Canadian dollars)

	Attributable to equity owners of the Company							
	Number of shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficits \$	Subtotal \$	Non-controlling interest \$	Total equity \$
Balance – January 1, 2010	48,157,782	38,553,755	5,722,060	-	(37,439,392)	6,836,423	2,493,427	9,329,850
Loss for the year	-	-	-	-	(401,926)	(401,926)	(49,422)	(451,348)
Cumulative translation adjustment	-	-	-	(63,252)	-	(63,252)	-	(63,252)
Share-based compensation	-	-	383,282	-	-	383,282	-	383,282
Proceeds on issuing shares from exercise of options	1,357,100	1,781,278	(749,389)	-	-	1,031,889	-	1,031,889
Balance – December 31, 2010	49,514,882	40,335,033	5,355,953	(63,252)	(37,841,318)	7,786,416	2,444,005	10,230,421
Balance - January 1, 2011	49,514,882	40,335,033	5,355,953	(63,252)	(37,841,318)	7,786,416	2,444,005	10,230,421
Net income (loss) for the year	-	-	-	-	891,422	891,422	(28,976)	862,446
Cumulative translation adjustment	-	-	-	319,377	-	319,377	-	319,377
Share-based compensation	-	-	2,264,809	-	-	2,264,809	-	2,264,809
Proceeds on issuing shares from exercise of options	833,333	1,423,004	(638,386)	-	-	784,618	-	784,618
Balance - December 31, 2011	50,348,215	41,758,037	6,982,376	256,125	(36,949,896)	12,046,642	2,415,029	14,461,671
Balance - January 1, 2012	50,348,215	41,758,037	6,982,376	256,125	(36,949,896)	12,046,642	2,415,029	14,461,671
Net income (loss) for the year	-	-	-	-	(4,881,771)	(4,881,771)	10,339	(4,871,432)
Cumulative translation adjustment	-	-	-	(82,879)	-	(82,879)	-	(82,879)
Share-based compensation	-	-	957,305	-	-	957,305	-	957,305
Balance - December 31, 2012	50,348,215	41,758,037	7,939,681	173,246	(41,831,667)	8,039,297	2,425,368	10,464,665

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

Minco Gold Corporation
(An exploration stage enterprise)
Consolidated Statements of Cash Flow
For the years ended December 31, 2012, 2011, and 2010

(in Canadian dollars)

	2012	2011	2010
	\$	\$	\$
Cash flow provided by (used in)			
Operating activities			
Net income (loss) for the period from continuing operations	(4,871,432)	862,446	(2,058,649)
Adjustments for:			
Amortization	60,689	71,919	81,371
Equity loss on investment in Minco Silver	1,032,816	1,443,391	1,246,150
Dilution (gain) loss	8,398	(8,710,000)	(2,845,000)
Foreign exchange gain (loss)	(3,032)	11,255	(60,323)
Gain on sale of exploration permits (note 7(b))	(442,796)	-	-
Share-based compensation (note 10 (b))	957,304	2,264,809	383,282
Unrealized loss on marketable securities	9,030	14,700	10,500
Changes in items of working capital:			
Receivables	(31,209)	5,663	313,380
Due to/from related parties	1,672,564	370,971	1,467,583
Prepaid expenses and deposits	38,336	(43,323)	(43,654)
Accounts payable and accrued liabilities	(145,645)	(191,235)	(84,144)
Cash used in operating activities of continuing operations	(1,714,977)	(3,899,404)	(1,589,504)
Cash generated from activities of discontinued operations	-	-	1,649,604
Net cash generated from (used in) operating activities	(1,714,977)	(3,899,404)	60,100
Investing activities			
Loan receivable	-	8,937,482	(9,122,284)
Proceeds from sales of exploration permits	442,796	-	-
Property, plant and equipment	(13,678)	(15,041)	(43,881)
Short-term investments	(5,066,771)	293,770	2,182,166
Net cash generated from (used in) investing activities	(4,637,653)	9,216,211	(6,983,999)
Financing activities			
Advanced from minority shareholders	-	1,597,438	768,693
Proceeds from issuance of shares	-	784,618	1,045,126
Advanced from Minco Base Metals	-	(7,483,798)	7,601,904
Net cash generated from (used in) financing activities	-	(5,101,742)	9,415,723
Effect of exchange rate changes on cash and cash equivalents	(81,121)	477,908	3,091
Increase (decrease) in cash and cash equivalents	(6,433,751)	692,973	2,494,915
Cash and cash equivalents - Beginning of year	6,696,805	6,003,832	3,508,917
Cash and cash equivalents - End of year	263,054	6,696,805	6,003,832
Cash paid for income tax	-	-	-

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

Minco Gold Corporation

(An exploration stage enterprise)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011, and 2010

(in Canadian dollars)

1. General information

Minco Gold Corporation (“Minco Gold” or the “Company”) was incorporated in 1982 under the laws of British Columbia, Canada as Caprock Energy Ltd. The Company changed its name to Minco Gold in 2007. It is an exploration stage company engaged in exploration and evaluating gold-dominant mineral properties and projects in China. The registered office of the Company is 2772 – 1055 West Georgia Street, British Columbia, Canada. The Company has listed its common shares on the Toronto Stock Exchange (“TSX”) under the symbol “MMM”, and the NYSE MKT under the symbol “MGH”.

As at December 31, 2012, Minco Gold owned a 22.02% (December 31, 2011 – 22.15%) equity interest in Minco Silver Corporation (“Minco Silver”).

2. Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements were approved by the board of directors for issue on March 28, 2013.

3. Summary of significant accounting policies

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention.

Consolidation

These consolidated financial statements include the accounts of Minco Gold, its wholly owned Chinese subsidiaries Minco Mining (China) Corporation (“Minco China”), Yuanling Minco Mining Ltd. (“Yuanling Minco”) and Huaihua Tiancheng Mining Ltd. (“Huaihua Tiancheng”), its wholly owned British Virgin Island subsidiary Triple Eight Mineral Corporation (“Temco”), its wholly owned Hong Kong subsidiary Minco Resource Limited (“Minco Resource”) and its 51% interest in Guangzhou Mingzhong Mining Co. Ltd. (“Mingzhong”).

Minco Gold Corporation

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011, and 2010

(in Canadian dollars)

3. Summary of significant accounting policies (continued)

Subsidiaries are those entities which the Company controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which controls is obtained by the Company and are de-consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Minco China's subsidiary, Foshan Minco Mining Co. Ltd. ("Foshan Minco"), is legally owned by Minco China in trust for Minco Silver. Minco Gold does not consolidate Foshan Minco as it does not control this entity. Minco China also holds certain other assets and exploration permits in trust for Minco Silver. These assets are held for the exclusive benefit of Minco Silver and have not been included in these financial statements.

Equity investment

Associates are entities over which the Company has significant influence, but not control. The Company accounts for its investment in associates using the equity method. The Company's share of income or loss of associates is recognized in the consolidated statement of income (loss).

Dilution gains and losses arising from changes in interests in investments in associates where significant influence is retained are recognized in the consolidated statements of income (loss).

At each balance sheet date, the Company consider whether there is objective evidence of impairment in associates. If there is such evidence, the Company determines if there is a need to record an impairment in relation to the associate.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Profit or loss and each component of other comprehensive income are attributed to the non-controlling interests where applicable. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Chief Executive Officer of Minco Gold.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011, and 2010

(in Canadian dollars)

3. Summary of significant accounting policies (continued)

Foreign currency translation

(i) Functional and presentation currency

The financial statements of each entity in the group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars.

The functional currency of Minco Gold is the Canadian dollar.

The functional currency of the Company’s Chinese subsidiaries is Renminbi (“RMB”).

The financial statements of the Company’s Chinese subsidiaries (“foreign operations”) are translated into the Canadian dollar presentation currency as follows:

- Assets and liabilities – at the closing rate at the date of the statement of financial position
- Income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates)

All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from the item are considered to form part of the net investment in a foreign operation and are recognized in other comprehensive income.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation’s functional currency are recognized in the statements of income (loss).

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011, and 2010

(in Canadian dollars)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current. The Company's financial assets at fair value through profit or loss comprise of marketable securities.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of cash and cash equivalents, short term investments, deposits and due from related parties.

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if necessary.

Cash and cash equivalents comprise cash at banks and on hand and guaranteed investment certificates with initial maturities of less than three months. Short-term investments comprise of guaranteed investment certificates with initial maturities of greater than three months

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable, accounts payable for Changkeng permit; advance from non-controlling interest and due to related parties.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011, and 2010

(in Canadian dollars)

3. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs 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 item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the statement of income during the period which they are incurred.

The major categories of property, plant and equipment are depreciated on a straight-line basis as follows:

Leasehold Improvements	remaining lease term
Mining Equipment	5 years
Motor Vehicles	10 years
Office Equipment and Furniture	5 years

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. The carrying amount of a replaced asset is derecognized when replaced. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income.

Exploration and evaluation costs

Exploration and evaluation costs include costs to acquire exploration rights, geological studies, exploratory drilling and sampling and directly attributable administrative costs.

Exploration and evaluation costs relating to non-specific projects or properties or those incurred before the Company has obtained legal rights to explore an area are expensed in the period incurred. In addition, exploration and evaluation costs, other than direct acquisition costs, are expensed before a mineral resource is identified as having economic potential.

Exploration and evaluation costs are capitalized as mineral interests when a mineral resource is identified as having economic potential on a property. A mineral resource is considered to have economic potential when it is expected that documented resources can be legally and economically developed considering long-term metal prices. Therefore, prior to capitalizing such costs, management determines that the following conditions have been met:

- i) There is a probable future benefit that will contribute to future cash inflows;
- ii) The Company can obtain the benefit and control access to it; and
- iii) The transaction or event giving rise to the benefit has already occurred.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011, and 2010

(in Canadian dollars)

3. Summary of significant accounting policies (continued)

Once the technical feasibility and commercial viability of the extraction of resources from a particular mineral property has been determined, mineral interests are reclassified to mine properties within property, plant and equipment and carried at cost until the properties to which they relate are placed into commercial production, sold, abandoned or determined by management to be impaired in value.

Costs relating to any producing mineral interests would be amortized on a unit of production basis over the estimated ore reserves. Costs incurred after the property is placed into production that increase production volume or extend the life of a mine are capitalized.

Proceeds from the sale of properties or cash proceeds received from option payments are recorded as a reduction of the related mineral interest, or if no amounts capitalized, then the proceeds are recorded in the statement of income (loss).

Impairment of non-financial assets

The recoverability of mineral interests is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm-out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

The Company performs impairment tests on property, plant and equipment and mineral interests when events or circumstances occur which indicate the assets may not be recoverable. Impairment assessments are carried out on a project by project basis with each project representing a single cash generating unit.

When impairment indicators are identified, an impairment loss is recognized for any amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Share-based payments

The Company grants stock options to directors, officers, employees and service providers. Each tranche in an award is considered a separate award with its own vesting period. The Company applies the fair-value method of accounting for share-based payments and the fair value is calculated using the Black-Scholes option pricing model.

Share-based payments for employees and others providing similar services are determined based on the grant date fair value. Share based payments for non-employees is determined based on the fair value of the goods/services received or options granted measured at the date on which the Company obtains such goods/services.

Compensation expense is recognized over each tranche's vesting period, in earnings or capitalized as appropriate, based on the number of awards expected to vest. If stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

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Notes to the Consolidated Financial Statements

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(in Canadian dollars)

3. Summary of significant accounting policies (continued)

Provision for restoration and rehabilitation

A provision for restoration and rehabilitation is recognized when there is a present legal or constructive obligation as a result of exploration and development activities undertaken; it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably. The estimated future obligation includes the cost of removing facilities, abandoning sites and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. The estimated cost is capitalized into the cost of the related asset and amortized on the same basis as the related assets. If the estimated cost does not relate to an asset, it is charged to earnings in the period in which the event giving rise to the liability occurs.

As at December 31, 2012 and December 31, 2011, the Company did not have any provision for restoration and rehabilitation.

Income tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share capital

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

Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. If the Company incurs net losses in a fiscal year, basic and diluted loss per share are the same.

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3. Summary of significant accounting policies (continued)

Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of these standards and amendments.

- (i) IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 *Financial Instruments: Recognition and Measurement* for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39 except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This new standard is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted.
- (ii) IFRS 10, *Consolidated Financial Statement*, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard: (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*.
- (iii) IFRS 11, *Joint Arrangements*, 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 venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.
- (iv) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 supersedes IAS 27, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

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3. Summary of significant accounting policies (continued)

- (v) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13

- (vi) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012.

4. Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the financial statements:

Equity investment in Minco Silver

The Company reviews its equity investment in Minco Silver when there is any indication that the investment might be impaired. Management has assessed impairment indicators on this equity investment and has concluded that no impairment indicators existed as at December 31, 2012.

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5. Cash and short-term investments

As at December 31, 2012 cash and cash equivalents consisted of short-term deposits with a maturity term of seven days and that can be renewed automatically. The yield on the short-term deposits was 0.15%.

As at December 31, 2012, short-term investments consisted of \$5,055,480 of cashable guaranteed investment certificates with terms of greater than ninety days but less than one year (December 31, 2011 - \$Nil). The yields on these investments were between 1.1% and 3.08%.

	December 31, 2012	December 31, 2011
	\$	\$
Cash and cash equivalents	263,054	6,696,805
Short term investment	<u>5,055,480</u>	<u>-</u>

Included in short-term investment is \$4,610,543 held by Mingzhong to satisfy the remaining amount outstanding for the Changkeng permit (note 7(a) and note 16).

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6. Property, plant and equipment

	Leasehold improvements	Mining equipment	Motor vehicles	Office equipment and furniture	Total
	\$	\$	\$	\$	\$
Year ended December 31, 2011					
At January 1, 2011	2,325	119,433	153,405	15,339	290,502
Additions	-	417	-	15,167	15,584
Depreciation	-	(23,364)	(25,826)	(22,729)	(71,919)
Exchange differences	136	5,642	7,460	455	13,693
At December 31, 2011	<u>2,461</u>	<u>102,128</u>	<u>135,039</u>	<u>8,232</u>	<u>247,860</u>
At December 31, 2011					
Cost	70,779	426,370	338,923	381,651	1,217,723
Accumulated depreciation	(68,318)	(324,242)	(203,884)	(373,419)	(969,863)
Net book value	<u>2,461</u>	<u>102,128</u>	<u>135,039</u>	<u>8,232</u>	<u>247,860</u>
Year ended December 31, 2012					
At January 1, 2012	2,461	102,128	135,039	8,232	247,860
Additions	-	7,634	-	6,207	13,841
Disposals	-	-	-	(164)	(164)
Depreciation	-	(21,954)	(26,730)	(12,005)	(60,689)
Exchange differences	(44)	(1,565)	(1,930)	(40)	(3,579)
At December 31, 2012	<u>2,417</u>	<u>86,243</u>	<u>106,379</u>	<u>2,230</u>	<u>197,269</u>
At December 31, 2012					
Cost	70,735	432,439	336,993	387,654	1,227,821
Accumulated depreciation	(68,318)	(346,196)	(230,614)	(385,424)	(1,030,552)
Net book value	<u>2,417</u>	<u>86,243</u>	<u>106,379</u>	<u>2,230</u>	<u>197,269</u>

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Notes to the Consolidated Financial Statements

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7. Mineral interests

a) Guangdong - Changkeng

Minco China is the controlling shareholder in Mingzhong with a 51% interest.

Mingzhong signed an exploration permit transfer agreement with No. 757 Exploration Team of Guangdong Geological Bureau ("757 Exploration Team") and received the Changkeng exploration permit (the "Changkeng Exploration Permit") on January 5, 2008. This exploration permit was renewed for a two-year period ending on September 10, 2013. To acquire the Changkeng Exploration Permit, Mingzhong was required to pay RMB 48 million (approximately \$7.6 million). As at December 31, 2008, the first payment of RMB 19 million (approximately \$3.0 million) for the Changkeng Exploration Permit was paid to 757 Exploration Team.

In order to fund the remaining RMB 29 million (\$4.6 million), shareholders of Mingzhong agreed to inject capital of RMB 32 million (\$5.1 million). As at December 31, 2012, Minco China paid RMB 16.3 million (\$2.6 million) and the five minority shareholders paid RMB 15.7 million (\$2,474,123). Accordingly, Mingzhong has all of the cash required to settle the remaining payable for the permit.

As two of the shareholders, Guangdong Gold Corporation ("GGC") and Guangdong Geological Exploration and Development Corporation ("GGEDC"), are state-owned companies, they need to receive the requisite approval from the Guangdong provincial government's Minister of Finance to increase their share of registered capital in Mingzhong. The funds received from the five minority shareholders are classified as a current liability as at December 31, 2012, pending approval of the capital injection.

The remaining amount payable for the Changkeng Exploration Permit of RMB \$29 million (\$4,610,543) was classified as a current liability as at December 31, 2012.

Pursuant to the terms of an agreement with Minco Silver, the Company has assigned its right to earn a 51% interest in the Changkeng Silver Mineralization to Minco Silver. As a result, Minco Silver is responsible for 51% of the total costs in relation to the Changkeng Silver Mineralization.

b) Gansu - Longnan

Minco China holds ten exploration permits in the Longnan region of south Gansu province in China. The Longnan region is within the southwest Qinling gold field.

The Longnan region consists of three projects according to their geographic distribution, type and potential of mineralization:

- i) Yangshan: including five exploration permits located in the northeast extension of the Yangshan gold belt and its adjacent area; and
- ii) Yejiaba: including four exploration permits along a regional structural belt parallel to the Yangshan gold belt; and
- iii) Xicheng East: including one remaining exploration permits (two exploration rights were sold during the year ended December 31, 2012) to the east extension of the Xicheng Pb-Zn mineralization belt.

The Company has spent a cumulative total of \$9.6 million of exploration costs on the Longnan project as at December 31, 2012 (December 31, 2011 - \$8.1 million).

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Notes to the Consolidated Financial Statements

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7. Mineral interests (continued)

Minco China entered into two agreements with Fengxian Xin Kun Mining Corporation (“FXKM”) in September 2010 and March 2012, respectively, in which the Company agreed to sell two exploration permits in Xicheng East for a total of RMB 2.8 million. During the year ended December 31, 2012, the Company received RMB 2.8 million and recognized a gain of \$442,796 upon the receipt of approval from the Ministry of Land and Resources (“MOLAR”) for the transfer of legal titles of the two exploration permits to FXKM.

c) Hunan - Gold Bull Mountain

Minco China’s wholly owned subsidiary Yuanling Minco owns the Gold Bull Mountain mining license, which was renewed for a two-year period ending on June 28, 2013.

d) Guangdong - Sihui

Minco China holds an exploration permit in Guangdong Sihui in China. This exploration permit was renewed for a two-year period ending on February 3, 2015.

The following is a summary of exploration costs, net of recoveries, incurred by each project:

	December 31, 2012	December 31, 2011	December 31, 2010	Cumulative to December 31, 2012
	\$	\$	\$	\$
Currently active properties:				
Gansu				
- Longnan	1,479,979	1,870,486	1,330,745	9,584,178
Guangdong				
- Changkeng	113,207	66,522	135,727	8,279,277
Hunan				
- Gold Bull Mountain	22,498	26,866	1,169	2,212,210
Guangdong				
- Sihui	1,605	-	-	1,605
Total	1,617,289	1,963,874	1,467,641	20,077,270

8. Equity investment in Minco Silver Corporation

As at December 31, 2012, the Company owned 13,000,000 common shares of Minco Silver (December 31, 2011 and 2010 - 13,000,000 common shares) that were acquired in 2004 in exchange for the transfer of the Fuwan property and the silver interest in the Changkeng property.

The Company did not participate in the public offering of 7,600,000 common shares at \$5.95 per share concluded by Minco Silver on March 3, 2011. As a result, the Company’s ownership interest in Minco Silver decreased to 22.02% as at December 31, 2012 (December 31, 2011 – 22.15%, December 31, 2010 – 26.20%).

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8. Equity investment in Minco Silver Corporation (continued)

Comprehensive income (loss) on the investment in Minco Silver is as follows:

	2012 \$	2011 \$	2010 \$
Dilution gain (loss)	(8,398)	8,710,000	2,845,000
Equity loss	(1,032,816)	(1,443,391)	(1,246,150)
Cumulative translation adjustment	(72,395)	287,268	(69,906)
Comprehensive income (loss) from investment in Minco Silver	<u>(1,113,609)</u>	<u>7,553,877</u>	<u>1,528,944</u>

The carrying value and market value of the Minco Silver shares held by the Company and accounted for using the equity basis are as follows:

	December 31, 2012 \$	December 31, 2011 \$
Carrying value of investment in Minco Silver	<u>13,375,407</u>	<u>14,489,016</u>
Market value of Minco Silver shares	<u>20,150,000</u>	<u>25,870,000</u>

The following is a summary of Minco Silver's balance sheet as at December 31, 2012 and 2011.

	December 31, 2012 \$	December 31, 2011 \$
Current assets	66,923,816	71,012,927
Mineral interests	21,012,566	17,811,322
Property, plant and equipment	572,583	751,463
Current liabilities	512,604	968,690
Shareholders' equity	<u>87,996,361</u>	<u>88,607,022</u>

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8. Equity investment in Minco Silver Corporation (continued)

The following is a summary of Minco Silver's income statement for the years ended December 31, 2012, 2011 and 2010.

	December 31, 2012	December 31, 2011	December 31, 2010
	\$	\$	\$
Administrative expenses	5,596,671	6,674,066	5,604,885
Net loss for the year	(4,676,550)	(5,970,842)	(4,280,899)
Other comprehensive income (loss) for the year	(327,801)	931,652	(189,650)
Comprehensive loss for the year	(5,004,351)	(5,039,190)	(4,470,549)

9. Discontinued operation

Inner Mongolia Damo Mining Co. Ltd. ("Damo")

On May 24, 2010, the Company entered into a sale agreement to dispose of its interest in Damo. Damo had an interest in the Gobi Gold project located in the Inner Mongolia Autonomous Region. After completion of all legal requirements and approvals, the Company relinquished all managerial involvement and control to the purchaser on September 30, 2010. Net proceeds on disposal were RMB 10.75 million (approximately \$1.67 million) which represents the difference between the gross proceeds of RMB 13.5 million (approximately \$2.10 million) and a commission of RMB 2.75 million (approximately \$0.43 million) paid to an arm's length party for consulting services relating to the disposition.

The net earnings from the discontinued operations of Damo were \$1,607,301 and cash flows from the discontinued operations of Damo were \$1,649,604 in 2010.

10. Share capital

a. Common shares and contributed surplus

Authorized: 100,000,000 common shares without par value

b. Stock options

Minco Gold may grant options to its directors, officers, employees and consultants under its stock option plan (the "Stock Option Plan"). The Company's board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options are granted. These options are equity-settled.

For the year ended December 31, 2012, the Company granted stock options for 3,095,000 common shares to directors and employees at a weighted exercise price of \$0.59 that vest over an 18-month period from the issuance date.

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10. Share capital (continued)

The maximum number of common shares reserved for issuance under the Stock Option Plan is 15% of the issued and outstanding common shares of the Company.

Minco Gold recorded \$957,305 in share-based compensation expense for the year ended December 31, 2012 (December 31, 2011 - \$2,264,809 and December 31, 2010 - \$383,282).

A summary of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price
		\$
January 1, 2011	4,145,000	0.99
Granted	2,380,000	2.18
Exercised	(833,333)	0.96
Forfeited	(447,667)	2.01
Expired	(260,000)	1.99
	<hr/>	
Balance, December 31, 2011	4,984,000	1.41
Granted	3,095,000	0.59
Forfeited	(823,333)	1.40
Expired	(1,605,000)	0.92
	<hr/>	
Balance, December 31, 2012	5,650,667	1.11
	<hr/>	

Minco Gold Corporation

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Notes to the Consolidated Financial Statements

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10. Share capital (continued)

The weighted average share price on the date of exercise was \$Nil in 2012 (2011 - \$2.22, and 2010 - \$1.60)

Range of exercise prices	Number outstanding	Options outstanding		Options exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$			\$		\$
0.48 - 0.65	1,815,000	3.38	0.46	728,334	0.48
0.66 - 0.90	1,840,000	4.24	0.67	613,338	0.67
0.91 - 1.30	66,667	2.59	0.93	66,667	0.93
1.31 - 1.80	140,000	0.28	1.44	140,000	1.44
1.81 - 2.59	1,789,000	3.04	2.19	1,782,333	2.19
	<u>5,650,667</u>	<u>3.46</u>	<u>1.11</u>	<u>3,330,672</u>	<u>1.48</u>

The Company uses the Black-Scholes option pricing model to determine the fair value of the options with the following assumptions:

	2012	2011	2010
Risk-free interest rate	1.08% - 1.56%	1.07% - 2.56%	1.89% - 2.30%
Dividend yield	0%	0%	0%
Volatility	85% - 95%	85% - 94%	84% - 90%
Forfeiture rate	27%	29%	30%
Estimated expected lives	5 years	5 years	5 years

Option pricing models require the use of subjective estimates and assumptions including the expected stock price volatility. The stock price volatility is calculated based on the Company's historical volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

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11. Income tax

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to the loss before income taxes. These differences result from the following items:

	2012	2011	2010
	\$	\$	\$
Net income (loss) from continuing operations	(4,871,432)	862,446	(2,058,649)
	25%	26.5%	28.5%
Income tax recovery at statutory rates	(1,217,858)	228,548	(586,715)
Non-deductible expenses	240,365	619,007	110,751
Difference in foreign tax rates	-	64,977	57,357
Dilution gain at capital gains rate	1,008	(1,112,226)	(355,625)
Expiry of non-capital loss carry forward	104,686	156,705	-
Deferred income tax asset not recognized	1,252,008	117,869	251,122
Other	(380,209)	(74,880)	523,110
Provision for tax expenses	-	-	-

Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of unrecognized deferred income tax assets and liabilities at December 31, 2012 and 2011 are as follows:

	2012	2011
	\$	\$
Deferred income tax assets (liabilities) not recognized		
Non-capital loss	4,855,227	2,562,113
Resource expenditures	3,801,378	5,117,301
Capital assets	250,525	357,259
Equity investment in Minco Silver	(1,119,023)	(1,263,099)
Share issue costs	513	1,026
Marketable securities	1,475	347
Capital loss	236,860	-
	8,026,955	6,774,947

No deferred income tax asset has been recognized as realization is not considered probable due to the uncertainty of future taxable income.

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11. Income tax (continued)

The Company has approximately \$9,936,487 of operating losses in Canada and approximately \$9,484,422 of operating losses in China. The expiries for Canadian and Chinese non-capital loss carry forwards are as follows:

	Canada	China
	\$	\$
2013	-	299,655
2014	-	985,633
2015	1,156,750	46,582
2016	-	793,571
2017	-	7,358,981
2026	1,442,234	-
2028	1,582,716	-
2029	1,270,045	-
2030	1,285,615	-
2031	1,933,078	-
2032	1,266,049	-
	<u>9,936,487</u>	<u>9,484,422</u>

12. Earnings (loss) per share

The table below calculates the basic and diluted earnings and loss per share.

	2012	2011	2010
	\$	\$	\$
Earnings (loss) per share from continuing operations			
Basic	(0.10)	0.02	(0.04)
Diluted	(0.10)	0.02	(0.04)
Earnings per share from discontinued operations			
Basic	-	-	0.03
Diluted	-	-	0.03
Earnings (loss) per share			
Basic	(0.10)	0.02	(0.01)
Diluted	(0.10)	0.02	(0.01)
Weighted average number of shares outstanding			
Basic	50,348,215	50,228,592	48,582,347
Diluted	<u>50,348,215</u>	<u>51,580,329</u>	<u>48,582,347</u>

Stock options are excluded from the computation of diluted earnings per share when the exercise price exceeds the average market value of the common shares or has created an anti-dilutive effect.

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13. Commitments

The Company has commitments in respect of office leases requiring minimum payments of \$350,414 as follows:

	\$
2013	151,489
2014	148,602
2015	<u>50,323</u>
	<u>350,414</u>

14. Related party transactions

Shared office expenses

- a) Minco Silver and Minco Gold share offices and certain administrative expenses in Beijing and Minco Silver, Minco Base Metals Corporation (“MBM”) and Minco Gold share offices and certain administrative expenses in Vancouver.

At December 31, 2012, the Company had \$1,250,129 due to Minco Silver (December 31, 2011 – due from Minco Silver of \$429,114) and consisted of the following:

Amount due from Foshan Minco as at December 31, 2012 of \$1,075,820 (December 31, 2011 - \$1,167,282), representing the expenditures incurred by Minco China on behalf of Foshan Minco and shared office expenses.

Amount due to Minco Silver as at December 31, 2012 of \$2,325,949 (December 31, 2011 – \$738,168) representing funds advanced from Minco Silver to Minco Gold to support its operating activities in Canada.

The amounts due are unsecured, non-interest bearing and payable on demand.

The above two amounts will be net settled and accordingly have been presented as a net balance on the consolidated statements of financial position.

- b) At December 31, 2012, the Company had \$10,768 due from MBM (December 31, 2011 - \$20,774), in relation to shared office expenses. The Company is related to MBM through significant influence of one common director and common management.

The amounts due are unsecured, non-interest bearing and payable on demand.

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14. Related party transactions (continued)

Funding of Foshan Minco

Minco Silver cannot invest directly in Foshan Minco as Foshan Minco is legally owned by Minco China. All funding supplied by Minco Silver for exploration of the Fuwan Project must first go through Minco China via the Company to comply with Chinese Law. In the normal course of business Minco Silver uses trust agreements when providing cash, denominated in US dollars, to Minco China via the Company for the purpose of increasing the registered capital of Foshan Minco. Minco China is a registered entity in China; however it is classified as being a wholly foreign owned entity and can therefore receive foreign investment. Foshan Minco is a Chinese company with registered capital denominated in RMB and can therefore only receive domestic investment from Minco China. Increases to the registered capital of Foshan Minco must be denominated in RMB.

On June 9, 2011, Minco Silver advanced US\$10 million to Minco China via the Company for the purpose of increasing the registered capital of Foshan Minco.

On August 12, 2011, the Company, Minco Silver and Minco China entered into a trust agreement in which the Company and Minco China confirmed they have received the US\$10 million, and Minco China was required to exchange these US funds into RMB in order to increase Foshan Minco's registered share capital. Once all the funds were transferred from Minco China to Foshan Minco, the trust agreement was effectively settled and no repayment was expected by Minco Silver from Minco China.

As at December 31, 2012, Minco China invested RMB 50 million (\$7,969,143) on behalf of Minco Silver to increase the registered capital of Foshan Minco, repaid RMB 5,524,643 (\$871,725) to Foshan Minco, incurred net expenses of RMB 1,926,355 (\$302,994), and held the remaining balance of RMB 6,288,479 (\$990,468) in trust upon settlement.

Key management compensation

Key management includes the Company's directors and senior management. This compensation is included in exploration costs and administrative expenses.

For the years ended December 31, 2012, 2011 and 2010, the following compensation was paid to key management:

	2012	2011	2010
	\$	\$	\$
Cash remuneration	339,714	447,419	436,438
Share-based compensation	601,838	1,371,160	150,011
Total	<u>941,552</u>	<u>1,818,579</u>	<u>586,449</u>

The above transactions were conducted in the normal course of business.

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15. Segment reporting

The Company's business of exploration and development of mineral interests is considered as operating in one segment. The geographical division of the Company's assets and net loss is as follows:

Segment profit (loss)

	December 31, 2012		
	Canada	China	Total
	\$	\$	\$
Exploration costs	(231,128)	(1,386,161)	(1,617,289)
General and administration costs	(2,213,747)	(613,818)	(2,827,565)
Other income (expense)	(1,050,842)	624,264	(426,578)
Geographic distribution of profit (loss)	(3,495,717)	(1,375,715)	(4,871,432)

	December 31, 2011		
	Canada	China	Total
	\$	\$	\$
Exploration costs	(440,179)	(1,523,695)	(1,963,874)
General and administration costs	(3,835,188)	(476,627)	(4,311,815)
Other income	6,994,302	143,833	7,138,135
Geographic distribution of profit (loss)	2,718,935	(1,856,489)	862,446

	December 31, 2010		
	Canada	China	Total
	\$	\$	\$
Exploration costs	(762,338)	(705,303)	(1,467,641)
General and administration costs	(1,703,224)	(520,640)	(2,223,864)
Other income	1,645,951	1,594,206	3,240,157
Geographic distribution of profit (loss)	(819,611)	368,263	(451,348)

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15. Segment reporting (continued)

	December 31, 2012		
	Canada	China	Total
	\$	\$	\$
Current assets	212,500	5,335,544	5,548,044
Non-current assets	13,431,101	192,852	13,623,953
Current liabilities	2,408,087	6,299,245	8,707,332

	December 31, 2011		
	Canada	China	Total
	\$	\$	\$
Current assets	258,199	7,128,571	7,386,770
Non-current assets	14,545,540	244,463	14,790,003
Current liabilities	220,724	7,494,378	7,715,102

16. Financial instruments and fair value

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss, loans and receivables, and other financial liabilities.

The following table summarizes the carrying value of financial assets and liabilities at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
	\$	\$
Assets		
Cash and cash equivalents	263,054	6,696,805
Short-term investments	5,055,480	-
Receivables	78,311	52,618
Due from related parties	10,768	449,800
Marketable securities	1,470	10,500
Liabilities		
Accounts payables and accrued liabilities	4,983,080	5,203,087
Accounts payable for Changkeng permit	4,610,543	4,681,156
Advance from non-controlling interest	2,474,123	2,512,015
Due to related party	1,250,129	-

The carrying value of the Company's financial assets and liabilities approximate their fair value.

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16. Financial instruments and fair value (continued)

Financial risk factors

The Company's operations consist of the acquisition, exploration and development of properties in China. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, liquidity risk, currency risk and interest rate risk. Management reviews these risks on a monthly basis and when material, they are reviewed and monitored by the Board of Directors.

It is required that the classification of fair value measurements uses a fair value hierarchy that reflects the significance of the inputs used in making the measurements, including the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The marketable securities are measured at fair value based on quoted market price (level 1).

Credit risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if the counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by these counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair value contracts with individual counterparties which are recorded in the consolidated financial statements. The Company considers the following financial assets to be exposed to credit risk:

- i. Cash and cash equivalents – In order to manage credit and liquidity risk the Company places its short-term investment funds into government and Canadian bank debt securities with terms of 90 days or less when acquired. At December 31, 2012, the balance of \$263,054 (2011 - \$6,696,805) was placed with four institutions.
- ii. Short-term investments – These are guaranteed investment certificates with maturities of greater than ninety days, but less than one year, when acquired. At December 31, 2012, these totalled \$5,055,480 (2011- \$Nil).

Foreign exchange risk

The Company's functional currency is the Canadian dollar in Canada and RMB in China. The majority of the foreign currency risk is related to US dollar funds. Therefore, the Company's net earnings are impacted by fluctuations in the valuation of the US dollar in relation to the Canadian dollar and RMB. The Company did not hold significant amounts of US dollar cash during the year and the impact of the changes in the US dollar foreign exchange rate is insignificant to the Company's net earnings.

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16. Financial instruments and fair value (continued)

Interest rate risk

The effective interest rate on financial liabilities (accounts payable) ranged up to 1%. The interest rate risk is the risk that the fair value of future cash flows of a financial instrument fluctuates because of changes in market interest rates. Cash and short-term investments entered into by the Company bear interest at a fixed rate thus exposing the Company to the risk of changes in fair value arising from interest rate fluctuations. Short-term investments are invested in high grade, highly liquid instruments and exposes the Company to variable interest rate fluctuations. A 1% increase in the interest rate in Canada will have a net (before tax) income effect of \$53,200 (2011 - \$67,499), assuming the foreign exchange rate remains constant.

Liquidity risk

Liquidity risk includes the risk that the Company cannot meet its financial obligations as they come due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements and its exploration and development plans. The annual budget is approved by the Board of Directors. As at December 31, 2012, the Company had \$5.3 million of cash and short-term investments which included \$4.6 million in Mingzhong to be used for the final payment for the acquisition of the Changkeng exploration permit. The remaining cash balance available to fund exploration and general corporate requirements was \$0.7 million and held primarily in the Company's Chinese subsidiaries. The Company may face delays repatriating funds held in China if, at any time, the Company needs additional resources to enable it to undertake projects elsewhere in the world. There are certain restrictions on the repatriation of funds held in China. Under Chinese law, repatriation of the funds the Company currently holds in China, which were contributed by way of capital injection, would require approval of the relevant government authorities or designated banks in China or both. The Company plans on meeting any additional short-term cash requirements through funds advanced from Minco Silver. In addition, the Company may raise funds through the sale of its equity investment in Minco Silver when necessary. The market for these instruments is liquid and the Company does not foresee a loss of capital due to liquidity risk.

17. Capital management

The Company's objectives in the managing of the liquidity and capital are to safeguard the Company's ability to continue as a going concern and provide the financial capacity to meet its strategic objectives. The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued share capital, common share purchase warrants, contributed surplus, accumulated and other comprehensive income and accumulated deficit.

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17. Capital management (continued)

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt and/or acquire or dispose of assets to facilitate the management of its capital requirements. The Company prepares annual expenditure budgets that are updated as necessary depending upon various factors, including successful capital deployment and general industry conditions. As at December 31, 2012, the Company does not have any long-term debt.

The Company plans on meeting any additional short-term cash requirements through funds advanced from Minco Silver. In addition, the Company could raise funds through the sale of its equity investment in Minco Silver. The market for these instruments is liquid and the Company does not foresee a loss of capital due to liquidity risk.

18. Subsequent events

a) On January 14, 2013, the Company granted stock options to purchase 2,000,000 common shares to various employees, consultants and directors at an exercise price of \$0.46 per common share that vest over an 18-month period from the date of issuance. The options expire in January 2018.

b) On February 18, 2013, the Company granted stock options to purchase 200,000 common shares to an employee at an exercise price of \$0.36 per common share that vest over an 18-month period from the date of issuance. The options expire in February 2018.

c) On March 25, 2013, Minco China settled its claim against the 208 Exploration Team relating to the Joint Venture Agreement for a settlement amount of RMB 14 million (\$2.3 million). Minco China has received RMB 5 million (\$822,368) and the remaining balance is expected to be received by the end of 2013.