

# **Minco Silver Corporation**

Consolidated Financial Statements

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

(Expressed in Canadian dollars, unless otherwise stated)

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

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

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

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

Dr. Ken Cai  
President and CEO

Larry Tsang, CPA, CA  
Chief Financial Officer

Vancouver, Canada  
March 31, 2017

## **Independent Auditor's Report**

### **To the Shareholders of Minco Silver Corporation**

We have audited the accompanying consolidated financial statements of Minco Silver Corporation, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations and net income (loss), comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Minco Silver Corporation as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**(signed) "PricewaterhouseCoopers LLP"**

#### **Chartered Professional Accountants**

Vancouver, BC  
March 31, 2017

# Index

	<b>Page</b>
<b>Consolidated Financial Statements</b>	<b>5 - 10</b>
<hr/>	
Consolidated Statements of Financial Position	5
Consolidated Statements of Operations and Net Income (Loss)	6
Consolidated Statements of Comprehensive Income (Loss)	7
Consolidated Statements of Changes in Shareholders' Equity	8
Consolidated Statements of Cash Flows	9
<b>Notes to the Consolidated Financial Statements</b>	<b>11 - 33</b>
<hr/>	
1 General information	11
2 Basis of preparation	11
3 Summary of significant accounting policies	11
4 Critical accounting estimates and judgments	18
5 Acquisition of Minco Resources	18
6 Cash and cash equivalents	19
7 Short-term investments	20
8 Mineral interests	20
9 Non-controlling interest	22
10 Investments	23
11 Share capital	23
12 Income taxes	27
13 Related party transactions	28
14 Geographical information	30
15 Commitments	30
16 Financial instruments and fair value	31
17 Capital management	32
18 Subsequent events	33

**Minco Silver Corporation**  
**Consolidated Statements of Financial Position**  
*(Expressed in Canadian dollars, unless otherwise stated)*

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>	<b>\$</b>	<b>\$</b>
<b>Current assets</b>		
Cash and cash equivalents (note 6)	20,195,199	26,202,564
Short-term investments (note 7)	31,410,880	32,143,068
Receivables	541,293	517,359
Due from related parties (note 13)	163,167	177,330
Prepaid expenses and deposits	202,213	201,647
	<u>52,512,752</u>	<u>59,241,968</u>
<b>Mineral interests</b> (note 8)	59,141,579	63,676,055
<b>Property, plant and equipment</b>	295,612	434,999
	<u>111,949,943</u>	<u>123,353,022</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	424,635	638,550
Due to related parties (note 13)	205,145	-
	<u>629,780</u>	<u>638,550</u>
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital (note 11(a))	107,216,932	106,630,256
Contributed surplus	22,682,099	22,977,633
Accumulated other comprehensive income	6,795,087	14,813,721
Deficit	(36,692,296)	(34,468,043)
	<u>100,001,822</u>	<u>109,953,567</u>
<b>Non-controlling interest</b> (note 9)	11,318,341	12,760,905
<b>Total equity</b>	<u>111,320,163</u>	<u>122,714,472</u>
<b>Total liabilities and equity</b>	<u>111,949,943</u>	<u>123,353,022</u>

*Commitments (note 15)*  
*Subsequent events (note 18)*

**Approved by the Board of Directors:**

(signed) Maria Tang Director

(signed) George Lian Director

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

# Minco Silver Corporation

## Consolidated Statements of Operations and Net Income (Loss)

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

(Expressed in Canadian dollars, unless otherwise stated)

	2016	2015	2014
	\$	\$	\$
<b>Administrative expenses</b>			
Audit, legal and regulatory	271,656	284,789	246,236
Amortization	97,692	106,674	123,266
Consulting	105,665	161,074	226,390
Directors' fees	99,500	116,000	127,250
Field office expenses	442,022	860,980	686,418
Investor relations	65,919	16,297	15,350
Office administration expenses	345,643	237,310	205,984
Property investigation	-	31,331	169,852
Rent	417,590	376,544	356,736
Salaries and benefits	519,353	440,095	431,477
Share-based compensation (note 11(b))	143,312	146,742	750,226
Travel and transportation	68,408	27,780	36,956
	<u>2,576,760</u>	<u>2,805,616</u>	<u>3,376,141</u>
<b>Income (loss) before finance and other income (expenses)</b>	<u>(2,576,760)</u>	<u>(2,805,616)</u>	<u>(3,376,141)</u>
<b>Finance and other income (expenses)</b>			
Foreign exchange gain (loss)	(340,446)	4,173,854	1,039,265
Gain on disposal of investment (note 10)	-	4,792,888	-
Interest income	521,021	911,213	980,945
Other expenses (note 13(a))	(11,483)	(391,392)	(309,585)
	<u>169,092</u>	<u>9,486,563</u>	<u>1,710,625</u>
<b>Net income (loss) for the year</b>	<u><b>(2,407,668)</b></u>	<u><b>6,680,947</b></u>	<u><b>(1,665,516)</b></u>
<b>Net income (loss) attributable to:</b>			
Shareholders of the Company	(2,224,253)	6,827,186	(1,665,516)
Non-controlling interest	(183,415)	(146,239)	-
	<u><b>(2,407,668)</b></u>	<u><b>6,680,947</b></u>	<u><b>(1,665,516)</b></u>
<b>Income (loss) per share – basic and diluted</b>	(0.04)	0.11	(0.03)
<b>Weighted average number of common shares outstanding – basic and diluted</b>	59,977,212	59,631,418	59,590,457

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

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

*(Expressed in Canadian dollars, unless otherwise stated)*

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Net income (loss) for the year</b>	<u>(2,407,668)</u>	<u>6,680,947</u>	<u>(1,665,516)</u>
<b>Other comprehensive income (loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Unrealized gain (loss) on investment, net of tax (note 10)	-	7,125,020	(3,024,176)
Realized gain reclassified to net income (loss) on disposal of investment, net of tax (note 10)	-	(4,100,844)	-
Exchange differences on translation from functional to presentation currency	<u>(9,277,783)</u>	<u>7,827,356</u>	<u>3,494,690</u>
Other comprehensive income (loss) for the year	<u>(9,277,783)</u>	<u>10,851,532</u>	<u>470,514</u>
<b>Comprehensive income (loss) for the year</b>	<u>(11,685,451)</u>	<u>17,532,479</u>	<u>(1,195,002)</u>
<b>Comprehensive income (loss) attributable to:</b>			
Shareholders of the Company	(10,242,887)	17,446,647	(1,195,002)
Non-controlling interest	<u>(1,442,564)</u>	<u>85,832</u>	<u>-</u>
	<u>(11,685,451)</u>	<u>17,532,479</u>	<u>(1,195,002)</u>

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

# Minco Silver Corporation

## Consolidated Statements of Changes in Shareholders' Equity

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

(Expressed in Canadian dollars, unless otherwise stated)

	Changes in Shareholders' Equity							
	Number of Shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Subtotal \$	Non-controlling interest \$	Total equity \$
<b>Balance - January 1, 2014</b>	59,328,085	106,140,836	21,950,949	3,723,746	(39,629,713)	92,185,818	-	92,185,818
Net loss for the year	-	-	-	-	(1,665,516)	(1,665,516)	-	(1,665,516)
Other comprehensive income	-	-	-	470,514	-	470,514	-	470,514
Share-based compensation	-	-	1,135,564	-	-	1,135,564	-	1,135,564
Issuance of shares for restricted share units	280,000	459,200	(459,200)	-	-	-	-	-
Proceeds on issuance of shares from exercise of options	23,333	30,220	(11,554)	-	-	18,666	-	18,666
<b>Balance – December 31, 2014</b>	<b>59,631,418</b>	<b>106,630,256</b>	<b>22,615,759</b>	<b>4,194,260</b>	<b>(41,295,229)</b>	<b>92,145,046</b>	<b>-</b>	<b>92,145,046</b>
<b>Balance - January 1, 2015</b>	59,631,418	106,630,256	22,615,759	4,194,260	(41,295,229)	92,145,046	-	92,145,046
Non-controlling interest in acquisition	-	-	-	-	-	-	12,675,073	12,675,073
Net loss for the year	-	-	-	-	6,827,186	6,827,186	(146,239)	6,680,947
Other comprehensive income	-	-	-	10,619,461	-	10,619,461	232,071	10,851,532
Share-based compensation	-	-	361,874	-	-	361,874	-	361,874
<b>Balance – December 31, 2015</b>	<b>59,631,418</b>	<b>106,630,256</b>	<b>22,977,633</b>	<b>14,813,721</b>	<b>(34,468,043)</b>	<b>109,953,567</b>	<b>12,760,905</b>	<b>122,714,472</b>



# Minco Silver Corporation

## Consolidated Statements of Changes in Shareholders' Equity

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

(Expressed in Canadian dollars, unless otherwise stated)

	Changes in Shareholders' Equity							
	Number of Shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Subtotal	Non-controlling interest	Total equity
		\$	\$	\$	\$	\$	\$	\$
<b>Balance - January 1, 2016</b>	59,631,418	106,630,256	22,977,633	14,813,721	(34,468,043)	109,953,567	12,760,905	122,714,472
Net loss for the year	-	-	-	-	(2,224,253)	(2,224,253)	(183,415)	(2,407,668)
Other comprehensive income	-	-	-	(8,018,634)	-	(8,018,634)	(1,259,149)	(9,277,783)
Share-based compensation	-	-	256,928	-	-	256,928	-	256,928
Issuance of shares – options exercised	614,995	586,676	(223,245)	-	-	363,431	-	363,431
Reversal of share-based compensation relating to performance share unit (note 11)	-	-	(329,217)	-	-	(329,217)	-	(329,217)
<b>Balance – December 31, 2016</b>	<b>60,246,413</b>	<b>107,216,932</b>	<b>22,682,099</b>	<b>6,795,087</b>	<b>(36,692,296)</b>	<b>100,001,822</b>	<b>11,318,341</b>	<b>111,320,163</b>

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

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

*(Expressed in Canadian dollars, unless otherwise stated)*

	2016	2015	2014
	\$	\$	\$
<b>Operating activities</b>			
Net income(loss) for the year	(2,407,668)	6,680,947	(1,665,516)
Adjustments for:			
Amortization	97,692	106,674	123,266
Foreign exchange loss (gain)	340,446	(4,173,854)	(1,038,828)
Share-based compensation (note 11(b))	143,313	146,742	750,226
Gain on disposal of investment	-	(4,792,888)	-
Changes in items of working capital:			
Receivables	(66,070)	(28,020)	(57,907)
Prepaid expenses and deposits	(9,804)	115,728	257,126
Accounts payable and accrued liabilities	(125,491)	4,695	(115,171)
Due from/to related parties (note 13)	196,390	(428,425)	(16,819)
<b>Net cash used in operating activities</b>	<b>(1,831,192)</b>	<b>(2,368,401)</b>	<b>(1,763,623)</b>
<b>Financing activities</b>			
Proceeds from stock option exercises	363,431	-	18,666
<b>Net cash generated from financing activities</b>	<b>363,431</b>	<b>-</b>	<b>18,666</b>
<b>Investing activities</b>			
Development costs	(1,787,942)	(1,811,422)	(1,550,105)
Cash inflows as result of acquisition of Changkeng Gold Project (note 5)	-	1,347,693	-
Proceeds from (purchase of) investments (note 10)	-	18,682,204	(13,889,316)
Property, plant and equipment	-	7,164	(29,828)
Purchase of short-term investments	(7,740,766)	(16,941,170)	(14,430,923)
Redemption of short-term investments	5,889,960	11,288,990	18,683,677
<b>Net cash generated from (used in) investing activities</b>	<b>(3,638,748)</b>	<b>12,573,459</b>	<b>(11,216,495)</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>(900,856)</b>	<b>4,058,962</b>	<b>1,319,482</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(6,007,365)</b>	<b>14,264,020</b>	<b>(11,641,970)</b>
<b>Cash and cash equivalents - Beginning of year</b>	<b>26,202,564</b>	<b>11,938,544</b>	<b>23,580,514</b>
<b>Cash and cash equivalents - End of year</b>	<b>20,195,199</b>	<b>26,202,564</b>	<b>11,938,544</b>

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

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

(Expressed in Canadian dollars, unless otherwise stated)

#### 1. General information

Minco Silver Corporation (“Minco Silver” or the “Company”) is engaged in exploring, evaluating and developing precious metals mineral properties and projects. Minco Silver was incorporated on August 20, 2004 under the laws of British Columbia, Canada and its common shares are listed on the Toronto Stock Exchange (“TSX”) and trades under the symbol “MSV”. The Company’s registered office is 2772 – 1055 West Georgia Street, Vancouver, British Columbia, Canada.

As at December 31, 2016, Minco Gold Corporation (“Minco Gold”) owned an 18.26% (December 31, 2015 – 18.45%) equity interest in Minco Silver.

#### 2. Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements were approved by the board of directors for issue on March 31, 2017.

#### 3. Summary of significant accounting policies

##### Consolidation

These consolidated financial statements include the accounts of Minco Silver Corporation and its wholly owned subsidiaries, Minco Yinyuan Co. (“Minco Yinyuan”), Minco Investment Holding HK Ltd (“Minco HK”), Changfu Minco Mining Co. Ltd., formerly Foshan Minco Fuwan Mining Co. Ltd., (“Changfu Minco”), Zhongjia Jinggu Limited (“Zhongjia”), Minco Resource Limited (“Minco Resources”), Minco Mining (China) Corporation (“Minco China”), Yuanling Minco Mining Ltd. (“Yuanling Minco”), Tibet Miming Co. Ltd. (“Tibet Minco”), Huaihua Tiancheng Mining Ltd. (“Huaihua”), Beijing Minco International Resources Investment Services Ltd. (“Minco International Resources”) and its 51% interest in Mingzhong Mining Co. Ltd. (“Mingzhong”). Changfu Minco is subject to a 10% net profit interest held by Guangdong Geological Bureau (“GGB”). The Company, indirectly through Changfu Minco, owns 90% of Zhongjia.

Information about subsidiaries:

Name	Principal activities (ownership interest)	Country of Incorporation
Minco Yinyuan	Treasury company (100%)	China
Minco HK	Holding company (100%)	China
Changfu Minco	Exploring, evaluating and developing mineral properties (90%)	China
Zhongjia	Service company (90%)	China
Minco Resources (i)	Holding company (100%)	China
Minco China (i)	Exploring and evaluating mineral properties (100%)	China
Yuanling Minco(i)	Exploring and evaluating mineral properties (100%)	China
Tibet Minco (i)	Exploring and evaluating mineral properties (100%)	China
Huaihua (i)	Exploring and evaluating mineral properties (100%)	China
Minco International Resources (i)	Investment and service company (100%)	China
Mingzhong (i)	Exploring and evaluating mineral properties (51%)	China

(i) The Company acquired these subsidiaries on July 31, 2015. The Company’s operating results and cash flow in 2015 only include the results of these subsidiaries from August 1 to December 31, 2015.

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

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*(Expressed in Canadian dollars, unless otherwise stated)*

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

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

#### **Foreign currency translation**

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

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

The functional currency of Minco Silver Corporation is Canadian dollars.

The functional currency of Minco HK and Minco Resources is Canadian dollars.

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

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

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

All resulting changes are recognized in other comprehensive income (loss) as translation adjustments.

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

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

##### (ii) Transactions and balances

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

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

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*(Expressed in Canadian dollars, unless otherwise stated)*

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

##### Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

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

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

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

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

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

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

(iii) Available-for-sale financial assets: Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other categories.

Available-for-sale assets are initially recorded at fair value plus transaction costs, and are subsequently carried at fair value. All unrealized gains and losses arising from changes in the fair value of assets classified as available-for-sale are recognized directly in other comprehensive income, except for unrealized foreign exchange gains or losses on monetary financial assets and impairment losses which are recognized in the consolidated statement of operations. Any reversal of a previously recognized impairment loss on a non-monetary asset is recognized directly in other comprehensive income. Realized gains and losses from the derecognition of available-for-sale assets are recognized in the consolidated statement of operations in the period derecognized with any unrealized gains or losses being recycled from other comprehensive income.

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

*(Expressed in Canadian dollars, unless otherwise stated)*

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

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities and amounts due to related parties.

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

#### Impairment of financial assets

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

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

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

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

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

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

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

The carrying amount of a replaced asset is derecognized when replaced.

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

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

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

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*(Expressed in Canadian dollars, unless otherwise stated)*

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

Impairment losses are included as part of other gains and losses on the consolidated statements of operations and net loss.

##### **Exploration and evaluation costs**

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

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

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

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

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

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

Proceeds from the sale of properties or cash proceeds received from option payments are recorded as a reduction of the related mineral interest.

##### **Impairment of non-financial assets**

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

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

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

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

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*(Expressed in Canadian dollars, unless otherwise stated)*

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

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and from its ultimate disposal.

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

#### Share-based payments

##### (i) Stock Options

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

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

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

##### (ii) Restricted Share Units ("RSU")

RSUs are equity-settled and are fair valued based on the market value of the shares at the grant date. The Company's compensation expense is recognized over the vesting period based on the number of units estimated to vest. Management estimates the number of awards likely to vest on grant and at each reporting date up to the vesting date. Annually, the estimated forfeiture rate is adjusted for actual forfeitures in the period. On vesting of RSUs, the shares are issued from treasury.

##### (iii) Performance Share Units ("PSU")

PSUs are equity-settled and are awarded to certain key employees. These units are subject to certain vesting requirements and expire at the end of three years. Vesting requirements are based on performance criteria established by the Company. PSUs are fair valued as follows: the portion of the PSUs related to market conditions is fair valued based on application of a Monte Carlo pricing model or other suitable option pricing models at the date of grant and the portion related to non-market conditions is fair valued based on the market value of the shares at the date of grant. The Company's compensation expense is recognized over the vesting period based on the number of units estimated to vest. Management estimates the number of awards likely to vest on grant and at each reporting date up to the vesting date. Annually, the estimated forfeiture rate is adjusted for actual forfeitures in the period. On vesting of PSUs, the shares are issued from treasury.



# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

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(Expressed in Canadian dollars, unless otherwise stated)

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

##### **Provision for restoration and rehabilitation**

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

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. The estimated cost is capitalized into the cost of the related asset and amortized on the same basis as the related assets.

If the estimated cost does not relate to an asset, it is charged to earnings in the period in which the event giving raises to the liability occurs.

As at December 31, 2016 and 2015, the Company did not have any provision for restoration and rehabilitation.

##### **Income tax**

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

##### **Earnings per share**

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

##### **Share capital**

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

##### **Accounting standards and amendments issued but not yet applied**

IFRS 9 is a *comprehensive standard to replace IAS 39, Financial Instruments: Recognition and Measurement*. It includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The effective date is for annual periods beginning on or after January 1, 2018. Early adoption is permitted. We are currently evaluating the impact of IFRS 9 on our financial statements and expect to adopt the new standard when it comes to effective.

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

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*(Expressed in Canadian dollars, unless otherwise stated)*

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

IFRS 16 replaces the previous leases standard IAS 17, *Leases and Related Interpretations*, and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). Effective January 1, 2019, an entity can choose to apply IFRS 16, but only if it also applies IFRS 15, Revenue from Contracts with Customers. We are currently evaluating the impact of IFRS 16 on our financial statements and expect to adopt the new standard when it comes to effective.

#### 4. Critical accounting estimates and judgments

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

##### **Impairment**

In accordance with the Company's accounting policy, the Company's mineral interest is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, which is often judgmental, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use.

The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, silver prices, future plans for the Company's mineral properties and mineral resources and/or reserve estimates.

Management has assessed for impairment indicators for the Company's mineral interests and has concluded that no indicators of impairment were identified and the Company plans to continue with its objective of developing the combined Fuwan / Changkeng project.

#### 5. Acquisition of Minco Resources

On May 22, 2015, the Company entered into a share purchase agreement (the "SPA") with Minco Gold and Minco HK. Pursuant to the SPA, the Company agreed to purchase all of the issued and outstanding shares of Minco Gold's wholly-owned subsidiary, Minco Resources, which holds Minco China. Minco China owns certain subsidiaries including legal ownership of Changfu Minco and a 51% interest in Mingzhong, which owns the Changkeng Gold Project.

By acquiring control of Minco China, the Company obtained legal ownership of Changfu Minco and consequently no longer requires trust agreements related to the funding of the Fuwan Project (Note 13(a)). The acquisition closed on July 31, 2015.

This acquisition has been accounted for as an asset purchase, as Minco Resources and its subsidiaries did not meet the definition of a business as defined in IFRS 3 *Business Combinations*.

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

(Expressed in Canadian dollars, unless otherwise stated)

#### 5. Acquisition of Minco Resources (continued)

The following summarizes the consideration paid and estimates of fair value of assets acquired and liabilities assumed:

	\$
Consideration	
Short-term investment	10,016,397
Settlement of loan payable from Minco Gold to Minco Silver	3,700,000
Transaction costs	69,627
Total consideration	<u>13,786,024</u>
Net assets acquired	\$
Cash	1,249,209
Receivables	91,901
Prepaid expenses and deposits	126,035
Property, plan, and equipment	76,555
Mineral interest	25,312,695
Accounts payable and accrued liabilities	(195,595)
Due to related parties	(199,703)
Minority interest share of the assets acquired	(12,675,073)
	<u>13,786,024</u>

The majority of the consideration was paid in the form of a short-term investment and net cash inflow of \$1,347,693 as result of the transaction mainly represented cash balances within the entities acquired.

#### 6. Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and term deposits with initial maturities of less than three months.

	As at December 31, 2016	As at December 31, 2015
	\$	\$
Cash	2,206,082	22,886,760
Term deposits	17,989,117	3,315,804
	<u>20,195,199</u>	<u>26,202,564</u>

As at December 31, 2016, cash and cash equivalents of \$4,995,478 (or RMB 25,796,400) (December 31, 2015 - \$11,482,616 (or RMB 53,728,309)) resided in China. Under Chinese law, cash advanced to the Company's Chinese subsidiaries as registered share capital is maintained in the subsidiaries' registered capital bank account. Remittance of these funds back to Canada requires approvals by the relevant government authorities or designated banks in China or both.

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

(Expressed in Canadian dollars, unless otherwise stated)

#### 7. Short-term investments

As at December 31, 2016, short-term investments consisted of cashable term deposits with original maturities from six months to one year. The yields on these investments were between 1.43% and 2.15%. As at December 31, 2016, short-term investments of \$25,975,769 (or RMB 134,137,574 (December 31, 2015 - \$22,079,638 (or RMB 103,312,834))) resided in China.

As at December 31, 2015, short-term investments consisted of cashable term deposits with one year to maturity. The yields on these investments were between 1.68% and 3.30%.

#### 8. Mineral interests

	\$
Fuwan Silver Project (a)	35,287,777
Changkeng Project (c)	23,853,802
Total mineral interests	<u>59,141,579</u>

##### (a) Fuwan Silver Project

Minco Silver has a 90% interest in Changfu Minco, the Company's China's operating subsidiary and permit holder for the Fuwan Silver Project, subject to a 10% net profit interest held by GGB. There will be no distributions to or participation by GGB, until such time as Minco Silver's investment in the project is recovered. GGB is not required to fund any expenditures related to the Fuwan Silver Project. The Exploration Permit for the Fuwan Silver Project is the Luoke-Jilinggang exploration permit, which expires on July 20, 2017. The Mining Area Permit which defines the mining limits of the Fuwan Silver Project and restricts the use of this land to mining activities expires on April 10, 2018.

Following is a summary of the capitalized development expenditures of the Fuwan Silver Project for fiscal 2016 and 2015:

	2016	2015
	\$	\$
<b>Opening Balance – January 1</b>	<b>37,565,101</b>	<b>31,621,827</b>
Consulting fees	390,802	657,446
Salaries and benefits	337,137	147,761
Feasibility study	-	110,813
Share-based compensation (note 11(b))	(215,602)	215,132
Mine design costs	8,882	18,826
Mining license application	365,316	181,992
Environment impact assessment	68,612	57,277
Travel	43,215	65,664
Other	293,320	396,045
Effect of change in the exchange rate with RMB	(3,569,006)	4,092,318
<b>Ending Balance – December 31</b>	<b><u>35,287,777</u></b>	<b><u>37,565,101</u></b>

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

(Expressed in Canadian dollars, unless otherwise stated)

#### 8. Mineral interests (continued)

##### (b) Fuwan Silver Belt

As at December 31, 2016, the Company had two active exploration permits on the Fuwan Silver Belt: the Hecun Property and the Guyegang-Sanyatang Property. The Guyegang-Sanyatang permit expires on March 17, 2017 (renewal submitted) and the Hecun permit expires on August 12, 2018.

During the year ended December 31, 2016, the Company did not conduct any regional exploration activities on the Fuwan Silver Belt, except for maintaining the exploration permits.

##### (c) Changkeng Gold Project

In 2015, the Company completed the acquisition of 51% interest in the Changkeng Gold Project, which is held by Mingzhong (note 3 and 5). The Changkeng Gold Project immediately adjoins the Fuwan Silver Project.

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 expires on September 10, 2017.

Following is a summary of capitalized development costs of the Changkeng Gold Project for fiscal 2016 and 2015:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Opening Balance – January 1</b>	26,110,954	-
Acquisition costs	-	25,312,695
Drilling	-	142,863
Feasibility study	-	112,201
Consulting	18,102	-
Salaries and benefits	131,259	90,693
Mine design	48,749	-
Others	1,928	446
Effect of change in the exchange rate with RMB	(2,457,190)	452,056
<b>Ending Balance – December 31</b>	<b>23,853,802</b>	<b>26,110,954</b>

The Company intends to renew the above permits in normal course of business. Although the Company has taken steps to verify the title to all of the Company's mineral properties in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered agreements or transfers.

# Minco Silver Corporation

Notes to the Consolidated Financial Statements

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

*(Expressed in Canadian dollars, unless otherwise stated)*

## 9. Non-controlling interest (“NCI”)

Below is a summary of the financial information of Mingzhong.

Financial position:

	December 31, 2016	December 31, 2015
	\$	\$
<b>NCI percentage</b>	49%	49%
Current assets	272,119	977,783
Current liabilities	(109,658)	(154,860)
Net current assets	162,461	822,923
Non-current asset	23,368,426	26,110,954
Net assets	23,530,888	26,933,877
<b>Accumulated NCI</b>	11,318,341	12,760,905

Income statement

	Year ended December 31, 2016	For the period ended from August 1 to December 31, 2015
	\$	\$
Net loss	374,316	298,447
<b>Loss allocated to non-controlling interest</b>	183,415	146,239

Summarized cash flows

	Year ended December 31, 2016	For the period ended from August 1 to December 31, 2015
	\$	\$
Cash outflows from operating activities	1,081,958	45,695
Cash outflows from investing activities	512,078	169,639

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

(Expressed in Canadian dollars, unless otherwise stated)

#### 10. Investments

Following is available-for-sale investment, as of and for the year ended December 31, 2015:

	Fair value December 31, 2014 \$	Fair value adjustment May 21, 2015 \$	Net disposals May 21, 2015 \$	Fair value December 31, 2015 \$
Common shares in Gold Road Resources Limited	10,865,140	7,817,064	(18,682,204)	-
<b>Total</b>	<b>10,865,140</b>	<b>7,817,064</b>	<b>(18,682,204)</b>	<b>-</b>

During the year ended December 31, 2014, the Company acquired 47,719,423 common shares in Gold Road Resources Limited, a publicly listed resource company traded on the ASX at a cost of \$13,889,316.

During the year ended December 31, 2015, the Company disposed of all of its common shares of Gold Road Resources Limited for net proceeds of \$18,682,204. As a result, the Company recorded a gain on disposal of the investment of \$4,792,888 during the year ended December 31, 2015.

During the year ended December 31, 2016, the Company did not acquire, dispose, or have any other investments.

#### 11. Share capital

##### (a) Common Shares

Authorized: Unlimited number of common shares without par value.

##### (b) Long-term Incentive Plan

The Company may grant up to 15% of its issued and outstanding shares as options, restricted share units, performance share units and deferred share units, to its directors, officers, employees and consultants under its long-term incentive plan.

##### *Stock Options*

The Company's long-term incentive plan allows the board of directors to grant options for periods of up to ten years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on a date preceding the date the options are granted. These options are equity settled.

During the year ended December 31, 2015, the Company granted stock options for 1,690,000 common shares to its directors, officers and employees at a weighted exercise price of \$0.42 per share that vest over an 18-month period from the grant date.

During the year ended December 31, 2016, no stock options were granted.

# Minco Silver Corporation

Notes to the Consolidated Financial Statements

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

*(Expressed in Canadian dollars, unless otherwise stated)*

## 11. Share capital (continued)

The Company recorded \$256,928 of the option component of share-based compensation for the year ended December 31, 2016. Share-based compensation expense of \$183,278 (2015 - \$135,634, 2014 - \$722,109) was recorded in the statement of operations and net loss and share-based compensation expense of \$73,649 (2015 - \$64,692, 2014 - \$231,517) was capitalized to mineral interests.

A summary of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price \$
Balance, January 1, 2015	6,477,835	2.58
Granted	1,690,000	0.42
Expired	(350,836)	3.03
Forfeited	(1,331,332)	1.72
Balance, December 31, 2015	6,485,667	2.16
Exercised	(614,995)	0.59
Expired	(1,305,000)	5.31
Forfeited	(285,000)	2.08
Balance, December 31, 2016	4,280,672	1.43

The weighted average share price on the days options were exercised was \$1.27 (2015 - \$Nil, 2014 - \$1.01). As at December 31, 2016, there was \$15,864 (2015 - \$186,241) of total unrecognized compensation cost relating to unvested options.

Options outstanding				Options exercisable	
Range of exercise prices \$	Number Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
0.42 – 0.79	1,151,672	3.71	0.42	654,999	0.42
0.80 – 0.81	705,000	2.06	0.80	705,000	0.80
0.82 – 2.00	954,000	1.07	1.71	954,000	1.71
2.01 – 2.35	1,470,000	0.24	2.35	1,470,000	2.35
	4,280,672	1.66	1.43	3,783,999	1.56



# Minco Silver Corporation

Notes to the Consolidated Financial Statements

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

*(Expressed in Canadian dollars, unless otherwise stated)*

## 11. Share capital (continued)

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

	2016	2015	2014
Risk-free interest rate	-	0.46%-1.69%	1.21% - 1.69%
Dividend yield	-	0%	0%
Volatility	-	71% - 76%	71% - 76%
Forfeiture rate	-	27%	26%
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.

### *Restricted Share Units ("RSU")*

A summary of the RSUs outstanding is as follows:

	Number outstanding	Weighted average fair value \$
Balance, January 1, 2014	280,000	1.64
Exercised	<u>(280,000)</u>	<u>1.64</u>
Balance, December 31, 2014 and 2015 and 2016	<u>-</u>	<u>-</u>

During the year ended December 31, 2013, the Company granted 560,000 RSUs to the Company's CEO. RSU's are equity – settled and measured based on the value of the Company's share price at the date of grant and vest in tranches over a 12- month period from the date of grant. The weighted average grant date fair value of the RSU's was \$918,400.

During the year ended December 31, 2016, the Company recorded \$Nil (2015 - \$Nil, 2014 - \$39,000) of share-based compensation for RSUs. Share-based compensation of \$Nil (2015 - \$Nil, 2014 - \$3,900) was recorded in the statement of operations and net loss and share-based compensation expense of \$Nil (2015 - \$Nil, 2014 - \$35,100) was capitalized to mineral properties.

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

(Expressed in Canadian dollars, unless otherwise stated)

#### 11. Share capital (continued)

##### Performance Share Units (“PSU”)

A summary of the PSUs outstanding is as follows:

	Number outstanding	Weighted average fair value \$
Balance, January 1, 2015	885,000	0.80
Forfeited	<u>(150,000)</u>	<u>0.80</u>
Balance, December 31, 2015	735,000	0.80
Forfeited	<u>(735,000)</u>	<u>0.80</u>
Balance, December 31, 2016	<u>-</u>	<u>-</u>

During the year ended December 31, 2013, the Company granted 940,000 performance share units to employees of the Company whereby 50% were to vest upon the Company receiving the final approval from Guangdong Provincial Government for the EIA report for the Fuwan Silver Project and the remaining 50% were to vest upon the Company obtaining the mining license issued by MOLAR in respect to the Fuwan Silver Project (the “Performance Criteria”). The weighted average grant date fair value of the PSU’s was \$0.80 per unit. In valuing the PSUs, the Company used an expected life of 3 years.

During the year ended December 31, 2016, as the Performance Criteria were not fulfilled before the end of the performance cycle, all of the 735,000 PSU outstanding as at the beginning of fiscal 2016 were forfeited on October 10, 2016. Consequently, the share-based compensation recorded to the Company’s statement of operation and to the share-based compensation capitalized to mineral interest from fiscal 2013 up to the second quarter of 2016 has been reversed.

Impacts of the reversal in 2016 and amounts recorded in 2015 are as follows:

Year ended December 31,	2016	2015
	\$	\$
Share-based compensation (recovery) charged to the statement of operations	(39,966)	11,108
Addition (reduction) of capitalized share-based compensation within the Company’s mineral interest	(289,251)	150,440
<b>Total share-based compensation expenditure (recovery)</b>	<b><u>(329,217)</u></b>	<b><u>161,548</u></b>

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

(Expressed in Canadian dollars, unless otherwise stated)

#### 12. Income taxes

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

	2016	2015	2014
	\$	\$	\$
Income (loss) before income taxes	(2,407,668)	6,680,947	(1,665,518)
Statutory income tax rate	26%	26%	26%
Expected tax recovery at statutory income tax rate	(625,994)	1,737,046	(433,035)
Non-deductible expenses and other items	509,573	63,663	(118,206)
Difference in tax rates	4,524	(607,441)	13,434
Temporary differences from acquisition transaction	-	(3,435,860)	-
Change in deferred income tax asset not recognized	(95,308)	2,858,979	625,349
Foreign exchange	207,205	(616,387)	(87,542)
Income tax expense	-	-	-

Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of unrecognized deferred income tax assets and liabilities at December 31, 2016 and 2015 are as follows:

	2016	2015
	\$	\$
<b>Deferred income tax assets not recognized</b>		
Non-capital losses	5,188,584	5,313,066
Mineral interests	1,613,372	1,549,489
Other	-	34,708
	<u>6,801,956</u>	<u>6,897,264</u>

The Company has non-capital losses carried forward for Canadian income tax purposes which expire as follows:

	\$
2030	1,614,942
2031	1,880,258
2032	2,229,724
2034	1,470,692
2036	830,278
	<u>8,025,894</u>

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

*(Expressed in Canadian dollars, unless otherwise stated)*

#### 13. Related party transactions

##### (a) Funding of Changfu Minco

Up to July 31, 2015, the Company was not able to invest directly in Changfu Minco as Changfu Minco was legally owned by Minco Gold. All historical funding supplied by the Company for exploration of the Fuwan Project went through Minco China via Minco Gold and Minco Resources to comply with Chinese law. In the normal course of business the Company used trust agreements when providing cash, denominated in US dollars, to Minco China via Minco Gold and Minco Resources for the purpose of increasing the registered capital of Changfu Minco.

Upon completion of the acquisition of the Changkeng Gold Project (note 5), the requirement for the trust structure was eliminated.

During the year ended December 31, 2013, the Company advanced US \$20 million to Minco China via Minco Resources and Minco Gold in accordance with a trust agreement signed on April 30, 2013 in which Minco Silver agreed to advance US \$20 million to Minco China to increase Changfu Minco's registered capital. Minco China was to exchange these US funds into RMB.

Minco China is required to exchange the US dollars into RMB, before the money can be used to increase the registered capital of Changfu Minco. The exchange of US dollars into RMB requires approval from the State Administration of Foreign Exchange ("SAFE"). In order to obtain SAFE approval to effect the foreign currency exchange, Minco China, on behalf of Minco Silver has previously engaged a third party consultant to enter into purchase and sales transaction to exchange US dollars into RMB. During the year ended December 31, 2016, Minco China paid and accrued consultancy fees totaling RMB Nil (\$Nil) (2015 – RMB 1,304,709 (\$268,100), 2014 – RMB 139,692 (\$25,063)) due to a third party, who assisted in the completion of currency exchange of the US funds into RMB.

##### (b) Trust agreement with Minco Gold

Upon the completion of the SPA with Minco Gold (note 5) in 2015, Minco Gold still held various mineral properties and an interest in a receivable in connection with a lawsuit initiated by Minco Gold (collectively the "Retained Assets") in China. As Minco Gold ceased to have Chinese operation, Minco Gold entered into a trust agreement with Minco China, a Chinese subsidiary of the Company, where Minco China held the Retained Assets in trust for Minco Gold.

##### (c) Shared expenses

Minco Silver and Minco Base Metals Corporation ("MBM"), a company with which the Company's CEO has significant influence over, share offices and certain administrative expenses in Vancouver and in Beijing.

Minco Silver and Minco Gold share offices and certain administrative expenses in Beijing (only up to July 31, 2015) and Vancouver.

# Minco Silver Corporation

Notes to the Consolidated Financial Statements

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

*(Expressed in Canadian dollars, unless otherwise stated)*

## 13. Related party transactions (continued)

### (d) Due to and due from related parties

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
	\$	\$
Due from Minco Gold	-	177,330
Due from Minco Base Metal (i)	163,167	-
Total due from related parties	<u>163,167</u>	<u>177,330</u>
Due to Minco Gold (ii)	<u>205,145</u>	-

(i) This is the administrative and shared expenses paid by the Company on behalf of Minco Base Metals that is to be reimbursed.

(ii) During the year ended December 31, 2016, the Company collected \$544,164 arising from the partial settlement of the Retained Assets (note 13 (b)) on behalf of Minco Gold. The Company also had \$339,019 amount due from Minco Gold to account for the administrative and shared expenses paid by Minco Gold on behalf of the Company, net of the exploration expenses the Company paid on behalf of Minco Gold for the retained assets.

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

In the year ended December 31, 2016, the Company paid or accrued \$101,377 (December 31, 2015 – \$101,701, December 31, 2014 - \$124,833) in respect of rent and \$304,788 (December 31, 2015 – \$563,588, December 31, 2014 - \$663,667) in respect of shared head office expenses and administration costs to Minco Gold.

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

### (e) Key management compensation

In the years ended December 31, 2016, 2015 and 2014, following amount was paid to and accrued for key management's compensation. The compensation accrued as at December 31, 2016 was \$97,344 (2015 - \$160,000). Key management includes the Company's directors and senior management. This compensation is included in development costs and administrative expenses.

	<b>Years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	\$	\$	\$
Cash remuneration	757,649	784,608	1,026,436
Share-based compensation	(46,798)(i)	274,632	745,925
	<u>710,851</u>	<u>1,059,240</u>	<u>1,772,361</u>

(i) Share based compensation earned by management during 2016 consisted of the share based compensation earned from option vesting of 387,048, net of the effect of the PSU reversal of (433,846) (Note 11 (b)).

# Minco Silver Corporation

Notes to the Consolidated Financial Statements

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

*(Expressed in Canadian dollars, unless otherwise stated)*

## 14. Geographical information

The Company's business of exploration and development of mineral interest is considered as operating in one segment. The geographical division of the Company's non-current assets is as follows:

### Non-current assets by geography

	December 31, 2016		
	Canada	China	Total
	\$	\$	\$
Current assets	20,946,132	31,566,620	52,512,752
Non-current assets	8,588	59,428,603	59,437,191

  

	December 31, 2015		
	Canada	China	Total
	\$	\$	\$
Current assets	32,679,357	26,562,611	59,241,968
Non-current assets	12,459	64,098,595	64,111,054

## 15. Commitments

The Company has the following commitments in respect of its portion of office leases in China and Canada;

	\$
2017	551,934
2018	52,989
2019	6,390
2020 – 2022	14,911
	<u>626,224</u>

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

(Expressed in Canadian dollars, unless otherwise stated)

#### 16. Financial instruments and fair values

The following table shows the carrying values of the Company's financial assets and liabilities as at December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
<b>Loans and receivables</b>	\$	\$
Cash and cash equivalents	20,195,199	26,202,564
Short-term investments	31,410,880	32,143,068
Receivables	541,293	517,359
Due from related parties	163,167	177,330

	December 31, 2016	December 31, 2015
<b>Other financial liabilities</b>	\$	\$
Due to related party	205,145	-
Accounts payable and accrued liabilities	424,635	638,550

#### Fair value measurement

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

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).

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

#### Financial risk factors

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

#### Foreign exchange risk

The functional currency of Minco Silver is the Canadian dollar and the functional currency of its Chinese subsidiaries is RMB. Most of the foreign currency risk is related to US dollar funds held by Minco Silver and its Chinese subsidiaries. Therefore, the Company's net loss is impacted by fluctuations in the valuation of the US dollar in relation to the Canadian dollar and RMB.

# Minco Silver Corporation

## Notes to the Consolidated Financial Statements

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

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*(Expressed in Canadian dollars, unless otherwise stated)*

#### **16. Financial instruments and fair values (continued)**

The Company does not hedge its exposure to currency fluctuations. The Company has completed a sensitivity analysis to estimate the impact that a change in foreign exchange rates would have on the net loss of the Company, based on the Company's net US\$18.2 million monetary assets at year-end. This sensitivity analysis shows that a change of +/- 10% in US\$ foreign exchange rate would have a +/- US\$1.8 million impact on net loss.

##### **Interest rate risk**

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

The Company has completed a sensitivity analysis to estimate the impact that a change in interest rates would have on the net loss of the Company. The Company mainly 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

##### **Liquidity risk**

Liquidity risk includes the risk that the Company cannot meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements and its exploration and development plans. The annual budget is approved by the Company's board of directors. The Company ensures that there are sufficient cash balances to meet its short-term business requirements. As at December 31, 2016, the Company has a positive working capital of approximately \$51.9 million and therefore has sufficient funds to meet its current operating and exploration and development obligations. However, the Company will require significant additional funds to complete its plans for the construction of the Fuwan project.

#### **17. Capital management**

The Company's objectives in the managing of the liquidity and capital are to safeguard the Company's ability to continue as a going concern and provide the financial capacity to meet its strategic objectives. The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued share capital, common share purchase warrants, contributed surplus, accumulated 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. The annual and updated budgets are approved by the Company's board of directors.

As at December 31, 2016, the Company does not have any long-term debt and has sufficient funds to meet its current operating and exploration and development obligations.



# Minco Silver Corporation

Notes to the Consolidated Financial Statements

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

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*(Expressed in Canadian dollars, unless otherwise stated)*

## **18. Subsequent events**

(a). On February 20, 2017, the Company granted stock options to purchase 4,000,000 common shares to employees, consultants and directors at an exercise price of \$1.40 per common share. These options vest over an 18 month period from the grant date and expire on February 19, 2022.

(b). On February 20, 2017, the Company granted 1,000,000 PSUs to employees and consultants of the Company. The fair value of the PSU's at the grant date was \$1.40 per PSU.