

# **Minco Gold Corporation**

(An exploration stage enterprise)

Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2012 and 2011**

(Unaudited, expressed in Canadian dollars, unless otherwise stated)



# MINCO 明科金矿公司

## GOLD CORPORATION

### NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of condensed consolidated interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Minco Gold Corporation have been prepared by, and are the responsibility of, the Company's management. The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with International financial reporting standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

Minco Gold Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

Dr. Ken Cai  
President and CEO

Ellen Wei, C.A.  
Interim Chief Financial Officer

Vancouver, Canada

August 09, 2012

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# Minco Gold Corporation

(An exploration stage enterprise)

## Condensed Consolidated Interim Statements of Financial Position

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

|  | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
|  | \$               | \$                   |
| <b>Assets</b>                                      |                  |                      |
| <b>Current assets</b>                              |                  |                      |
| Cash and cash equivalents (note 3)                 | 6,048,776        | 6,696,805            |
| Marketable securities                              | 2,100            | 10,500               |
| Receivables  | 79,863           | 52,618               |
| Due from related parties (note 7(b))               | 6,188            | 449,888              |
| Prepaid expenses and deposits                      | 180,763          | 176,959              |
|  | 6,317,690        | 7,386,770            |
| <b>Long-term deposit</b>                           | 53,127           | 53,127               |
| <b>Property, plant and equipment</b>               | 231,566          | 247,860              |
| <b>Equity investment in Minco Silver</b> (note 5)  | 14,102,231       | 14,489,016           |
|  | 20,704,614       | 22,176,773           |
| <b>Liabilities</b>                                 |                  |                      |
| <b>Current liabilities</b>                         |                  |                      |
| Accounts payable and accrued liabilities           | 768,806          | 521,931              |
| Accounts payable for Changkeng permit (note 4(a))  | 4,738,316        | 4,681,156            |
| Advance from non-controlling interest (note 4(a))  | 2,542,689        | 2,512,015            |
| Due to related party (note 7(a))                   | 80,804           | -                    |
|  | 8,130,615        | 7,715,102            |
| <b>Equity</b>                                      |                  |                      |
| <b>Equity attributable to owners of the parent</b> |                  |                      |
| Share capital (note 6(a))                          | 41,758,037       | 41,758,037           |
| Contributed surplus                                | 7,509,461        | 6,982,376            |
| Accumulated other comprehensive income             | 298,325          | 256,125              |
| Deficit  | (39,420,716)     | (36,949,896)         |
|  | 10,145,107       | 12,046,642           |
| <b>Non-controlling interests</b>                   | 2,428,892        | 2,415,029            |
| <b>Total equity</b>                                | 12,573,999       | 14,461,671           |
|  | 20,704,614       | 22,176,773           |

Approved by the Board of Directors

(signed) Malcolm Clay Director

(signed) Robert Callander Director

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

# Minco Gold Corporation

(An exploration stage enterprise)

Condensed Consolidated Interim Statements of Income (Loss)

**For the three and six months ended June 30, 2012 and 2011**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

|   | <b>Three months ended June 30,</b> |             | <b>Six months ended June 30,</b> |             |
|---|------------------------------------|-------------|----------------------------------|-------------|
|   | <b>2012</b>                        | <b>2011</b> | <b>2012</b>                      | <b>2011</b> |
|   | \$                                 | \$          | \$                               | \$          |
| <b>Exploration costs</b>  | 288,413                            | 356,227     | 591,302                          | 640,073     |
| <b>Administrative expenses</b> (note 7)   |                                    |             |                                  |             |
| Accounting and audit  | 69,735                             | 105,450     | 105,641                          | 175,821     |
| Amortization  | 15,504                             | 17,538      | 30,882                           | 35,223      |
| Consulting  | 29,841                             | 24,917      | 56,924                           | 52,167      |
| Directors' fees   | 17,000                             | 11,000      | 31,500                           | 25,000      |
| Foreign exchange (gain) loss  | 5,099                              | (22,910)    | 1,953                            | (2,221)     |
| Investor relations  | 29,454                             | 126,124     | 91,691                           | 270,904     |
| Legal and regulatory  | 147,067                            | 35,769      | 226,305                          | 84,234      |
| Office administration expenses  | 73,546                             | 77,033      | 118,095                          | 148,627     |
| Property investigation  | 8,582                              | 18,109      | 9,235                            | 47,387      |
| Salaries and benefits   | 147,233                            | 108,794     | 289,201                          | 228,226     |
| Share-based compensation (note 6(b))  | 312,043                            | 864,050     | 527,085                          | 1,640,791   |
| Travel and transportation   | 18,638                             | 18,022      | 37,663                           | 32,317      |
|   | 873,743                            | 1,383,896   | 1,526,176                        | 2,738,476   |
| <b>Operating loss</b>   | (1,162,156)                        | (1,740,123) | (2,117,478)                      | (3,378,549) |
| Unrealized loss on marketable securities  | (2,100)                            | (4,200)     | (8,400)                          | (10,500)    |
| Finance income (expense)  | 61,568                             | (254,301)   | 101,974                          | (290,797)   |
| <b>Loss for the period before loss from equity investment and dilution gain</b> | (1,102,688)                        | (1,998,624) | (2,023,904)                      | (3,679,846) |
| Share of loss from equity investment in Minco Silver (note 5)                   | (63,944)                           | (476,160)   | (425,013)                        | (1,153,314) |
| Dilution gain (loss) (note 5)   | -                                  | 199,000     | (8,040)                          | 8,677,000   |
| <b>Net income (loss) for the period</b>   | (1,166,632)                        | (2,275,784) | (2,456,957)                      | 3,843,840   |
| <b>Net income (loss) attributable to:</b>                                       |                                    |             |                                  |             |
| Shareholders of the Company   | (1,170,193)                        | (2,262,167) | (2,470,820)                      | 3,859,522   |
| Non-controlling interest  | 3,561                              | (13,617)    | 13,863                           | (15,682)    |
|   | (1,166,632)                        | (2,275,784) | (2,456,957)                      | 3,843,840   |
| <b>Earnings (loss) per share:</b>   |                                    |             |                                  |             |
| basic and diluted   | (0.02)                             | (0.05)      | (0.05)                           | 0.08        |
| <b>Weighted average of common shares outstanding</b>                            |                                    |             |                                  |             |
| basic   | 50,348,215                         | 50,268,972  | 50,348,215                       | 50,125,737  |
| diluted   | 50,348,215                         | 50,268,972  | 50,348,215                       | 51,215,342  |

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

# Minco Gold Corporation

(An exploration stage enterprise)

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

**For the three and six months ended June 30, 2012 and 2011**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

|  | <b>Three months ended June 30,</b> |                    | <b>Six months ended June 30,</b> |                  |
|--|------------------------------------|--------------------|----------------------------------|------------------|
|  | <b>2012</b>                        | <b>2011</b>        | <b>2012</b>                      | <b>2011</b>      |
|  | \$                                 | \$                 | \$                               | \$               |
| <b>Net income (loss) for the period</b>                                      | (1,166,632)                        | (2,275,784)        | (2,456,957)                      | 3,843,840        |
| <b>Other comprehensive income (loss)</b>                                     |                                    |                    |                                  |                  |
| Cumulated translation adjustment from Minco Silver investment                | 121,395                            | 90,054             | 46,268                           | 2,073            |
| Exchange differences on translation from functional to presentation currency | (8,791)                            | 26,780             | (4,068)                          | (14,079)         |
| <b>Total comprehensive income (loss) for the period</b>                      | <b>(1,054,028)</b>                 | <b>(2,158,950)</b> | <b>(2,414,757)</b>               | <b>3,831,834</b> |
| <b>Comprehensive income (loss) attributable to:</b>                          |                                    |                    |                                  |                  |
| Shareholders of the Company  | (1,057,589)                        | (2,145,333)        | (2,428,620)                      | 3,847,516        |
| Non-controlling interest   | 3,561                              | (13,617)           | 13,863                           | (15,682)         |
|  | <b>(1,054,028)</b>                 | <b>(2,158,950)</b> | <b>(2,414,757)</b>               | <b>3,831,834</b> |

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

# Minco Gold Corporation

(An exploration stage enterprise)

## Condensed Consolidated Interim Statements of Changes in Equity

**For the six months ended June 30, 2012 and 2011**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

|   | Attributable to equity owners of the Company |                   |                        |  |                     |                   | Non-controlling interest | Total equity      |
|---|--|-------------------|------------------------|--|---------------------|-------------------|--------------------------|-------------------|
|   | Number of shares                             | Share capital \$  | Contributed surplus \$ | Accumulated other comprehensive income (loss) \$ | Deficit \$          | Subtotal \$       |                          |                   |
| <b>Balance - January 1, 2011</b>                        | 49,514,882                                   | 40,335,033        | 5,355,953              | (63,252)   | (37,841,318)        | 7,786,416         | 2,444,005                | 10,230,421        |
| Income (loss) for the period                            | -  | -                 | -                      | -  | 3,859,522           | 3,859,522         | (15,682)                 | 3,843,840         |
| Other comprehensive loss                                | -  | -                 | -                      | (12,006)   | -                   | (12,006)          | -                        | (12,006)          |
| Share-based compensation                                | -  | -                 | 1,640,791              | -  | -                   | 1,640,791         | -                        | 1,640,791         |
| Proceeds on issuance of shares from exercise of options | 798,433                                      | 1,391,365         | (626,183)              | -  | -                   | 765,182           | -                        | 765,182           |
| <b>Balance - June 30, 2011</b>                          | <b>50,313,315</b>                            | <b>41,726,398</b> | <b>6,370,561</b>       | <b>(75,258)</b>                                  | <b>(33,981,796)</b> | <b>14,039,905</b> | <b>2,428,323</b>         | <b>16,468,228</b> |
| <b>Balance - January 1, 2012</b>                        | 50,348,215                                   | 41,758,037        | 6,982,376              | 256,125  | (36,949,896)        | 12,046,642        | 2,415,029                | 14,461,671        |
| Net income (loss) for the period                        | -  | -                 | -                      | -  | (2,470,820)         | (2,470,820)       | 13,863                   | (2,456,957)       |
| Other comprehensive income                              | -  | -                 | -                      | 42,200   | -                   | 42,200            | -                        | 42,200            |
| Share-based compensation                                | -  | -                 | 527,085                | -  | -                   | 527,085           | -                        | 527,085           |
| <b>Balance - June 30, 2012</b>                          | <b>50,348,215</b>                            | <b>41,758,037</b> | <b>7,509,461</b>       | <b>298,325</b>                                   | <b>(39,420,716)</b> | <b>10,145,107</b> | <b>2,428,892</b>         | <b>12,573,999</b> |

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

# Minco Gold Corporation

(An exploration stage enterprise)

## Condensed Consolidated Interim Statements of Cash Flows

**For the six months ended June 30, 2012 and 2011**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

|  | <b>2012</b>      | <b>2011</b>        |
|--|------------------|--------------------|
|  | <b>\$</b>        | <b>\$</b>          |
| <b>Cash flows from operating activities</b>            |                  |                    |
| Net income (loss) for the period                       | (2,456,957)      | 3,843,840          |
| Adjustments for:                                       |                  |                    |
| Amortization   | 30,882           | 35,223             |
| Equity loss on investment in Minco Silver              | 425,013          | 1,153,314          |
| Dilution (gain) loss                                   | 8,040            | (8,677,000)        |
| Share-based compensation (note 6(b))                   | 527,084          | 1,640,791          |
| Foreign exchange (gain) loss                           | 2,456            | (78,197)           |
| Unrealized loss on marketable securities               | 8,400            | 10,500             |
| Changes in items of working capital:                   |                  |                    |
| Receivables  | (26,526)         | (54,939)           |
| Due from related parties                               | 545,619          | 398,292            |
| Prepaid expenses and deposits                          | (2,113)          | (101,640)          |
| Accounts payable and accrued liabilities               | 236,161          | 7,001              |
| <b>Net cash used in operating activities</b>           | <b>(701,941)</b> | <b>(1,822,815)</b> |
| <b>Cash flows from Investing activities</b>            |                  |                    |
| Loan receivable  | -                | 9,122,284          |
| Cash held in trust                                     | -                | (9,768,000)        |
| Property, plant and equipment                          | (12,012)         | (4,177)            |
| Short-term investments                                 | -                | 293,770            |
| <b>Net cash used in investing activities</b>           | <b>(12,012)</b>  | <b>(356,123)</b>   |
| <b>Cash flows from financing activities</b>            |                  |                    |
| Loan payable to related party                          | -                | 5,869,800          |
| Repayment to Minco Base Metals                         | -                | (7,601,904)        |
| Advance from minority shareholders                     | -                | 1,585,017          |
| Due to related party                                   | -                | 9,701,000          |
| Proceeds from stock options exercise                   | -                | 765,182            |
| <b>Net cash generated from financing activities</b>    | <b>-</b>         | <b>10,319,095</b>  |
| <b>Effect of exchange rate changes on cash</b>         | <b>65,924</b>    | <b>134,774</b>     |
| Increase (decrease) in cash and cash equivalents       | (648,029)        | 8,274,931          |
| <b>Cash and cash equivalents - Beginning of period</b> | <b>6,696,805</b> | <b>6,003,832</b>   |
| <b>Cash and cash equivalents - End of period</b>       | <b>6,048,776</b> | <b>14,278,763</b>  |

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



# **Minco Gold Corporation**

(An exploration stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2012 and 2011**

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*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

## **1. General information**

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

As at June 30, 2012, the Company owned a 22.06% (December 31, 2011 – 22.15%) equity interest in Minco Silver Corporation (“Minco Silver”), a related party domiciled in Canada.

The Company has \$6.0 million cash which includes \$4.7 million in Guangzhou Mingzhong Mining Co., Ltd (“Mingzhong”) to be used for the final payment for the acquisition of the Changkeng exploration permit as at June 30, 2012. The remaining cash balance available to fund exploration and general corporate requirements is \$1.3 million, and is held primarily in the Company’s Chinese Subsidiaries. The Company may face delays repatriating funds held in China if at any time the Company needs additional resources to enable it to undertake projects elsewhere in the world. The Company plans on meeting any additional short-term cash requirements through funds advanced from Minco Silver or to raise funds through the sale of a portion of its equity investment in Minco Silver when necessary.

## **2. Basis of preparation**

The condensed consolidated interim financial statements include the accounts of Minco Gold, its wholly-owned Chinese subsidiaries Minco Mining (China) Corporation (“Minco China”), Yuanling Minco Mining Ltd. (“Yuanling Minco”) and Huaihua Tiancheng Mining Ltd. (“Huaihua Tiancheng”); its wholly owned British Virgin Island subsidiary Triple Eight Mineral Corporation (“Temco”); and its 51% interest in. Mingzhong.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied in the preparation of the consolidated annual financial statements for the year ended December 31, 2011.

These financial statements were approved by the board of directors for issue on August 09, 2012.

# **Minco Gold Corporation**

(An exploration stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2012 and 2011**

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*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

## **3. Cash and cash equivalents**

As at June 30, 2012 cash and cash equivalents consisted of short-term deposits with a maturity term of seven days that can be renewed automatically. The yield on the shore-term deposits was 1.5%.

Included in cash is \$4,738,316 held by Mingzhong to satisfy the remaining amount outstanding for the Changkeng permit (note 4(a)).

## **4. Mineral interests**

### **a) Guangdong - Changkeng**

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

Mingzhong signed an exploration permit transfer agreement with No. 757 Exploration Team of Guangdong Geological Bureau ("757 Exploration Team") and received the Changkeng exploration permit (the "Changkeng Exploration Permit") on January 5, 2008. This exploration permit was renewed for a two-year period ending on September 10, 2013. To acquire the Changkeng Exploration Permit, Mingzhong was required to pay RMB 48 million (approximately \$7.3 million). As at December 31, 2008, the first payment of RMB 19 million (approximately \$2.87 million) for the Changkeng Exploration Permit was paid to 757 Exploration Team.

In order to pay the remaining RMB 29 million (\$4.7 million), shareholders of Mingzhong agreed to inject capital of RMB 32 million (\$5.2 million). As of June 30, 2012, Minco China paid RMB 16.3 million (\$2.7 million) and the five minority shareholders paid RMB 15.7 million (\$2.5 million). Accordingly, Mingzhong has all of the cash required to settle the remaining payable for the permit.

As two of the shareholders, Guangdong Gold Corporation ("GGC") and Guangdong Geological Exploration and Development Corporation ("GGEDC"), are state-owned companies they need to receive the requisite approval from the Guangdong provincial government's Minister of Finance to increase their share of registered capital in Mingzhong. The funds received from the five minority shareholders are classified as a current liability as at June 30, 2012, pending approval of the capital injection.

The remaining amount payable for the Changkeng Exploration Permit of \$4,738,316 (RMB 29 million) was classified as a current liability as at June 30, 2012.

# Minco Gold Corporation

(An exploration stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2012 and 2011**

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*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

## 4. Mineral interests (continued)

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

### b) Gansu - Longnan

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

The Longnan project has been divided into three sub-projects according to their geographic distribution, type and potential of mineralization:

- i) Yangshan: including five exploration permits located in the northeast extension of the Yangshan gold belt and its adjacent area;
- ii) Yejiaba: including four exploration permits adjacent to the Guojiagou exploration permit;
- iii) Xicheng East: including three exploration permits to the east extension of the Xicheng Pb-Zn mineralization belt.

The Company has spent a cumulative total of \$8.7 million on the Longnan project as of June 30, 2012 (as of December 31, 2011 - \$8.1 million) on exploration costs.

Minco China entered into two agreements with Fengxian Xin Kun Mining Corporation ("FXKM") in September 2010 and March 2012 respectively; in which the Company agreed to sell two exploration permits in Xicheng East for a total of RMB 2.8 million. As at June 30, 2012, The Company received RMB 2.8 million (\$454,052) and recorded it as a current liability. Minco China has been undertaking the process to transfer legal titles of the two exploration permits to FXKM and expects to receive approval from the Ministry of Land and Resource ("MOLAR") in the third quarter of 2012. The Company will recognize a gain of the RMB 2.8 million upon receiving approval from MOLAR for the transfer of two legal titles to FXKM.

### c) Hunan - Gold Bull Mountain

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

### d) Guangdong - Sihui

Minco China holds an exploration permit in Guangdong Sihui in China. The permit expires on February 3, 2013.

# Minco Gold Corporation

(An exploration stage enterprise)

## Notes to the Condensed Consolidated Interim Financial Statements

### For the three and six months ended June 30, 2012 and 2011

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

#### 4. Mineral interests (continued)

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

|                        | Three months ended<br>June 30 |         | Six months ended<br>June 30 |         | Cumulative to<br>June 30, |
|------------------------|-------------------------------|---------|-----------------------------|---------|---------------------------|
|                        | 2012                          | 2011    | 2012                        | 2011    | 2012                      |
|                        | \$                            | \$      | \$                          | \$      | \$                        |
| Longnan Projects       | 267,556                       | 340,112 | 555,985                     | 611,038 | 8,660,185                 |
| Changkeng Gold Project | 13,678                        | 16,115  | 21,580                      | 29,035  | 8,187,650                 |
| Gold Bull Mountain     | 7,179                         | -       | 12,539                      | -       | 2,202,251                 |
| Sihui                  | -                             | -       | 1,198                       | -       | 1,198                     |
|                        | 288,413                       | 356,227 | 591,302                     | 640,073 | 19,051,284                |

#### 5. Equity investment in Minco Silver Corporation

As at June 30, 2012, the Company owns 13,000,000 common shares of Minco Silver (December 31, 2011 - 13,000,000 common shares) that were acquired in 2004 in exchange for the transfer of the Fuwan property and the silver interest in the Changkeng property.

The Company did not participate in the public offering of 7,600,000 common shares at \$5.95 per share concluded by Minco Silver on March 3, 2011. As a result, the Company's ownership interest in Minco Silver decreased to 22.06% as at June 30, 2012.

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

|   | Three months ended June 30, |           | Six months ended June 30, |             |
|---|-----------------------------|-----------|---------------------------|-------------|
|   | 2012                        | 2011      | 2012                      | 2011        |
|   | \$                          | \$        | \$                        | \$          |
| Dilution gain (loss)  | -                           | 199,000   | (8,040)                   | 8,677,000   |
| Equity loss   | (63,944)                    | (476,160) | (425,013)                 | (1,153,314) |
| Accumulated translation adjustment                          | 121,395                     | 90,054    | 46,268                    | 2,073       |
| Comprehensive income (loss) from investment in Minco Silver | 57,451                      | (187,106) | (386,785)                 | 7,525,759   |

# Minco Gold Corporation

(An exploration stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2012 and 2011**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

## 5. Equity investment in Minco Silver Corporation (continued)

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

|  | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|--------------------------|------------------------------|
|  | \$                       | \$                           |
| Carrying value of investment in Minco Silver | 14,102,231               | 14,489,016                   |
| Market value of Minco Silver shares          | <u>18,980,000</u>        | <u>25,870,000</u>            |

The following is a summary of Minco Silver's balance sheet as of June 30, 2012

|                               | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|-------------------------------|--------------------------|------------------------------|
|                               | \$                       | \$                           |
| Current assets                | 69,318,399               | 71,012,927                   |
| Mineral interests             | 19,524,282               | 17,811,322                   |
| Property, plant and equipment | 671,010                  | 751,463                      |
| Current liability             | 161,364                  | 968,690                      |
| Shareholders' equity          | <u>89,352,327</u>        | <u>88,607,022</u>            |

The following is a summary of Minco Silver's income statement for the three and six months ended June 30, 2012 and 2011.

|  | <b>Three months ended June 30,</b> |                    | <b>Six months ended June 30,</b> |                    |
|--|------------------------------------|--------------------|----------------------------------|--------------------|
|  | <b>2012</b>                        | <b>2011</b>        | <b>2012</b>                      | <b>2011</b>        |
|  | \$                                 | \$                 | \$                               | \$                 |
| Administrative expenses                    | 939,416                            | 2,177,817          | 2,692,809                        | 5,032,229          |
| Net loss for the period                    | (289,273)                          | (1,988,366)        | (1,922,700)                      | (4,763,673)        |
| Comprehensive income (loss) for the period | <u>181,925</u>                     | <u>(1,702,989)</u> | <u>(1,713,388)</u>               | <u>(4,740,000)</u> |

# Minco Gold Corporation

(An exploration stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2012 and 2011**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

## 6. Share capital

- a) Common shares and contributed surplus

Authorized

100,000,000 common shares without par value

- b) Stock options

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

For the six months ended June 30, 2012, the Company granted options over 2,025,000 common shares at a weighted exercise price of \$0.67 that vest over an 18-month period from the issue date to its directors and employees.

Minco Gold recorded \$527,085 in stock-based compensation expense for the six-month period ended June 30, 2012 (June 30, 2011 - \$1,640,791).

A summary of the options outstanding is as follows:

|                            | Number outstanding | Weighted<br>average exercise<br>price<br>\$ |
|----------------------------|--------------------|---|
| Balance, January 1, 2011   | 4,145,000          | 0.99  |
| Granted                    | 2,380,000          | 2.18  |
| Exercised                  | (833,333)          | 0.96  |
| Forfeited                  | (447,667)          | 2.01  |
| Expired                    | (260,000)          | 1.99  |
| Balance, December 31, 2011 | 4,984,000          | 1.41  |
| Granted                    | 2,025,000          | 0.67  |
| Forfeited                  | (543,333)          | 1.38  |
| Expired                    | (115,000)          | 1.79  |
| Balance, June 30, 2012     | 6,350,667          | 1.17  |

# Minco Gold Corporation

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Notes to the Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2012 and 2011**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

## 6. Share capital (continued)

| Options outstanding      |                    |  |                                 | Options exercisable |                                 |
|--------------------------|--------------------|--|---------------------------------|---------------------|---------------------------------|
| Range of exercise prices | Number outstanding | Weighted average remaining contractual life (year) | Weighted average exercise price | Number exercisable  | Weighted average exercise price |
| \$                       |                    |  | \$                              |                     | \$                              |
| 0.48 - 0.65              | 745,000            | 1.66   | 0.48                            | 720,000             | 0.48                            |
| 0.66 - 0.90              | 2,850,000          | 3.16   | 0.71                            | 1,000,000           | 0.79                            |
| 0.91 - 1.30              | 726,667            | 1.05   | 1.00                            | 726,667             | 1.00                            |
| 1.31 - 1.80              | 140,000            | 0.79   | 1.44                            | 140,000             | 1.44                            |
| 1.81 - 2.59              | 1,889,000          | 3.54   | 2.18                            | 1,285,988           | 2.19                            |
|                          | 6,350,667          | 2.81   | 1.17                            | 3,872,655           | 1.26                            |

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

|                          | <b>2012</b>   | <b>2011</b>   |
|--------------------------|---------------|---------------|
| Risk-free interest rate  | 1.12% - 1.56% | 1.07% - 2.56% |
| Volatility               | 89% - 95%     | 85% - 94%     |
| Forfeiture rate          | 28%           | 28%           |
| 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 and therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

# Minco Gold Corporation

(An exploration stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2012 and 2011**

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*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

## 7. Related party transactions

### Shared expenses

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

- a) At June 30, 2012, the Company has \$80,804 due to Minco Silver (December 31, 2011 – due from Minco Silver of \$429,114) consisting of the following:

Amount due from Foshan Minco Fuwan Mining Co. Ltd. ("Foshan Minco") as at June 30, 2012 of \$1,509,731 (December 31, 2011 - \$1,167,282), representing the expenditures incurred by Minco China on behalf of Foshan Minco and shared office expenses.

Amount due to Minco Silver as at June 30, 2012 of \$1,590,535 (December 31, 2011 – amount due from of \$738,168) representing funds advanced from Minco Silver to Minco Gold to support its operating activities in Canada net of shared head office expenses.

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

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

- b) At June 30, 2012, the Company has \$6,188 due from MBM (December 31, 2011 - \$20,774), in relation to shared office expenses. The Company is related to MBM through one common directors and common management.

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

### Funding of Foshan Minco

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

On June 9, 2011, Minco Silver advanced US\$10 million to the Company, the ultimate legal shareholder of Foshan Minco. During 2011, the Company received government approvals to increase the registered capital of its wholly owned subsidiary, Minco China. Minco China has undertaken to exchange the US\$10 million into RMB and will then invest the funds, on behalf of Minco Silver, to increase the registered capital of Foshan Minco.



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**For the three and six months ended June 30, 2012 and 2011**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

## 7. Related party transactions (continued)

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

As at June 30, 2012, Minco China held US\$8,191,949 and RMB 11,558,774 in trust for Minco Silver.

### Key management compensation

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

In the three and six months period ended June 30, 2012 and 2011, the following compensation was paid to key management.

|                          | <b>Three months ended June 30,</b> |             | <b>Six months ended June30,</b> |             |
|--------------------------|------------------------------------|-------------|---------------------------------|-------------|
|                          | <b>2012</b>                        | <b>2011</b> | <b>2012</b>                     | <b>2011</b> |
|                          | \$                                 | \$          | \$                              | \$          |
| Cash remuneration        | 94,155                             | 110,000     | 169,216                         | 234,113     |
| Share-based compensation | 191,943                            | 523,427     | 330,635                         | 910,625     |
| Total                    | 286,098                            | 633,427     | 499,851                         | 1,144,738   |

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

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Notes to the Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2012 and 2011**

*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

## 8. Segment reporting

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

| Segment income (loss)            | Three months ended June 30, 2012 |           |             |
|----------------------------------|----------------------------------|-----------|-------------|
|                                  | Canada                           | China     | Total       |
|                                  | \$                               | \$        | \$          |
| Exploration costs                | (52,580)                         | (235,833) | (288,413)   |
| General and administration costs | (676,604)                        | (197,139) | (873,743)   |
| Other income (expenses)          | (144,192)                        | 139,716   | (4,476)     |
| Segment loss                     | (873,376)                        | (293,256) | (1,166,632) |

|                                  | Three months ended June 30, 2011 |           |             |
|----------------------------------|----------------------------------|-----------|-------------|
|                                  | Canada                           | China     | Total       |
|                                  | \$                               | \$        | \$          |
| Exploration costs                | (130,039)                        | (226,188) | (356,227)   |
| General and administration costs | (904,163)                        | (479,733) | (1,383,896) |
| Other expenses                   | (296,590)                        | (239,071) | (535,661)   |
| Segment loss                     | (1,330,792)                      | (944,992) | (2,275,784) |

|                                  | Six months ended June 30, 2012 |           |             |
|----------------------------------|--------------------------------|-----------|-------------|
|                                  | Canada                         | China     | Total       |
|                                  | \$                             | \$        | \$          |
| Exploration costs                | (105,538)                      | (485,764) | (591,302)   |
| General and administration costs | (1,231,628)                    | (294,548) | (1,526,176) |
| Other income (expenses)          | (428,142)                      | 88,663    | (339,479)   |
| Segment loss                     | (1,765,308)                    | (691,649) | (2,456,957) |

|                                  | Six months ended June 30, 2011 |             |             |
|----------------------------------|--------------------------------|-------------|-------------|
|                                  | Canada                         | China       | Total       |
|                                  | \$                             | \$          | \$          |
| Exploration costs                | (268,010)                      | (372,063)   | (640,073)   |
| General and administration costs | (2,078,799)                    | (659,677)   | (2,738,476) |
| Other income (expenses)          | 7,498,842                      | (276,453)   | 7,222,389   |
| Segment income (loss)            | 5,152,033                      | (1,308,193) | 3,843,840   |

# Minco Gold Corporation

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Notes to the Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2012 and 2011**

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*(Unaudited, expressed in Canadian dollars, unless otherwise stated)*

## 8. Segment reporting (continued)

### Assets and liabilities by segment

|                     | <b>June 30, 2012</b> |              |              |
|---------------------|----------------------|--------------|--------------|
|                     | <b>Canada</b>        | <b>China</b> | <b>Total</b> |
|                     | \$                   | \$           | \$           |
| Current assets      | 232,083              | 6,085,607    | 6,317,690    |
| Non-current assets  | 14,160,394           | 226,530      | 14,386,924   |
| Current liabilities | 72,311               | 8,058,304    | 8,130,615    |

  

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