

Minco Gold Corporation

Consolidated Financial Statements
For the years ended December 31, 2016, 2015, and 2014
(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 and annually 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 Professional Accountants, who were appointed by the shareholders. The independent auditor's report outlines the scope of their examination and their opinion on the consolidated financial statements.

Dr. Ken Cai
President and CEO

Larry Tsang, CPA, CA
Chief Financial Officer

Vancouver, Canada
March 31, 2017

Independent Auditor's Report

To the Shareholders of Minco Gold Corporation

We have audited the accompanying consolidated financial statements of Minco Gold Corporation, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 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, 2016, 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 as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

As discussed in notes 1 and 7 of the consolidated financial statements, effective November 11, 2016, the Company determined that it met the definition of an investment entity in accordance with IFRS 10, *Consolidated Financial Statements*. Our opinion is not qualified in respect of this matter.

(signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, BC
March 31, 2017

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Minco Gold Corporation

Consolidated Statements of Financial Position

(in Canadian dollars)

	December 31, 2016	December 31, 2015
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 5)	4,575,119	5,593,669
Short-term investment, (note 6)	3,352,062	4,048,341
Investments at fair value, current (note 7)	11,770,000	-
Receivables	169,380	11,122
Due from related parties (note 14)	223,672	12,387
Prepaid expenses and deposits	72,035	162,970
	<u>20,162,268</u>	<u>9,828,489</u>
Non-current assets		
Long-term deposit	51,277	51,277
Property, plant and equipment	7,066	10,428
Investments at fair value, non-current (note 7)	537,860	-
Investment in an associate (note 8)	-	6,631,094
	<u>20,758,471</u>	<u>16,521,288</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	211,427	389,522
Due to related party (note 14)	-	177,330
	<u>211,427</u>	<u>566,852</u>
Equity		
Equity attributable to owners of the parent		
Share capital (note 11 (a))	41,976,886	41,911,823
Contributed surplus	9,322,102	9,247,685
Accumulated other comprehensive income	-	2,763,940
Deficits	(30,751,944)	(37,969,012)
	<u>20,547,044</u>	<u>15,954,436</u>
Total liabilities and equity	<u>20,758,471</u>	<u>16,521,288</u>
<i>Commitments (note 13)</i>		
<i>Subsequent events (note 1, 9(b),17)</i>		

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
Consolidated Statements of Income (Loss)
For the years ended December 31, 2016, 2015, and 2014

(in Canadian dollars, except per share data)

	2016	2015	2014
	\$	\$	\$
Unrealized loss from investments at fair value (note 7)	990,000	-	-
Operating expenses			
Accounting and audit	99,959	152,777	105,423
Amortization	3,362	34,781	67,180
Consulting	61,537	78,267	11,633
Directors' fees	59,138	73,124	54,188
Exploration costs (note 9)	217,110	793,081	1,177,817
Gain on legal settlement (note 10)	(530,789)	(51,745)	(148,739)
Gain on sale of exploration permit (note 9(b)(c))	(159,502)	-	(376,937)
Investor relations	12,048	37,051	24,726
Legal and regulatory	183,497	144,844	140,727
Office and miscellaneous	236,626	384,804	366,836
Investment investigation	179,453	81,407	74,948
Salaries and benefits	116,227	388,887	618,926
Share-based compensation (note 11(b))	100,693	80,248	297,588
Travel and transportation	15,747	75,791	69,786
Total operating expenses	595,106	2,273,317	2,484,102
Operating loss	(1,585,106)	(2,273,317)	(2,484,102)
Foreign exchange gain (loss)	(153,066)	209,493	(16,977)
Gain on sale of Minco Resources (note 1)	-	15,060,170	-
Gain on becoming an investment entity (note 7)	9,399,970	-	-
Share of gain (loss) from an associate (note 8)	(408,225)	1,259,391	(321,972)
Dilution loss (note 8)	(98,899)	-	(78,177)
Impairment of investment in an associate (note 8)	-	-	(4,205,816)
Loss on partial disposal of investment in an associate (note 8)	-	-	(399,536)
Impairment of property, plant and equipment	-	-	(8,784)
Finance income	62,394	64,819	17,570
Net income (loss) for the year	7,217,068	14,320,556	(7,497,794)
Net income (loss) attributable to:			
Shareholders of the Company	7,217,068	14,361,342	(7,354,162)
Non-controlling interest	-	(40,786)	(143,632)
	7,217,068	14,320,556	(7,497,794)
Net Income (loss) per share:			
basic	0.14	0.28	(0.15)
diluted	0.14	0.28	(0.15)
Weighted average number of common shares outstanding:			
basic	50,687,496	50,566,749	50,488,078
diluted	52,510,830	50,566,749	50,488,078

Income taxes (note 12)

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

Minco Gold Corporation

Consolidated Statements of Comprehensive Income (Loss) For the years ended December 31, 2016, 2015 and 2014

(in Canadian dollars)

	2016	2015	2014
	\$	\$	\$
Net income (loss) for the year	7,217,068	14,320,556	(7,497,794)
Other comprehensive income (loss), net of tax			
Items that may be reclassified subsequently to profit or loss:			
-Reclassification of currency translation adjustments upon disposition of Minco Resources (note 1)	-	(479,324)	-
-Reclassification of other comprehensive income on partial disposal of investment in an associate (note 8)	-	-	(158,797)
-Reclassification of other comprehensive income of an associate (note 8) on becoming investment entity (note 7)	(1,418,523)	-	-
-Share of other comprehensive income (loss) of an associate (note 8)	(1,345,417)	1,958,940	115,462
-Exchange differences on translation from functional to presentation currency	-	101,238	131,551
Total comprehensive income (loss) for the year	<u>4,453,128</u>	<u>15,901,410</u>	<u>(7,409,578)</u>
Comprehensive income (loss) attributable to:			
Shareholders of the Company	4,453,128	15,904,973	(7,273,894)
Non-controlling interest	-	(3,563)	(135,684)
	<u>4,453,128</u>	<u>15,901,410</u>	<u>(7,409,578)</u>

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

Minco Gold Corporation

Consolidated Statements of Changes in Equity For the years ended December 31, 2016, 2015 and 2014

(in Canadian dollars)

	Attributable to equity owner of the Company							Non-controlling interest \$	Total equity \$
	Number of shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficits \$	Subtotal \$			
Balance – January 1, 2014	50,348,215	41,758,037	8,933,012	1,102,818	(44,976,192)	6,817,675	5,124,196	11,941,871	
Net loss for the year	-	-	-	-	(7,354,162)	(7,354,162)	(143,632)	(7,497,794)	
Other comprehensive income	-	-	-	80,268	-	80,268	7,948	88,216	
Proceeds on issuance of shares from exercise of options	166,666	124,720	(51,387)	-	-	73,333	-	73,333	
Share-based compensation	-	-	297,588	-	-	297,588	-	297,588	
	50,514,881	41,882,757	9,179,213	1,183,086	(52,330,354)	(85,298)	4,988,512	4,903,214	
Balance - January 1, 2015	50,514,881	41,882,757	9,179,213	1,183,086	(52,330,354)	(85,298)	4,988,512	4,903,214	
Net income (loss) for the year	-	-	-	-	14,361,342	14,361,342	(40,786)	14,320,556	
Other comprehensive income	-	-	-	1,580,854	-	1,580,854	37,223	1,618,077	
Elimination of non-controlling interest related to sale of Minco Resources	-	-	-	-	-	-	(4,984,949)	(4,984,949)	
Proceeds on issuance of shares from exercise of options	66,500	29,066	(11,776)	-	-	17,290	-	17,290	
Share-based compensation	-	-	80,248	-	-	80,248	-	80,248	
	50,581,381	41,911,823	9,247,685	2,763,940	(37,969,012)	15,954,436	-	15,954,436	
Balance - December 31, 2015	50,581,381	41,911,823	9,247,685	2,763,940	(37,969,012)	15,954,436	-	15,954,436	
Balance - January 1, 2016	50,581,381	41,911,823	9,247,685	2,763,940	(37,969,012)	15,954,436	-	15,954,436	
Net income for the year	-	-	-	-	7,217,068	7,217,068	-	7,217,068	
Other comprehensive loss (note 8)	-	-	-	(1,345,417)	-	(1,345,417)	-	(1,345,417)	
Reclassification of other comprehensive income of an associate upon changes to an investment entity (note 7)	-	-	-	(1,418,523)	-	(1,418,523)	-	(1,418,523)	
Proceeds on issuance of shares from exercise of options	152,000	65,063	(26,276)	-	-	38,787	-	38,787	
Share-based compensation	-	-	100,693	-	-	100,693	-	100,693	
	50,733,381	41,976,886	9,322,102	-	(30,751,944)	20,547,044	-	20,547,044	
Balance - December 31, 2016	50,733,381	41,976,886	9,322,102	-	(30,751,944)	20,547,044	-	20,547,044	

The accompanying notes are an integral parts of these consolidated financial statements

Minco Gold Corporation
Consolidated Statements of Cash Flows
For the years ended December 31, 2016, 2015, and 2014

(in Canadian dollars)

	2016	2015	2014
	\$	\$	\$
Cash flow provided by (used in)			
Operating activities			
Net income (loss) for the year	7,217,068	14,320,556	(7,497,794)
Items not affecting cash:			
Amortization	3,362	34,363	67,180
Share of loss (gain) from an associate (note 8)	408,225	(1,259,391)	321,972
Dilution loss	98,899	-	78,177
Loss on partial disposal of investment in an associate	-	-	399,536
Impairment of investment in an associate	-	-	4,205,816
Impairment on property, plant and equipment	-	-	8,784
Foreign exchange loss (gain)	148,484	(227,257)	17,603
Gain on sale of Minco Resource	-	(15,111,348)	-
Gain from legal settlement (note 11)	(530,789)	(51,745)	(148,739)
Gain on sale of exploration permits (note 9(b))	(159,502)	-	(376,937)
Unrealized loss from investments at fair value (note 7)	990,000	-	-
Gain on becoming an investment entity (note 7)	(9,399,970)	-	-
Share-based compensation (note 11 (b))	100,693	80,248	297,588
Purchase of short-term investment (note 6)	(3,332,062)		
Redemption of short-term investment (note 6)	3,498,341		
Purchase of investments at fair value (Note 7)	(537,860)		
Changes in items of working capital:			
Receivables	(158,258)	10,454	(82,144)
Due from related parties	321,064	501,491	41,368
Prepaid expenses and deposits	90,935	(140,315)	(73,151)
Accounts payable and accrued liabilities	(178,098)	91,603	19,141
Net cash used in operating activities	(1,419,468)	(1,751,341)	(2,721,600)
Investing activities			
Net cash outflow from sale of Minco Resources and its subsidiaries	-	(1,354,041)	-
Proceeds from legal settlement (note 11)	-	94,472	720,095
Proceeds from partial disposal of investment in an associate (note 8)	-	-	1,500,000
Proceeds from sales of exploration permits (note 9(b))	-	-	376,937
Purchase of or proceeds from sale of property, plant and equipment	-	13,693	(13,772)
Purchase of short-term investments (note 6)	(20,000)		
Redemption of short-term investments	550,000	6,068,564	-
Net cash generated from investing activities	530,000	4,822,688	2,583,260
Financing activities			
Advance from non-controlling interest shareholders	-	-	258,471
Proceeds from stock option exercises	38,787	17,290	73,333
Net cash generated from financing activities	38,787	17,290	331,804
Effect of exchange rate changes on cash and cash equivalents	(167,869)	387,994	125,765
(Decrease) increase in cash and cash equivalents	(1,018,550)	3,476,631	319,229
Cash and cash equivalents- Beginning of year	5,593,669	2,117,038	1,797,809
Cash and cash equivalents - End of year	4,575,119	5,593,669	2,117,038
Cash paid for income tax	-	-	-

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

Minco Gold Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016, 2015, and 2014

(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 Cap Rock Energy Ltd. The Company changed its name to Minco Gold in 2007. The registered office of the Company is 2772 – 1055 West Georgia Street, British Columbia, Canada. The Company’s common shares are traded on the Toronto Stock Exchange (“TSX”) under the symbol “MMM”, the NYSE MKT under the symbol “MGH” (before January 31, 2017), and ceased trading on the NYSE MKT and commenced trading on the OTC Market in the USA (“OTCQX”) under the symbol MGHCF commencing January 31, 2017.

Change of Business Status

The Company was previously an exploration stage enterprise engaged in exploration and evaluation of gold-dominant mineral properties and projects. On November 11, 2016, the Company submitted an application to the TSX for delisting from the TSX and listing on the TSX Venture Exchange (“TSX-V”) as a Tier 1 Investment Issuer. At the same time, the Company also has changed its business from an exploration company into an investment issuer engaged in investing in privately and publicly traded companies. The Company received conditional approval from TSX-V on February 16, 2017.

The Company determined it has met the definition of investment entity under IFRS 10 *Consolidated financial statements* as of November 11, 2016. As such, the Company commenced accounting for its investment in Minco Silver Corporation (“Minco Silver”) at fair value through profit or loss (“FVTPL”) starting November 11, 2016 in accordance with IAS 39 *Financial Instruments: recognition and measurement* (“IAS 39”).

Significant transaction with Minco Silver in prior year

On May 22, 2015, the Company entered into a share purchase agreement (“SPA”) with Minco Silver Corporation (“Minco Silver”) and Minco Silver’s wholly-owned subsidiary, Minco Investment Holding HK Ltd. (“Minco Investment”). Pursuant to the SPA, the Company sold all of the issued and outstanding shares of its wholly-owned subsidiary, Minco Resources Limited (“Minco Resources”), which held interests in Minco Mining (China) Corporation (“Minco China”) to Minco Investment. Minco China consolidated certain subsidiaries including Yuanling Minco Mining Ltd. (“Yuanling Minco”), Tibet Minco Mining Co. Ltd. (“Tibet Minco”), Huaihua Tiancheng Mining Ltd. (“Huaihua Tiancheng”), a legal ownership of Changfu Minco Mining Co. Ltd., formerly Foshan Minco Mining Co. Ltd., (“Changfu Minco”) and a 51% interest in Guangdong Mingzhong Mining Co. Ltd. (“Mingzhong”), which owned the Changkeng Gold Project.

The selling price was \$13,716,397. In accordance with the SPA, \$3,700,000 of the sales price was applied to settle outstanding amounts due from the Company to Minco Silver. This sale transaction closed on July 31, 2015.

Minco Gold Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016, 2015, and 2014

(in Canadian dollars)

1. General information (continued)

The Company recognised a gain of \$18,467,407 on the sale, based on the consideration received of \$13,716,397 and the negative carrying value of its investment in the net assets of Minco Resources in the amount of \$4,340,686. This resulted in a total gain of \$18,057,083, which was reduced by \$69,000 to account for the transaction costs and further adjusted to include the reclassification of cumulative translation adjustments of \$479,324 relating to the disposed entities. The negative carrying value of the net assets sold also included a non-controlling interest of \$4,984,949, which relates to the 49% interest of Mingzhong that was not owned by the Company. Due to Minco Gold's significant influence on Minco Silver, an unrealised gain in the amount of \$3,407,237 was recorded as a reduction of Minco Gold's equity investment in Minco Silver and the remaining amount resulted in a realised gain of \$15,060,170 recorded in net income.

Three assets previously held in Minco Resources have been retained by the Company (the "Retained Assets") including the contingent receivable from a legal settlement with 208 Team (note 10), the Gold Bull Mountain exploration permits (note 9) and Longnan exploration permits (note 9).

The majority of the consideration was received in the form of a short-term investment (note 6) of \$10,116,905, and net cash out flow of \$1,354,041 as a result of the transaction mainly represented cash balances within the entities sold.

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").

Certain prior year financial information has been reclassified to conform to the presentation in the current year.

These financial statements were approved by the board of directors for issue on March 31, 2017.

3. Summary of significant accounting policies

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investments carried at FVTPL.

Consolidation

During and as at the year ended December 31, 2016, the Company did not have subsidiaries.

The consolidated financial statements for the year ended December 31, 2015 include the accounts of Minco Gold, and through to July 31, 2015, as described in Note 1, its wholly-owned Chinese subsidiaries Minco China, Yuanling Minco, Tibet Minco and Huaihua Tiancheng Mining Huaihua Tiancheng; its wholly owned Hong Kong subsidiary Minco Resources and its 51% interest in Mingzhong. Information about the Company's holding in its former subsidiaries:

Minco Gold Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016, 2015, and 2014

(in Canadian dollars)

3. Summary of significant accounting policies (continued)

Name	Principal activities (ownership interest)	Country of incorporation
Minco China	Exploring and evaluating mineral properties (100%)	China
Yuanling Minco	Exploring and evaluating mineral properties (100%)	China
Tibet Minco	Exploring and evaluating mineral properties (100%)	China
Huaihua Tiancheng	Exploring and evaluating mineral properties (100%)	China
Minco Resources	Holding company (100%)	China
Mingzhong	Exploring and evaluating mineral properties (51%)	China

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and held at banks and short-term investments with an original maturity of 90 days or less, which are readily convertible into a known amount of cash.

Short term investment

Short term investment consists of term deposits with maturity dates between 90 days and 1 year.

Investment in associates

Associates are entities over which the Company has significant influence, but not control. Significant influence is generally presumed to exist where the Company has between 20 percent and 50 percent of the voting rights, but can also arise where the Company holds less than 20 percent of the voting rights, but it has power to be actively involved and influential in policy decisions affecting the entity. The Company accounts for its investment in associates using the equity method. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's shares of profit or loss of the associate. The Company's share of income or loss of associates is recognized in the consolidated statement of income (loss) prior to the date that it became an investment entity.

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 reporting date, the Company determines whether there is any objective evidence that the investment in the associate is impaired or if previously recorded impairment should be reversed. If impairment is determined to exist, the amount of the impairment is recognized in the statement of income (loss). The amount of impairment is calculated as the difference between the recoverable amount of the investment in the associate and its carrying value.

Minco Gold Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016, 2015, and 2014

(in Canadian dollars)

3. Summary of significant accounting policies (continued)

If objective evidence of reversal exists, the reversal is recognized in net income in the period the reversal occurs, and is limited by the carrying value that would have been determined, from the application of equity accounting method, had no impairment charge been recognized in prior periods.

The Company applies the above investment in associate accounting policies to its investment in Minco Silver until November 11, 2016 (Note 1). Commencing November 11, 2016, the Company began to account for such investment in associates at FVTPL in accordance with IAS 39 (Note 1).

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, disposed of in 2015, was Renminbi (“RMB”).

The financial statements of the Company’s Chinese subsidiaries (“foreign operations”), prior to the disposal, were 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 of 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.

Minco Gold Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016, 2015, and 2014

(in Canadian dollars)

3. Summary of significant accounting policies (continued)

(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.

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. The Company recognizes purchases and sales of financial assets on settlement day, when transactions are closed. Transaction costs related to financial assets classified or designated as at FVTPL are expensed as incurred. A financial asset is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the Company has transferred substantially the risks and rewards of ownership of the asset. 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 designates its investment in Minco Silver and other publicly traded and privately held companies as FVTPL, including warrants. Fair value of warrants was estimated using Black-Scholes option pricing model.

(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 investment, receivables, 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.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable, 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.

Minco Gold Corporation

Notes to the Consolidated Financial Statements

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3. Summary of significant accounting policies (continued)

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

The criteria used to determine if objective evidence of impairment exists include:

- (i) significant financial difficulty of the obligor;
- (ii) delinquencies in interest and principal payments; and
- (iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

Financial assets carried at amortized cost: If evidence of impairment exists, the Company recognizes an impairment loss as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost and available-for-sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

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 are 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.

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:

Minco Gold Corporation

Notes to the Consolidated Financial Statements

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3. Summary of significant accounting policies (continued)

- 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.

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.

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 are capitalized, then the proceeds are recorded in the statement of income (loss).

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 are 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 is the same.

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 nor 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.

Minco Gold Corporation

Notes to the Consolidated Financial Statements

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3. Summary of significant accounting policies (continued)

Accounting standards and amendments issued but not yet applied

IFRS 9, Financial Instruments, 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 are largely carried forward from the 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. The effective date is for annual periods beginning on or after January 1, 2018. Early adoption is permitted. We are currently evaluating the impact of IFRS 9.

IFRS 16, Leases, replaces the previous leases standard IAS 17, *Leases and Related Interpretations*, and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). Effective January 1, 2019, an entity can choose to early adopt IFRS 16, but only if it also applies IFRS 15, Revenue from Contracts with Customers. We do not expect a significant impact from the adoption of IFRS 16.

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 in the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the financial statements:

Significant Influence of Minco Silver

Management has assessed the level of influence that the Company has on Minco Silver and determined that it has significant influence even though its shareholding has been below 20% since April 22, 2014. This is because of the representation on Minco Silver's board, common CEO and other shared management.

The status of an investment entity

When the Company submitted its application to the TSX-V for a change of business Management on November 11, 2016, management considered all the available facts and concluded that the Company has met all the three criteria set forth in IFRS 10.27 and became an investment entity as defined in IFRS 10 (Note 1):

Minco Gold Corporation

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4. Critical accounting estimates and judgments (continued)

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

In addition, management considers the Company has all of the typical characteristics of an investment entity set forth in IFRS 10.28:

- it has more than one investment (On November 11, 2016, the Company had one investment in Minco Silver and was in the process of acquiring its investment in El Olivar Imperial SAC, which was completed before the year ended December 31, 2016);
- it has more than one investor ;
- it has investors that are not related parties of the entity; and
- it has ownership interests in the form of equity.

Impairment of investment in associates

At each reporting date, the Company determines whether there is any objective evidence that the investment in the associate is impaired or if previously recorded impairment should be reversed. This determination requires significant judgment. In making this judgment, management evaluates among other factors, the movements in the trading share price of Minco Silver and other commercial activities impacting Minco Silver.

If impairment is determined to exist, the amount of the impairment is recognized in the statement of income (loss). The amount of impairment is calculated as the difference between the recoverable amount of the investment in the associate and its carrying value. If objective evidence of reversal exists, the reversal is recognized in net income in the period the reversal occurs, and is limited by the carrying value that would have been determined, from the application of equity accounting method, had no impairment charge been recognized in prior periods.

As at December 31, 2015, management evaluated its equity investment in Minco Silver for indications that the impairment loss that had been recognized in the first quarter of fiscal 2015 either no longer existed or had decreased. The company concluded that due to the positive developments in Minco Silver, which included the acquisition of Minco Resources and the related activities associated with the Changkeng project, accompanied by a corresponding increase in the market value of Minco Silver's share price, that there were indicators that impairment loss had reversed. As a result, management estimated the recoverable amount and reversed the previously recognized impairment.

As at November 11, 2016, the date the Company ceased to apply equity method to account for its investment on Minco Silver, the Company reviewed the corporate developments of Minco Silver, including the activities post acquisition of the Changkeng project, and an increase in the market value of Minco Silver's share price since year ended December 31, 2015. Based on this review, management determined no indicators of impairment or indicators of reversal were present.

Minco Gold Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016, 2015, and 2014

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4. Critical accounting estimates and judgments (continued)

Fair value of investments measured at FVTPL

The Company's investments are recorded in the Consolidated Statements of Financial Position at fair value. Management uses their judgment to select a variety of methods and make assumptions that are not always supported by quantifiable market prices or rates. Judgment is required in order to determine the appropriate valuation methodology under this standard and subsequently in determining the inputs into the valuation model used. These judgments include assessing the future earnings potential of investee companies, appropriate earnings multiples to apply, adjustments to comparable multiples, liquidity and net assets. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistently and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making these estimates in these Financial Statements. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these Financial Statements and the differences may be material. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair values of various assets and liabilities.

The fair values of financial instruments with quoted bid and ask prices are based on the price within the bid-ask spread that are most representative of fair value and may include closing prices in exchange markets. The fair value of the other financial instruments is determined using the valuation techniques described in Note 15.

5. Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and guaranteed investment certificates with initial maturities of less than three months. As at December 31, 2016, cash and cash equivalents consisted solely of cash at banks and on hand of \$4,575,119 which includes \$4,433,972 (USD \$3,297,492) denominated in USD (December 31, 2015 - \$5,557,926 (USD \$4,007,446)). The Company did not hold any cash equivalents as at December 31, 2016 or 2015.

6. Short-term investment

As at December 31, 2016, short-term investments consist of \$3,352,062 cashable guaranteed investment certificates, with maturity of one year on December 29, 2017. The yield on this investment is 0.825%.

On July 31, 2015, the Company received short-term investments in the amount of \$10,116,905 from Minco Silver, as consideration for the sale of Minco Resources and its subsidiaries. During the year, the Company redeemed \$6,068,564 of the short-term investment received. As at December 31, 2015, short-term investments consisted of \$4,048,341 cashable guaranteed investment certificates, with maturity of one year on December 28, 2016. The yield on this investment is 1.4%.

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7. Investments at fair value

Following are investments at fair value at the years ended December 31, 2016 and 2015:

	2016	2015
	\$	\$
Current:		
Investment in Minco Silver (Note 8)	11,770,000	-
Non-current:		
Investment in El Olivar Imperial SAC	537,860	-
Total	<u>12,307,860</u>	-

The Company owned 11,000,000 common shares of Minco Silver as at December 31, 2016 (representing an 18.26% ownership interest), and November 11, 2016 (18.26%), and December 31, 2015 (18.45%). The Company applied the equity method to account for this investment until November 11, 2016 when the Company became an investment entity (see Note 1). Commencing November 11, 2016, the Company accounted for this investment at FVTPL.

The Company considers the closing share price of Minco Silver at each reporting date as its fair value.

On December 22, 2016, the Company acquired 5.9% or 400,000 units ("Unit") of El Olivar Imperial SAC ("El Olivar"), a privately held Peruvian corporation, at US\$1.00 per unit through a private placement.

Each Unit consists of one Class A voting share and 1.5 Class A share purchase warrants, with each full warrant entitling the holder to purchase one additional Class A voting share for a period of six months from closing at a price of US\$1.00 per share. Minco Gold shall receive an annual cash dividend in U.S. dollars equal to 6% of the invested amount, calculated from the initial date of investment and payable starting on the date that is 18 months from the closing date.

The Class A Shares may be converted at any time into common shares of El Olivar at the option of the holder. After a period of 10 years from the commencement of commercial production, Class A shareholders will have the option to either convert their Class A Shares to common shares or redeem the shares for cash at face value. The conversion rate will initially be 1:1, subject to customary adjustments.

One director of the Company is also a director, an officer, and a controlling shareholder of El Olivar.

The cost of the acquisition was \$537,860 (US400,000) which approximated the fair value as at December 31, 2016 due to the short time period between the acquisition day of December 22, 2016, and December 31, 2016.

Minco Gold Corporation

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7. Investments at fair value (continued)

During the year ended December 31, 2016, the Company recorded the following amounts related to its investments at fair values :

Year ended December 31, 2016	\$
Investment in Minco Silver :	
<i>The difference of the carrying value (\$4,778,553) and the fair value (\$12,760,000) of investment in Minco Silver on November 11, 2016</i>	7,981,447
<i>Reclassification from other comprehensive income upon changes to an investment entity (on November 11, 2016) to income statement</i>	1,418,523
Gain on deemed disposal at November 11, 2016	9,399,970
<i>Unrealized loss from change in fair value on investment in Minco Silver from November 11, 2016 to December 31, 2016</i>	(990,000)
<i>Unrealized gain (loss) from investment in El Olivar from December 22, 2016 to December 31, 2016</i>	-
Unrealized loss on investments at fair value	(990,000)

8. Investment in an associate

As at December 31, 2016, Minco Gold owned an 18.26% (December 31, 2015 – 18.45%) interest in Minco Silver. The Company has significantly influence on Minco Silver through common officers and a common director. Minco Silver was incorporated in British Columbia, Canada and its Common Shares are listed on the Toronto Stock Exchange (“TSX”) and trades under the symbol “MSV”. The Company accounted for its investment in Minco Silver using the equity method up to November 11, 2016, when the Company met the definition of an investment entity and commenced accounting for this investment at FVTPL (Note 1 and 7).

As at November 11, 2016, the date on which the Company met the criteria of an investment entity, the Company reviewed the corporate developments of Minco Silver, including the activities post acquisition of the Changkeng project, and an increase in the market value of Minco Silver’s share price since year ended December 31, 2015. Based on this review, management determined no indicators of impairment or indicators of reversal were present.

As at December 31, 2016, 2015 and 2014, the Company owned 11,000,000 common shares of Minco Silver.

Minco Gold Corporation

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8. Investment in an associate (continued)

Continuity of the Company's investment in Minco Silver during the period it was accounted for as an investment in associate is as follows:

	Period from January 1 to November 11, 2016	2015	2014
	\$	\$	\$
Beginning of period	6,631,094	6,820,000	13,368,836
Dilution loss	(98,899)	-	(78,177)
Share of Minco Silver's income (loss)	(408,225)	1,259,391	(321,972)
Share of Minco Silver's other comprehensive income (loss)	(1,345,417)	1,958,940	115,462
Partial disposition		-	(2,058,333)
Unrealized gain on disposition of Minco Resources	-	(3,407,237)	-
Impairment	-	-	(4,205,816)
Ending of period	<u>4,778,553(i)</u>	<u>6,631,094</u>	<u>6,820,000</u>

(i) \$4,778,553 is the carrying value of the Company's investment in Minco Silver on November 11, 2016 when the Company ceased to apply the equity method to account for this investment (Note 7)

Following is required financial position disclosure of Minco Silver that was accounted for under the equity method in 2015.

	December 31, 2015
	\$
Cash and cash equivalents	26,202,564
Other current assets	33,039,404
Mineral interests	63,676,055
Property, plant and equipment	434,999
Current liabilities	638,549
Shareholders' equity	<u>122,714,472</u>

Minco Gold Corporation

Notes to the Consolidated Financial Statements

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8. Investment in an associate (continued)

The following is the income statement disclosure of Minco Silver for the years ended December 31, 2016, 2015 and 2014.

Years ended December 31,	2016 (i)	2015	2014
	\$	\$	\$
Administrative expenses	2,576,760	2,805,616	3,376,141
Interest income	521,021	911,213	980,945
Net income (loss) for the year	(2,407,668)	6,680,947	(1,665,516)
Other comprehensive income (loss)	(9,277,783)	10,851,532	470,514
Comprehensive income (loss) for the year	(11,685,451)	17,532,479	(1,195,002)

(i) These are Minco Silver's operating results for the whole year ended December 31, 2016. The Company only proportionally shared Minco Silver's results from January 1 to November 11, 2016 when Minco Gold commenced accounting for its investment in Minco Silver at FVTPL. The net loss and other comprehensive loss proportionally shared by the Company are \$1,946,221 and (\$7,016,304) respectively.

9. Mineral interests

a) Guangdong - Changkeng

Former subsidiaries Minco China and Tibet Minco, are the controlling shareholders in Mingzhong with a 51% interest collectively.

Mingzhong signed an exploration permit transfer agreement with No. 757 Exploration Team of Guangdong Geological Bureau ("757 Exploration Team") and on January 5, 2008 Mingzhong received the Changkeng exploration permit (the "Changkeng Exploration Permit").

On July 31, 2015, the Company's equity investee, Minco Silver, completed the purchase of the Company's subsidiaries that control the 51% interest of Mingzhong (note 1).

b) Gansu - Longnan

Following the transaction in 2015 with Minco Silver (note 1), the Company's former subsidiary, Minco China holds nine exploration permits in trust for the Company 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 four exploration permits located in the northeast extension of the Yangshan gold belt and its adjacent area;
- ii) Yejiaba: including four exploration permits adjacent to the Guojiagou exploration permit; and
- iii) Xicheng East: including one exploration permit to the east extension of the Xicheng Pb-Zn mineralization belt.

Minco Gold Corporation

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9. Mineral interests (continued)

On April 8, 2016, Minco China entered into an agreement with Longnan Kingstone Mining Limited (“Longnan Kingstone”) in which the Company disposed of two exploration permits in the Yangshan and Xicheng east area to Longnan Kingstone for total cash proceeds of RMB 800,000 (\$154,920). The process of transferring the titles of the four permits to Longnan Kingstone was approved by Gansu province. Minco China had received RMB 100,000 (\$19,365) as at December 31, 2016. The remaining RMB 700,000 (\$140,137) was received in January 2017. A gain on sale of exploration permit of \$159,502 has been recorded for the year ended December 31, 2016.

The Company is looking for buyers of these permits and will not renew the rest of these permits when they expire.

c) Hunan - Gold Bull Mountain

Following the transaction in 2015 with Minco Silver, Minco China holds the Gold Bull Mountain exploration permit in trust for the Company. This permit expires on June 28, 2017.

The Company is looking for buyers of this permit, and will not renew this permit when it expires.

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

	December 31, 2016	December 31, 2015	December 31, 2014	Cumulative to December 31, 2016
	\$	\$	\$	\$
Gansu - Longnan	195,248	626,815	894,646	12,527,397
Guangdong- Changkeng	-	122,652	244,784	8,285,703
Hunan - Gold Bull Mountain	21,862	43,508	36,862	2,338,473
Guangdong - Sihui	-	106	1,525	6,099
Total	217,110	793,081	1,177,817	23,157,672

As at December 31, 2016 and 2015, each of the above mineral properties has a carrying value of \$nil.

10. Gain on legal settlement

In 2010, Minco China, the former subsidiary of the Company, had entered into an agreement with the 208 Team, a subsidiary of China National Nuclear Corporation, to acquire a 51% equity interest in the Tugurige Gold Project located in Inner Mongolia, China (the “Agreement”). The 208 Team did not comply with certain obligations under the Agreement. As a result, Minco China commenced legal action in China seeking compensation. On March 25, 2013, Minco China settled its claim against the 208 Team for an amount of RMB 14 million (\$2.4 million). As at December 31, 2014, Minco China had received RMB 9 million (\$1,501,083).

On May 6, 2015, Minco China reached an agreement to settle its claim against the 208 Team for an amount of RMB 5.5 million (\$1,138,472). The payments were to be received in following manner:

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10. Gain on legal settlement (continued)

- i) On the signing date of the agreement- RMB 500,000 (\$98,940) (received on May 7, 2015)
- ii) On or before June 17, 2015- RMB 2,000,000 (\$405,894)
- iii) On or before August 7, 2015- RMB 3,000,000 (\$608,840)

Upon the completion of the SPA on July 31, 2015, the Company continued to be entitled to its interest in the outstanding receivable RMB 5,000,000 (\$1,074,134) through a trust agreement with Minco China, a current subsidiary of Minco Silver.

As at December 31, 2015, the remaining RMB 5 million balance receivable under the legal settlement was not received.

The Company, through Minco China, engaged a Chinese law firm to recover the remaining RMB 5 million unpaid balance on a contingent fee basis whereby the Company would pay the Chinese law firm 50% of the net amount recovered. The remaining RMB 5,000,000 was received, by the Minco China on the Company's behalf, on July 27, 2016 (note 14) and the Company recognized a gain of \$530,789 which was the settlement payment received net of related legal expenditures.

11. Share capital

- a. Common shares

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, 2015, the Company granted stock options for 1,190,000 common shares to various employees, consultants and directors at a weighted exercise price of \$0.24 per common share that vest over an 18-month period from the issuance date. No stock options were granted in the year ended December 31, 2016.

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 \$100,693 in share-based compensation expense for the year ended December 31, 2016 (December 31, 2015 - \$80,248, December 31, 2014 - \$297,588).

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11. Share capital (continued)

A summary of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price \$
January 1, 2015	6,460,501	0.79
Granted	1,190,000	0.24
Forfeited	(66,500)	0.26
Cancelled	(927,500)	0.55
Expired	(66,667)	0.93
Balance, December 31, 2015	6,589,834	0.72
Exercised	(152,000)	0.26
Forfeited	(72,000)	0.47
Expired	(1,122,500)	2.17
Balance, December 31, 2016	5,243,334	0.43

The weighted average share price on the date of exercise was \$0.38 in 2016 (2015 - \$0.30, 2014 - \$0.56). As at December 31, 2016, there was \$6,662 (2015 - \$83,716) of total unrecognized compensation cost relating to unvested stock options.

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
0.18 – 0.24	1,003,334	3.70	0.24	656,665	0.24
0.25 – 0.42	895,000	2.05	0.26	895,000	0.26
0.43 – 0.54	2,100,000	0.98	0.46	2,100,000	0.46
0.55 – 0.67	1,245,000	0.24	0.67	1,245,000	0.67
	5,243,334	1.51	0.43	4,896,665	0.44

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

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11. Share capital (continued)

	2016	2015	2014
Risk-free interest rate	-	0.78% - 1.68%	1.27% -1.68%
Dividend yield	-	0%	0%
Volatility	-	85% - 87%	87% - 89%
Forfeiture rate	-	23%	23%
Estimated expected lives	-	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.

12. Income tax

No income taxes were recorded due to sufficient loss available.

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:

	2016	2015	2014
	\$	\$	\$
Net income (loss)	7,217,068	14,320,556	(7,497,794)
	26%	26%	26%
Income tax recovery at statutory rates	1,876,438	3,723,345	(1,949,427)
Non-taxable (deductible) expenses	26,375	19,159	(431,590)
Difference in tax rates	(671,958)	1,093,732	20,291
Difference in gain on disposition of Minco Resources	-	(6,662,076)	-
Reduction of tax attributes from sale of Minco Resources	-	6,668,881	-
Expiry of non-capital loss carry forward	-	300,755	279,602
Deferred income tax asset not recognized	(1,245,922)	(5,252,629)	1,664,315
Other	15,067	108,833	416,809
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, 2016 and 2015 are as follows:

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Notes to the Consolidated Financial Statements

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12. Income tax (continued)

	2016	2015
	\$	\$
Deferred income tax assets (liabilities) not recognized		
Non-capital loss	3,718,815	3,536,062
Resource expenditures	680,236	701,784
Capital assets	34,127	50,671
Investment in Minco Silver	(1,043,545)	(375,488)
Capital loss	1,066,999	1,070,899
	<u>4,456,631</u>	<u>4,983,929</u>

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

The Company has approximately \$13,600,240 of operating losses in Canada. The expiries for Canadian non-capital loss carry forwards are as follows:

	\$
2026	1,442,234
2028	1,582,716
2029	1,270,045
2030	1,285,615
2031	1,933,078
2032	2,131,656
2033	1,535,838
2034	1,324,803
2035	1,201,864
2036	595,284
	<u>14,303,133</u>

13. Commitments

The Company has commitments in respect of office leases requiring minimum payments (including a share of operating costs) of \$283,396 as follows:

	\$
2017	212,547
2018	<u>70,849</u>
	<u>283,396</u>

The above lease commitment is related to a Vancouver office that is shared by Minco Silver and Minco Base Metal Corporation (note 14). The Company has a contract subject to renewal annually to recover 70% of these lease payments from Minco Silver and Minco Base Metal Corporation ("MBM").

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14. Related party transactions

Investments

Refer to Note 7 for description of the Company's relationship and transaction with its investee, El Olivar.

Funding of Changfu Minco

Up to July 31, 2015, Minco Silver could not invest directly in Changfu Minco as Changfu Minco is legally owned by Minco China. All historical funding supplied by Minco Silver for exploration of the Fuwan Project must first go through the Company's former subsidiary, Minco China, via the Company and Minco Resources to comply with Chinese Law. In the normal course of business Minco Silver used trust agreements when providing cash, denominated in US dollars, to Minco China via the Company and Minco Resources for the purpose of increasing the registered capital of Changfu Minco. Upon completion of the disposal of Minco Resources (note 1), the requirement for the trust structure was eliminated.

Trust agreement with Minco China

When the Company disposed its Chinese subsidiaries on July 31, 2015, the Company ceased to have subsidiaries in China. As a result, the Company entered into a trust agreement with Minco China, a subsidiary of Minco Silver, to hold the interest of the Retained Assets (note 1) on behalf of the Company.

Shared office expenses

Minco Silver and Minco Gold share offices and certain administrative expenses in Beijing up to July 31, 2015. Minco Silver, Minco Base Metals Corporation, a company with which the Company's CEO has significant influence over, and Minco Gold share offices and certain administrative expenses in Vancouver.

Due from related parties

As at December 31, 2016, the Company had the following amounts due from related parties:

- \$205,145 due from Minco Silver (December 31, 2015 – a payable of \$177,330) which is a combined result of the following:
 - During the year ended December 31, 2016, Minco China, a subsidiary of Minco Silver, collected \$544,164 in trust and on behalf of the Company from the partial settlement of the Retained Assets.
 - Minco Gold also recorded a net payable of \$339,019 to Minco Silver for the exploration expenses Minco Silver paid on behalf of Minco Gold for the Retained Assets of \$370,899 net of the administrative and shared expenses paid by Minco Gold on behalf of Minco Silver of \$31,880.
- \$18,527 due from MBM (December 31, 2015 - \$12,387), in relation to shared office expenses

The amounts due to and due from related parties are unsecured, non-interest bearing and payable on demand.

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14. Related party transactions (continued)

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, 2016, 2015 and 2014, the following amount was paid and accrued (2016 - \$30,000, 2015 - \$40,000, 2014 - \$30,000) for compensation to key management:

	2016	2015	2014
	\$	\$	\$
Cash remuneration	313,016	333,729	270,693
Share-based compensation	80,702	67,405	215,202
Total	<u>393,717</u>	<u>401,134</u>	<u>485,895</u>

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

15. 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: loans and receivables, other financial liabilities and financial assets measured at fair value through profit or loss.

The following table summarizes the carrying value of financial assets and liabilities at December 31, 2016 and 2015:

December 31,	2016	2015
	\$	\$
Fair value through profit and loss		
Investments at fair value, current and non-current (note 7)	12,307,860	-
Loans and receivables		
Cash	4,575,119	5,593,669
Short-term investment	3,352,062	4,048,341
Receivables	169,380	11,122
Due from related parties	223,672	12,387
Other Financial Liabilities		
Accounts payables	211,424	405,550
Due to related party	-	177,330

Fair value measurement

Financial assets and liabilities that are recognized on the balance sheet at fair value can be classified in a hierarchy that is based on the significance of the inputs used in making the measurements. The levels in the hierarchy are:

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15. Financial instruments and fair value (continued)

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).

As at December 31, 2016 and 2015, financial instruments that are not measured at fair value on the balance sheet are represented by cash, short-term investments, receivables, due from related parties, account payable and accrued liabilities, and due to related parties. The fair values of these financial instruments approximate their carrying value due to their short-term nature.

As at December 31, 2016, the Company's financial assets measured at fair values through profit or loss are classified as follows:

	Level 1	Level 2	Level 3
	\$	\$	\$
Investments at fair value, current	11,700,000	-	-
Investments at fair value, non-current	-	-	537,860 (i)

(i) The measurement of the fair value of investment in EI Olivar Imperial SAC was classified as level 3 as the fair value was estimated based on the latest market transaction value of this investment.

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. Risk management activities are carried out by management, who identifies and evaluates the financial risks.

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:

- Cash and cash equivalents— In order to manage credit and liquidity risk the Company places its cash with major financial institutions in two major banks in Canada (subject to deposit insurance up to \$100,000). As at December 31, 2016, total cash of \$4,575,119 was placed with two institutions.

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15. Financial instruments and fair value (continued)

- Short-term investment – The Company places its short-term investment with a major financial institution in a major bank in Canada. As at December 31, 2016, short-term investments totalled \$3,352,062 (December 31, 2015 - \$4,048,341).

Price Risk

Price risk is the risk that the fair value of an investment measured at FVTPL will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk). The Company is subject to price risk through its public equity investments.

The Company's private market investments are also subject to price risk as they are impacted by many general and specific market variables.

A 10% increase/decrease in the value of all public equity and private market investments would result in an approximate increase/decrease in the value of public and private market exposure and unrealized gain/loss in the amount of approximately \$1.23 million.

Foreign exchange risk

The Company's functional currency is the Canadian dollar. The foreign currency risk is related to US dollar funds and investment denominated in US dollar held in the entity. Therefore the Company's net earnings are impacted by fluctuations in the valuation of the US dollar in relation to the Canadian dollar.

The Company has US dollar investment of \$537,860 (US\$400,000) and cash and cash equivalent approximately \$4.4 million (US\$ 3.3 million) as at December 31, 2016. A 10% change in the currency exchange rate (US dollar to Canadian dollar) will affect the Company's net loss in a given period by approximately \$0.49 million. The Company does not have any currency hedges for its foreign exchange exposure.

Interest rate risk

Financial instruments that expose the Company to interest rate risk are cash and cash equivalents and short-term investments.

The Company holds short-term investments such as guaranteed investment certificates at fixed interest rates. As a result, the Company is not exposed to significant interest rate risk.

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16. 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.

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, 2016, the Company did not have long term liabilities for settlement.

17. Subsequent events

On February 6, 2017, the Company granted stock options to purchase 2,000,000 common shares to employees, consultants and directors at an exercise price of \$0.24 per common share. These options vest over an 18 month period from the issue date and will expire five years after issuance on February 6, 2022.

The Company acquired interest in two arm's length public companies in February and March of 2017 for a total of \$834,000:

- February 17, 2017 – Investment of \$750,000 in Hudson Resources Inc., a Canadian public company, through a private placement of 2,142,285 units at a price of \$0.35 per unit. Each unit comprised one common share and one-half of a transferable share purchase warrant. Each warrant is exercisable into one additional common share until February 16, 2020, at \$0.50 per share.
- March 2, 2017 - Investment of \$84,000 in Barkerville Gold Mines Ltd., a Canadian public company, through the purchase of 200,000 common shares at \$0.42 per share in the open market.