

**Minco Capital Corp.**  
**(Formerly Minco Gold Corporation)**

Financial Statements

**For the years ended December 31, 2018 and 2017**

(Canadian dollars)

## **Management's Responsibility for Financial Reporting**

The financial statements of Minco Capital Corporation are the responsibility of the Board of Directors and management. The 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 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 which meets quarterly and annually with management and the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board of Directors for approval.

Dr. Ken Cai  
Chief Executive Officer

Larry Tsang, CPA, CA  
Chief Financial Officer

Vancouver, Canada  
April 15, 2019

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF MINCO CAPITAL CORP. (formerly Minco Gold Corporation)

#### *Opinion*

We have audited the financial statements of Minco Capital Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2018, and the statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

#### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

#### *Other Matter*

The financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 16, 2018.

#### *Other Information*

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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## *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ♦ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Sukhjit Gill.

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
April 15, 2019

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# Minco Capital Corp. (formerly Minco Gold Corporation)

## Statements of Financial Position

(in Canadian dollars)

	December 31, 2018	December 31, 2017
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 5)	1,682,147	3,642,328
Short-term investment (note 6)	20,000	271,455
Investments at fair value (note 7)	9,774,246	13,614,050
Receivables	66,921	25,713
Due from related parties (note 11)	1,349	38,945
Prepaid expenses and deposits	90,211	120,921
	<u>11,634,874</u>	<u>17,713,412</u>
<b>Non-current assets</b>		
Long-term deposit	26,295	26,295
Property, plant and equipment	37,213	5,197
	<u>11,698,382</u>	<u>17,744,904</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	72,621	186,635
	<u>72,621</u>	<u>186,635</u>
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital (note 8)	41,976,886	41,976,886
Contributed surplus (note 8)	10,097,345	9,630,905
Deficits	(40,448,470)	(34,049,522)
	<u>11,625,761</u>	<u>17,558,269</u>
<b>Total liabilities and equity</b>	<u>11,698,382</u>	<u>17,744,904</u>
<i>Commitments (note 10)</i>		
<i>Subsequent events (note 14)</i>		

Approved by the Board of Directors

(signed) Malcolm Clay Director

(signed) Robert Callander Director

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

# Minco Capital Corp. (formerly Minco Gold Corporation)

## Statements of Loss and Comprehensive Loss

### For the years ended December 31, 2018, and 2017

(in Canadian dollars, except per share data)

	2018	2017
	\$	\$
<b>Dividend, fund distribution, and interest income</b>	95,436	39,390
<b>Realized gain from investment (note 7)</b>	98,641	46,991
<b>Net unrealized losses from investments (note 7)</b>	(5,593,859)	(1,860,185)
	<u>(5,399,782)</u>	<u>(1,773,804)</u>
<b>Operating expenses</b>		
Accounting and audit	19,728	88,646
Amortization	5,048	2,951
Consulting (note 11)	66,838	76,767
Directors' fees	55,500	64,500
Investor relations	10,717	11,129
Legal and regulatory	84,296	117,697
Office and administration	132,720	160,003
Property and Investment evaluation	80,997	126,791
Salaries and benefits (note 11)	266,680	263,042
Share-based compensation (note 8)	466,440	308,803
Travel and transportation	24,480	20,611
<b>Total operating expenses</b>	<u>1,213,444</u>	<u>1,240,940</u>
<b>Operating loss</b>	(6,613,226)	(3,014,744)
Foreign exchange gain (loss)	162,646	(282,834)
Gain on write-off of accounts payable	51,632	-
<b>Net loss and comprehensive loss for the year</b>	<u>(6,398,948)</u>	<u>(3,297,578)</u>
<b>Loss per share:</b>	(0.13)	(0.06)
<b>Weighted average number of common shares outstanding:</b>	50,733,381	50,733,381

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

# Minco Capital Corp. (formerly Minco Gold Corporation)

## Statements of Cash Flows

### For the years ended December 31, 2018 and 2017

(in Canadian dollars)

	Number of shares	Share capital \$	Contributed surplus \$	Deficits \$	Subtotal \$
<b>Balance - January 1, 2017</b>	50,733,381	41,976,886	9,322,102	(30,751,944)	20,547,044
Net loss for the year	-	-	-	(3,297,578)	(3,297,578)
Share-based compensation	-	-	308,803	-	308,803
<b>Balance - December 31, 2017</b>	<b>50,733,381</b>	<b>41,976,886</b>	<b>9,630,905</b>	<b>(34,049,522)</b>	<b>17,558,269</b>
<b>Balance - January 1, 2018</b>	50,733,381	41,976,886	9,630,905	(34,049,522)	17,558,269
Net loss for the year	-	-	-	(6,398,948)	(6,398,948)
Share-based compensation	-	-	466,440	-	466,440
<b>Balance – December 31, 2018</b>	<b>50,733,381</b>	<b>41,976,886</b>	<b>10,097,345</b>	<b>(40,448,470)</b>	<b>11,625,761</b>

*The accompanying notes are an integrated part of these financial statements*



# Minco Capital Corp. (formerly Minco Gold Corporation)

## Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(in Canadian dollars)

	2018	2017
	\$	\$
Cash flow provided by (used in)		
<b>Operating activities</b>		
Net loss for the year	(6,398,948)	(3,297,578)
Items not affecting cash and cash equivalent:		
Amortization	5,048	2,951
Realized gains from disposition of investments	(98,641)	(46,991)
Foreign exchange loss (gain)	(284,706)	282,834
Gain on write-off of accounts payable	(51,632)	-
Net unrealized losses from investments (note 7)	5,630,245	1,860,185
Share-based compensation	466,440	308,803
Purchase of short-term investments (note 6)	(384,820)	(1,049,468)
Redemption of short-term investments (note 6)	636,275	4,130,075
Purchase of investments (note 7)	(3,434,708)	(3,250,608)
Disposition of investments	1,779,294	131,224
Changes in items of working capital:		
Receivables	(41,208)	143,667
Due from related parties	37,596	184,727
Prepaid expenses and deposits	30,710	(23,904)
Accounts payable and accrued liabilities	(62,382)	(24,791)
<b>Net cash used in operating activities</b>	<u>(2,171,437)</u>	<u>(648,874)</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment	<u>(37,064)</u>	<u>(1,082)</u>
<b>Net cash used in investing activities</b>	<u>(37,064)</u>	<u>(1,082)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>248,320</u>	<u>(282,834)</u>
Decrease in cash and cash equivalents	(1,960,181)	(932,790)
Cash and cash equivalents- Beginning of year	<u>3,642,328</u>	<u>4,575,118</u>
Cash and cash equivalents - End of year	1,682,147	3,642,328
<b>Supplemental information</b>		
Foreign exchange gain included in unrealized losses from investments	(36,386)	-

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

# **Minco Capital Corp. (formerly Minco Gold Corporation)**

Notes to the Financial Statements

**For the years ended December 31, 2018 and 2017**

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*(in Canadian dollars)*

## **1. General information**

Minco Capital Corp., formerly Minco Gold Corporation, (“Minco Capital” or the “Company”) is an investment Company whose objective is to generate income and achieve long term capital appreciation by investing in public and private companies and assets.

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 Capital Corp on February 25, 2019. The registered office of the Company is 2060 - 1055 West Georgia Street, British Columbia, Canada. The Company’s common shares are traded on the TSX Venture Exchange (“TSX-V”) under the symbol MMM and on the OTC Market in the USA (“OTCQX”) under the symbol MGHCF.

On October 16, 2018 the Company announced its intention to voluntarily file a Form 15 with the United States Securities and Exchange Commission (the "SEC") to terminate the registration of its common shares under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Form 15 was filed with the SEC on October 19, 2018, which immediately suspended the Company’s reporting requirements under the Exchange Act. Termination became effective 90 days after the date of filing. The Company’s common shares continue to trade on the TSX Venture Exchange and the OTCQX Market: MGHCF.

## **2. Basis of presentation**

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

The Company has determined that it meets the definition of an investment entity under IFRS 10.

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 April 15, 2019

Effective January 1, 2018, the Company adopted IFRS 9 Financial Instruments. IFRS was adopted retrospectively with no restatement of comparative periods, as permitted by the transition provisions of the standard.

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

# Minco Capital Corp. (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

(in Canadian dollars)

#### 3. Summary of significant accounting policies

##### Adoption of new accounting standards

The Company adopted IFRS 9 with a date of initial application as of January 1, 2018. As a result of the adoption of IFRS 9, the Company has changed its accounting policy for financial instruments retrospectively. There were no material changes in the measurement and carrying values of the Company's financial instruments as a result of the adoption. IFRS 9 does not require restatement of comparative periods.

IFRS 9 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 previous 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 Company's financial instruments are accounted for as follows under IFRS 9 as compared to the Company's previous policy in accordance with IAS 39:

	IAS 39	IFRS 9
<b>Financial Assets</b>		
Cash and cash equivalents	Loans and receivables	Amortized cost
Short term investments	Loans and receivables	Amortized cost
Receivables	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Investments at fair value	Fair value through profit and loss ("FVTPL")	FVTPL
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost

Following is the new accounting policy for instrument instruments under IFRS 9:

##### Financial assets

###### (a) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

# Minco Capital Corp. (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

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(in Canadian dollars)

#### 3. Summary of significant accounting policies (continued)

##### Adoption of new accounting standards (continued)

###### (b) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income (“FVTOCI”) or measured at fair value through profit or loss (“FVTPL”).

###### (i) Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company’s business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

The Company’s cash and cash equivalents, short-term investments, receivables and due from related parties are amortized cost financial instruments.

###### (ii) Financial assets measured at FVTPL

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company’s investments at fair value are FVTPL financial instruments.

# Minco Capital Corp. (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

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(in Canadian dollars)

#### 3. Summary of significant accounting policies (continued)

##### Adoption of new accounting standards (continued)

###### (iii) Financial assets measured at FVTOCI

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as “financial asset at fair value through other comprehensive income” in other comprehensive income.

###### (c) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the statement of loss and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

##### Financial liabilities

###### (a) Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

###### (b) Classification of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

###### (i) Financial liabilities measured at amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

The Company's accounts payable is amortized cost financial liabilities.

# **Minco Capital Corp. (formerly Minco Gold Corporation)**

## Notes to the Financial Statements

### **For the years ended December 31, 2018 and 2017**

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*(in Canadian dollars)*

#### **3. Summary of significant accounting policies (continued)**

##### **Adoption of new accounting standards (continued)**

- (ii) Financial liabilities measured at fair value through profit or loss

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company does not have any liabilities classified as financial liabilities measured at fair value through profit or loss.

- (c) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of loss and comprehensive loss.

##### Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

##### Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

##### **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 more than 90 days.

# Minco Capital Corp. (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

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(in Canadian dollars)

#### 3. Summary of significant accounting policies (continued)

##### Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is recorded using a straight-line basis over the shorter of their estimated useful lives and economic lives as follows:

Office furniture	5 years
Computer equipment	5 years
Leasehold improvements	5 years

The residual value, useful lives and methods of amortization of property, plant and equipment are reviewed at each reporting period, and adjusted prospectively if appropriate.

##### Foreign currency translation

###### (i) Functional and presentation currency

The functional currency and presentation currency of the Company is Canadian dollar.

###### (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).

##### Share-based compensation

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 compensation 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.

##### Share capital

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

# Minco Capital Corp. (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

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(in Canadian dollars)

#### 3. Summary of significant accounting policies (continued)

##### Earnings (loss) 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

The provision for income taxes consists of current and deferred tax expense and is recorded in operations. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the period, adjusted for amendments to tax payable for previous years.

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.

##### Accounting standards and amendments issued but not yet effective

The IASB has replaced IAS 17, Leases in its entirety with IFRS 16, Leases, which will require lessees to recognize nearly all leases on the balance sheet to reflect their right to use an asset for a period of time and the associated lease liability. IFRS 16 is effective for annual periods commencing on or after January 1, 2019.

The Company will adopt IFRS 16 on January 1, 2019 and management believes that the adoption will not have an impact on the Company's financial statements.

#### 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:



# Minco Capital Corp. (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

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(in Canadian dollars)

#### 4. Critical accounting estimates and judgments (continued)

##### *Determination of investment entity status*

The Company considered all the available facts and concluded that the Company met all three criteria set forth in IFRS 10.27 to meet the definition of an investment entity as defined in IFRS 10 from time to time:

- 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;
- 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.

##### *Fair value of investments measured at FVTPL*

The Company's investments are recorded in the 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 12.

##### *Fair value of equity instruments*

The fair value of equity instruments are subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models that incorporate market data and involves uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of

# Minco Capital Corp. (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

(in Canadian dollars)

#### 4. Critical accounting estimates and judgments (continued)

highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

##### *Recovery of deferred tax assets*

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgements in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the financial statements.

#### 5. Cash and cash equivalents

The Company had cash on hand of \$1,682,147 and did not hold any cash equivalents as at December 31, 2018 or 2017.

#### 6. Short-term investment

As at December 31, 2018, short-term investment consist of one \$20,000 (December 31, 2017 - \$271,455) cashable guaranteed investment certificate. The yield on this short-term investment is 0.9 % per annum (2017 – 1.05%). During the year ended December 31, 2018, the Company purchased additional guaranteed investment certificates for \$384,820 and redeemed \$636,275.

#### 7. Investments at FVTPL

The Company has the following investments as at December 31, 2018:

	Number of Shares/Units Held	Fair value
<b>Equities of public Resource Companies:</b>		\$
<b>Top ten resource companies by fair value</b>		
-Minco Silver Corp.	11,000,000	4,895,000
-Hudson Resources Inc.	2,142,857	792,857
-Equinox Gold Corp.	324,600	331,092
-RoxGold Inc.	406,800	329,508
-Continental Gold Inc.	120,025	270,056
-Amarillo Gold	715,000	193,050
-Amerigo Resources	209,000	186,010
-NEO Performance Materials Inc.	11,000	169,400
-FMC Inc.	1,600	161,320
-Global X Lithium & Battery ETF	3,500	128,730
<b>Other Resource Companies and Funds</b>	various	783,960
<b>Equities of Public dividend-paying Non-Resource Companies and Funds</b>	various	642,640
<b>Equities of a Private Company (EI Olivar Imperial)</b>	400,000	545,293
<b>Debentures:</b>		
-Convertible debenture: IBC Advanced Alloys 8.25%	100	99,000
<b>Subtotal</b>		<b>9,527,916</b>

# Minco Capital Corp. (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

(in Canadian dollars)

#### 7. Investments at FVTPL (continued)

Number of warrants held	Number held	\$
- Almaden Minerals Ltd.	50,000	13,650
- Amarillo Gold	357,500	47,000
- EI Olivar	600,000	-
- IBC Advanced Alloys	230,000	49,680
- Mexican Gold	335,000	32,000
- Hudson Resources Inc.	1,071,428	104,000
Subtotal		246,330
Total investments		9,774,246

The Continuity of the Company's investments is as follows:

	December 31, 2017	Additions	Dispositions	Realized gain	Unrealized gain (losses) (v)	December 31, 2018
Investment in public entities:	\$	\$	\$	\$	\$	\$
- Shares and partnership units (i)	12,866,912	3,231,108	(1,779,294)	98,641	(5,533,744)	8,883,623
- Share purchase warrants (ii)	245,000	103,600	-	-	(102,270)	246,330
Investment in a EI Olivar Imperial						
- Shares and warrants (iii)	502,138	-	-	-	43,155	545,293
Investment in convertible debenture:						
- IBC Advanced Alloys Corp. (iv)	-	100,000	-	-	(1,000)	99,000
<b>Total</b>	<b>13,614,050</b>	<b>3,434,708</b>	<b>(1,779,294)</b>	<b>98,641</b>	<b>(5,593,859)</b>	<b>9,774,246</b>

During the year ended December 31, 2018, the Company acquired common shares/share purchase warrants/partnership units and convertible debentures of public companies for a total cost of \$3,434,708. The Company disposed of common shares of public companies for net proceeds of \$1,779,294 and a realized gain of \$98,641.

(i) On December 31, 2018, the Company held 11,000,000 common shares of Minco Silver Corporation ("Minco Silver"), representing approximately 18% of Minco Silver's outstanding shares, unchanged from December 31, 2017.

(ii) The Company considers the closing share price of investments issued by public entities at each reporting date as the fair value. The Company applies the Black Scholes option pricing model to value public company's share purchase warrants at the reporting date.

# Minco Capital Corp. (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

(in Canadian dollars)

#### 7. Investments at FVTPL (continued)

(iii) On December 22, 2016, the Company acquired 5.90% 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 consisted of one Class A voting preferred share and 1.5 Class A share purchase warrant (the “EI Warrant”), with each full warrant entitling the holder to purchase one additional Class A voting share at a price of US\$1.00. The expiry date of the EI Warrant, initially set on July 18, 2017, was subsequently revised to the date that is twenty business days following notification in writing by El Olivar that it had received all permits necessary to build its mining facilities.

As part of the consideration for the investment in El Olivar, Minco Capital shall receive an annual cash dividend in U.S. dollars equal to 6% of the total invested amount, calculated from the closing date of investment (December 22, 2016) and payable starting on June 22, 2018. Due to delays in permitting and project construction, no dividends have been paid. The Company has not accrued the dividend receivable (US\$36,000) given El Olivar has not started its operations and the timing and structure of the initial dividend payment is uncertain.

One Director of the Company is also a Director, Officer, and controlling shareholder of El Olivar.

The cost of the investment in El Olivar was USD\$400,000, which approximated its fair value as at December 31, 2018. In spite of the delays, El Olivar continues to develop in accordance with its business plan. The carrying value has changed due only to the appreciation of the U.S. Dollar against the Canadian Dollar during 2018.

(iv) The Company invested \$100,000 in a Convertible Debenture (“CD”) issued by IBC Advanced Alloys, a beryllium and copper advanced alloys company serving a variety of industries such as defense, aerospace, automotive, telecommunications and precision manufacturing with shares listed on the TSX Venture Exchange. Details of the investment follow:

The Company acquired 100 units of 5-year convertible debentures units at \$1,000 per unit. Each unit consists of one \$1,000 principal amount convertible debenture and 2,300 common share purchase warrants. The debentures are convertible into shares of IBC Advanced Alloys at any time prior to the maturity date (June 23, 2023) at a conversion price of \$0.31 per share, have an interest of 8.25% per annum payable semi-annually either in cash or shares of IBC Advance Alloys.

Each warrant entitles holder to acquire one common share at \$0.37 at any time up to 60 months (June 23, 2023).

(v) Details of the Company’s net gain (loss) on investments are as follows:

Year ended December 31,	2018	2017
	\$	\$
Net realized gain on investments	162,774	46,991
Previously recorded unrealized gain on investments	(64,133)	-
Realized gain	98,641	46,991
Change in unrealized gain (loss) on investments	(5,593,859)	(1,860,185)
Net gain (loss) from investments	(5,495,218)	(1,813,194)

# Minco Capital Corporation (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

(In Canadian dollars)

#### 8. Share capital

##### a. Common shares

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

##### b. Stock options

Minco Capital 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.

The current Stock Option Plan that was adopted and approved on June 27, 2017 provides that options may be granted to directors, employees and consultants or any of its affiliates of the Company on terms determined within the limitations set out in the Option Plan. The Company has implemented a fixed plan whereby it has reserved 10,152,976 shares for issuance under the Plan.

During the year ended December 31, 2017, the Company granted stock options to employees, consultants and directors for the purchase of 2,400,000 common shares at an exercise price ranged from \$0.19 to \$0.24 per common share. These options vest over an 18-month period from the issue date and will expire on five years after issuance if unexercised.

During the year ended December 31, 2018, the Company granted stock options to purchase 3,580,000 common shares to employees, consultants and directors at an exercise price of \$0.17 per common share. These options vest over an 18-month period from the issue date and will expire five years after issuance if unexercised. A continuity of options is as follow:

A continuity of options is as follows:

	<b>Number outstanding</b>	<b>Weighted average exercise price</b>
		<b>\$</b>
January 1, 2016	5,243,334	0.43
Granted	2,400,000	0.23
Forfeited	(10,000)	0.26
Expired	(2,255,000)	0.57
Balance, December 31, 2017	<u>5,378,334</u>	0.28
Granted	3,580,000	0.17
Forfeited	(95,000)	0.23
Expired	(1,090,000)	0.46
Balance, December 31, 2018	<u><u>7,773,334</u></u>	0.21

# Minco Capital Corporation (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

(In Canadian dollars)

#### 8. Share capital (continued)

The Company charged \$446,440 and \$308,803 share-based compensation for 2018 and 2017 respectively. As at December 31, 2018, there was \$65,460 (2017 - \$80,708) of unrecognized compensation cost relating to unvested stock options.

Range of exercise prices	<u>Options outstanding</u>			<u>Options exercisable</u>	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$			\$		\$
0.17 – 0.19	4,035,000	4.01	0.17	1,528,331	0.17
0.20 – 0.24	2,893,334	2.66	0.24	2,893,334	0.24
0.25 – 0.26	845,000	0.05	0.26	845,000	0.26
	<u>7,773,334</u>	<u>3.07</u>	<u>0.21</u>	<u>5,266,665</u>	<u>0.22</u>

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

	<b>2018</b>	<b>2017</b>
Risk-free interest rate	2.07%	0.78% - 1.74%
Dividend yield	0%	0%
Volatility	97%	97%
Forfeiture rate	19%	21%
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.

# Minco Capital Corporation (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

(In Canadian dollars)

#### 9. Income tax

No income taxes were recorded due to sufficient accumulated losses.

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:

	<b>2018</b>	<b>2017</b>
	\$	\$
Net loss	(6,398,948)	(3,297,578)
	27%	26%
Income tax recovery at statutory rates	(1,727,716)	(857,370)
Non-taxable (deductible) expenses	1,636,417	80,641
Difference/change in tax rates	58,825	-
Under (over) provided in prior years	(322,523)	-
Deferred income tax asset not recognized	354,997	791,748
Other	-	(15,019)
	<hr/>	<hr/>
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, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
	\$	\$
Deferred income tax assets (liabilities) not recognized		
Non-capital loss	4,935,109	4,473,755
Resource expenditures	534,069	534,069
Capital assets	20,494	36,236
Investments	(386,570)	(832,557)
Capital loss	1,000,210	1,036,875
	<hr/>	<hr/>
	6,103,312	5,248,378

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

# Minco Capital Corporation (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

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(In Canadian dollars)

#### 9. Income tax (continued)

The expiries for Canadian non-capital loss carry forwards are as follows:

	\$
2025	1,156,750
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	1,558,996
2037	1,422,850
2038	431,738
	<u>18,278,183</u>

#### 10. Commitments

The Company has commitments in respect of office leases requiring minimum payments (including a share of operating costs) of \$211,092 as follows:

	\$
2019	51,788
2020	46,487
2021	47,670
2022 - 2023	<u>65,143</u>
	<u>211,092</u>

The above lease commitment is related to a Vancouver office that is shared by Minco Silver and Minco Base Metal Corporation (note 11).



# Minco Capital Corporation (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

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(In Canadian dollars)

#### 11. Related party transactions

##### Investments

Refer to note 7 for description of the Company's relationship and transaction with its investees, El Olivar and Minco Silver.

##### Shared office expenses

The Company, Minco Silver, and Minco Base Metals Corporation ("MBM") have common directors and management. All three companies shared office rental and other administration expenditures.

##### Due from related parties

As at December 31, 2018, the Company had the following amounts due from related parties:

- \$1,054 due to Minco Silver (December 31, 2017 – due from Minco Silver \$27,523), in relation to share office expenses.
- \$2,403 due from MBM (December 31, 2017 - \$11,422), in relation to shared office expenses.

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

##### Key management compensation

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

For the years ended December 31, 2018, and 2017, compensation to key management are as follows:

	<b>2018</b>	<b>2017</b>
	\$	\$
Cash remuneration	328,725	347,686
Share-based compensation	416,311	269,737
Total	<u>745,036</u>	<u>617,423</u>

# Minco Capital Corporation (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

(In Canadian dollars)

#### 12. Financial instruments and fair value

The following table summarizes the carrying value of financial assets and liabilities at December 31, 2018 and 2017:

December 31,	2018	2017
	\$	\$
<b>Fair value through profit and loss</b>		
Investments at fair value (note 7)	9,774,246	13,614,050
<b>Amortized cost</b>		
Cash	1,642,697	3,642,328
Short-term investment	20,000	271,455
Receivables	65,937	25,716
Due from related parties	1,349	38,945
Accounts payable	72,621	186,635

#### Fair value measurement

As at December 31, 2018 and 2017, financial instruments that are not measured at fair value on the balance sheet are represented by cash and cash equivalents, short-term investment, receivables, due from related parties, account payable and accrued liabilities. The fair values of these financial instruments approximate the carrying value due to their short-term nature.

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:

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 Company's financial assets measured at fair values through profit or loss are as follows:

December 31, 2018	Level 1	Level 2	Level 3
	\$	\$	\$
Investments at fair value	8,883,623	345,330	545,293

# Minco Capital Corporation (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

(In Canadian dollars)

#### 12. Financial instruments and fair value (continued)

Fair value of investments classified as level 2 are reconciled as follows:

	December 31, 2017	Additions/ disposition	December 31, 2018	Unrealized gain (loss) recognized in profit or loss
	\$	\$	\$	\$
Share purchase warrants:	245,000	103,600	246,330	(102,270)

The fair value of US\$400,000 (\$545,293) for the Company's investment in EI Olivar on December 31, 2018 was unchanged from December 2017 (US\$400,000 or \$502,138). The fair value of this investment on December 31, 2018 only changed as a result of movements in foreign exchange as there are no significant events identified during 2018 resulting in a change in fair value of EI Olivar.

The principal business of EI Olivar is to construct and operate a processing manufacturing plant of gold mining ores and tailings in Peru. A change in the strength of Peru's currency relative to the Canadian dollar, a change in the price of gold, and the completion of construction and operation of the processing plant will impact the fair value of this investment. The project is fully permitted and construction is underway.

The Company uses the Black-Scholes option pricing model to determine the fair value of those shares purchase warrants with the use of assumptions.

#### Financial risk factors

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

#### 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 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 in two major financial institutions in Canada (subject to deposit insurance up to \$100,000).
- Short-term investment – The Company places all of its short-term investment, mainly term deposits, with a major financial institution in Canada.

# Minco Capital Corporation (formerly Minco Gold Corporation)

## Notes to the Financial Statements

### For the years ended December 31, 2018 and 2017

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(In Canadian dollars)

#### 12. Financial instruments and fair value (continued)

##### Market 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's investments at fair value at public entities are subject to price risk.

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 \$0.98 million.

##### Foreign exchange risk

The Company's functional currency is the Canadian dollar. The foreign currency risk is related to US dollar funds and investments denominated in US dollars 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.

As at December 31, 2018, the Company had cash of \$0.7 million and investment at fair value of \$0.9 million that were denominated in US dollar. A 10% change in the currency exchange rate (US dollar to Canadian dollar) will affect the Company's result of operations by approximately \$0.16 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.

#### 13. Capital management

The Company's objectives in the managing 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, 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, 2018, the Company did not have long term liabilities for settlement.

# **Minco Capital Corporation (formerly Minco Gold Corporation)**

Notes to the Financial Statements

**For the years ended December 31, 2018 and 2017**

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*(In Canadian dollars)*

## **14. Subsequent events**

1) On January 29, 2019, the Company initiated a Normal Course Issuer Bid to purchase for cancellation, during the 12-month period starting February 1, 2019, up to 2,538,244 or 5% of the current issued and outstanding common shares of the Company. The program will end on January 31, 2020 unless the maximum number of Common Shares is purchased before then or the Company provides earlier notice of termination. Purchases will be made on the TSX Venture Exchange (TSXV) and alternative exchanges at the market price at the time of acquisition. As of the date of this report, the Company has acquired 107,000 common shares on the TSXV.

2) Subsequent to the year ended December 31, 2018, the Company acquired publicly traded common shares/fund units/ partnership units for a net cost of \$186,015 and disposed of common shares/ fund units for net proceeds of \$572,941 and realized gains of \$77,511.

3) The Company received written notification of the warrant exercise from EI Olivar on February 28, 2019 (note 7 (iii)); the Company elected not to exercise the warrants.