

Minco Silver Corporation

Consolidated Financial Statements

For the years ended December 31, 2017, 2016 and 2015

(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, results of operations, and cash flow 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 27, 2018



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Minco Silver Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Minco Silver Corporation and its subsidiaries, (together, the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations and net income (loss), comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years ended December 31, 2017, including the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and their financial performance and their cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

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Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

(Signed) “PricewaterhouseCooperts LLP”

Chartered Professional Accountants

Vancouver, Canada
March 27, 2018

We have served as the Company's auditor since 2009.

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Minco Silver Corporation

Consolidated Statements of Financial Position

(Expressed in Canadian dollars, unless otherwise stated)

	December 31, 2017	December 31, 2016
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 5)	22,102,526	20,195,199
Short-term investments (note 6)	25,338,081	31,410,880
Receivables	612,140	541,293
Due from related parties (note 12)	-	163,167
Prepaid expenses and deposits	250,001	202,213
	<u>48,302,748</u>	<u>52,512,752</u>
Mineral interests (note 7)	61,098,589	59,141,579
Property, plant and equipment	208,662	295,612
	<u>109,609,999</u>	<u>111,949,943</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	474,699	424,635
Due to minority shareholders of a subsidiary (note 8)	164,000	-
Due to related parties (note 12)	27,523	205,145
	<u>666,222</u>	<u>629,780</u>
Equity		
Equity attributable to owners of the parent		
Share capital (note 10(a))	107,538,681	107,216,932
Contributed surplus	25,498,500	22,682,099
Accumulated other comprehensive income	6,530,421	6,795,087
Deficit	(41,767,830)	(36,692,296)
	<u>97,799,772</u>	<u>100,001,822</u>
Non-controlling interest (note 8)	11,144,005	11,318,341
Total equity	<u>108,943,777</u>	<u>111,320,163</u>
Total liabilities and equity	<u>109,609,999</u>	<u>111,949,943</u>

Commitments (note 14)

Subsequent events (note 17)

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)

Years ended December 31, 2017, 2016, and 2015

(Expressed in Canadian dollars, unless otherwise stated)

	2017	2016	2015
	\$	\$	\$
Administrative expenses			
Audit, legal and regulatory	250,154	271,656	284,789
Amortization	70,681	97,692	106,674
Consulting	84,014	105,665	161,074
Directors' fees	95,000	99,500	116,000
Field office expenses	459,904	442,022	860,980
Investor relations	12,337	65,919	16,297
Office administration expenses	258,626	345,643	237,310
Property investigation	-	-	31,331
Rent	317,322	417,590	376,544
Salaries and benefits	611,652	519,353	440,095
Share-based compensation (note 10(b))	2,245,859	143,312	146,742
Travel and transportation	50,029	68,408	27,780
Loss before finance and other income (expenses)	(4,455,578)	(2,576,760)	(2,805,616)
Finance and other income (expenses)			
Foreign exchange gain (loss)	(1,365,447)	(340,446)	4,173,854
Gain on disposal of investment (note 9)	15,332	-	4,792,888
Loss on short-term investment	(46,058)	-	-
Interest income	637,478	521,021	911,213
Other income (expenses)	9,057	(11,483)	(391,392)
	(749,638)	169,092	9,486,563
Net income (loss) for the year	(5,205,216)	(2,407,668)	6,680,947
Net income (loss) attributable to:			
Shareholders of the Company	(5,075,534)	(2,224,253)	6,827,186
Non-controlling interest	(129,682)	(183,415)	(146,239)
	(5,205,216)	(2,407,668)	6,680,947
Income (loss) per share – basic and diluted	(0.09)	(0.04)	0.11
Weighted average number of common shares outstanding – basic and diluted	60,621,427	59,977,212	59,631,418

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

Minco Silver Corporation income
Consolidated Statements of Comprehensive Income (loss)
Years ended December 31, 2017, 2016, and 2015

(Expressed in Canadian dollars, unless otherwise stated)

	2017	2016	2015
	\$	\$	\$
Net income (loss) for the year	(5,205,216)	(2,407,668)	6,680,947
Other comprehensive income (loss)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Unrealized gain on investment, net of tax (note 9)	-	-	7,125,020
Realized gain reclassified to net loss on disposal of investment, net of tax (note 9)	-	-	(4,100,844)
Exchange differences on translation from functional to presentation currency	(309,320)	(9,277,783)	7,827,356
Other comprehensive income (loss) for the year	(309,320)	(9,277,783)	10,851,532
Comprehensive income (loss) for the year	(5,514,536)	(11,685,451)	17,532,479
Comprehensive income (loss) attributable to:			
Shareholders of the Company	(5,340,200)	(10,242,887)	17,446,647
Non-controlling interest	(174,336)	(1,442,564)	85,832
	(5,514,536)	(11,685,451)	17,532,479

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

Minco Silver Corporation

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2017 and 2016

(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 \$
Balance - January 1, 2015	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 income 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
Balance – December 31, 2015	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 loss	-	-	-	(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 10(b))	-	-	(329,217)	-	-	(329,217)	-	(329,217)
Balance – December 31, 2016	60,246,413	107,216,932	22,682,099	6,795,087	(36,692,296)	100,001,822	11,318,341	111,320,163
Net loss for the year	-	-	-	-	(5,075,534)	(5,075,534)	(129,682)	(5,205,216)
Other comprehensive loss	-	-	-	(264,666)	-	(264,666)	(44,654)	(309,320)
Share-based compensation	-	-	2,938,049	-	-	2,938,049	-	2,938,049
Issuance of shares – options exercised	458,335	321,749	(121,648)	-	-	200,101	-	200,101
Balance – December 31, 2017	60,704,748	107,538,681	25,498,500	6,530,421	(41,767,830)	97,799,772	11,144,005	108,943,777

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

Minco Silver Corporation
Consolidated Statements of Cash Flows
Years ended December 31, 2017, 2016, and 2015

(Expressed in Canadian dollars, unless otherwise stated)

	2017	2016	2015
	\$	\$	\$
Operating activities			
Net income(loss) for the year	(5,205,216)	(2,407,668)	6,680,947
Adjustments for:			
Amortization	70,681	97,692	106,674
Foreign exchange loss (gain)	1,365,447	340,446	(4,173,854)
Share-based compensation (note 10(b))	2,245,859	143,313	146,742
Gain on disposal of investment	(15,332)	-	(4,792,888)
Unrealized gain on investment	46,058	-	-
Changes in items of working capital:			
Receivables	(72,369)	(66,070)	(28,020)
Prepaid expenses and deposits	(48,019)	(9,804)	115,728
Accounts payable and accrued liabilities	50,176	(125,491)	4,695
Due from/to related parties (note 12)	(16,548)	196,390	(428,425)
Net cash used in operating activities	(1,579,263)	(1,831,192)	(2,368,401)
Financing activities			
Proceeds from stock option exercises	200,101	363,431	-
Proceeds from a share subscription of a 51%-owned subsidiary (note 8)	163,223	-	-
Net cash generated from financing activities	363,324	363,431	-
Investing activities			
Development costs	(1,472,034)	(1,787,942)	(1,811,422)
Cash inflows as result of acquisition of subsidiaries (note 3)	-	-	1,347,693
Proceeds from disposition investments (note 9)	500,276	-	18,682,204
Acquisition of investments (note 9)	(484,947)	-	-
Proceeds from disposition of property, plant and equipment	14,827	-	7,164
Purchase of short-term investments	(14,002,812)	(7,740,766)	(16,941,170)
Redemption of short-term investments	19,061,887	5,889,960	11,288,990
Net cash generated from (used in) investing activities	3,617,201	(3,638,748)	12,573,459
Effect of exchange rates on cash and cash equivalents	(493,934)	(900,856)	4,058,962
Increase (decrease) in cash and cash equivalents	1,907,327	(6,007,365)	14,264,020
Cash and cash equivalents - Beginning of year	20,195,199	26,202,564	11,938,544
Cash and cash equivalents - End of year	22,102,526	20,195,199	26,202,564

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

Minco Silver Corporation

Notes to the Consolidated Financial Statements Years ended December 31, 2017, 2016, and 2015

(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, 2017, Minco Gold Corporation (“Minco Gold”) owned an 18.04% (December 31, 2016 – 18.26%) 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 27, 2018.

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

Years ended December 31, 2017, 2016, and 2015

(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Consolidation (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

Years ended December 31, 2017, 2016, and 2015

(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

Years ended December 31, 2017, 2016, and 2015

(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

Years ended December 31, 2017, 2016, and 2015

(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

Years ended December 31, 2017, 2016, and 2015

(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) 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.

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.

Minco Silver Corporation

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(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of significant accounting policies (continued)

As at December 31, 2017 and 2016, 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. We are in the process of assessing the new standard and expect no significant impact on adoption.

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). This standard is effective from January 1, 2019... We are currently evaluating the impact of IFRS 16 on our financial statements.

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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 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, commodity 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. Cash and cash equivalents

Cash and cash equivalents comprise cash and term deposits with initial maturities less than three months and are broken down as follow:

December 31,	2017	2016
	\$	\$
Cash	9,983,575	2,206,082
Term deposits	12,118,951	17,989,117
	<u>22,102,526</u>	<u>20,195,199</u>

As at December 31, 2017, cash and cash equivalents of \$15,662,255 (or RMB 81,176,416) (December 31, 2016 - \$4,995,478 (or RMB 25,796,400)) resides 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.

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6. Short-term investments

As at December 31, 2017, short-term investments consisted of the following:

	Currency	Amount (\$)	Term	Interest per annum
			June 18, 2018 to	
Corporate bonds	USD	4,032,685	November 4, 2019	3.22 % to 4.93%
Term deposit	USD	3,498,917	April 30, 2018	1.8 to 2.14%
Term deposit	RMB	15,441,479	6 to 12 months	1.6% to 2.15%
Term deposit	CAD	2,365,000	October 10, 2018	2.05%
		25,338,081		

As at December 31, 2017, short-term investments of \$15,441,479 (or RMB 80,032,150) (December 31, 2016 - \$25,975,769 (or RMB 134,137,574)) resided in China.

As at December 31, 2016, short-term investments consisted of cashable term deposits with one year to maturity. The yields on these investments were between 1.43% and 2.15%.

Remittance of these funds back to Canada requires approvals by the relevant government authorities or designated banks in China or both

7. Mineral interests

	2017	2016
	\$	\$
Fuwan Silver Project (a)	36,626,372	35,287,777
Changkeng Project (c)	24,472,217	23,853,802
Total mineral interests	61,098,589	59,141,579

(a) Fuwan Silver Project

Minco Silver has a 90% interest in Changfu Minco, the Company's operating subsidiary in China 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 expired on July 20, 2017, and is currently being renewed. This process is normal course for permit renewal. 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. The Company has started the renewal process of this permit in the normal course when it is expired.

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7. Mineral interests (continued)

Following is a summary of the capitalized expenditures of the Fuwan Silver Project:

	2017	2016
	\$	\$
Opening Balance – January 1	35,287,777	37,565,101
Consulting fees	192,826	390,802
Salaries and benefits	339,150	337,137
Share-based compensation (note 10(b))	346,095	(215,602)
Mine design costs	-	8,882
Mining license application	207,033	365,316
Environment impact assessment	1,386	68,612
Travel	45,530	43,215
Others	323,599	293,320
Effect of change in the exchange rate with RMB	(117,024)	(3,569,006)
Ending Balance – December 31	36,626,372	35,287,777

(b) Fuwan Silver Belt

As at December 31, 2017, the Company had two exploration permits on the Fuwan Silver Belt: the Hecun Property and the Guyegang-Sanyatang Property. The Guyegang-Sanyatang permit expired on March 17, 2017 and has been recently extended to September 10, 2019. The Hecun permit expires on August 12, 2018.

During the year ended December 31, 2017, the Company did not conduct any regional exploration activities on the Fuwan Silver Belt, except for maintaining the exploration permits.

(c) Changkeng Gold Project

The Company holds a 51% interest in Mingzhong which owns the Changkeng Gold Project. The Changkeng Gold Project immediately adjoins the Fuwan Silver Project.

The Changkeng exploration permit expires on September 10, 2019.

Following is a summary of capitalized costs of the Changkeng Gold Project:

	2017	2016
	\$	\$
Opening Balance – January 1	23,853,802	26,110,954
Consulting	192,826	18,102
Salaries and benefits	163,786	131,259
Share-based compensation (note 10(b))	346,095	-
Mine design	774	48,749
Others	1,164	1,928
Effect of change in the exchange rate with RMB	(86,230)	(2,457,190)
Ending Balance – December 31	24,472,217	23,853,802

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7. Mineral interests (continued)

The Company intends to renew all the permits when they expire in the future.

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.

8. Non-controlling interest ("NCI")

Below is a summary of the financial information of Mingzhong:

Financial positions:

December 31,	2017	2016	2015
	\$	\$	\$
NCI percentage	49%	49%	49%
Current assets	291,755	272,119	977,783
Current liabilities	(554,576)	(109,658)	(154,860)
Net current assets (liabilities)	(262,821)	162,461	822,923
Non-current asset	23,948,038	23,368,426	26,110,954
Net assets	23,685,217	23,530,888	26,933,877
Accumulated NCI	11,144,005	11,318,341	12,760,905

Income statements:

Years ended December 31,	2017	2016	2015
	\$	\$	\$
Net loss	264,657	374,316	268,447
Loss allocated to non-controlling interest	129,682	183,415	146,239

Summary of statements of cash flows:

Years ended December 31,	2017	2016	2015
	\$	\$	\$
Cash inflows (outflow) from operating activities	62,130	(1,081,958)	45,695
Cash inflow from financing activities	163,223	-	-
Cash inflow (outflows) from investing activities	(166,071)	(512,078)	169,639

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8. Non-controlling interest (“NCI”) (continued)

During the year ended December 31, 2017, Mingzhong initiated equity financing to raise capital to finance its operations and has received the following from its shareholders:

- \$602,780 from the Company subsequent to the year ended December 31, 2017
- \$164,000 and \$178,390 before and after the year ended December 31, 2017 from its minority shareholders.

The equity financing is not completed as of the date of this report.

9. Investments

During the year ended December 31, 2017, the Company acquired a portfolio of common shares of public companies from the open market. These investments are designated as fair-value-through-profit-or-loss (FVTPL) financial assets and valued at their fair value at inception and at each subsequent reporting period. The Company realized a gain of \$15,332 when the whole portfolio was disposed during the year.

During the year ended December 31, 2016, there were no transactions in connection with investments.

In 2015, the Company disposed all of its interest in Gold Road Resources Limited, a company with shares traded on the Australian securities exchange, for net proceeds of \$18,682,204. As a result, a gain of \$4,792,888 and a net recovery of other comprehensive loss of \$3,024,176 were recorded in 2015

10. 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, 2016, no stock options were granted.

On February 20, 2017, the Company granted stock options for 4,000,000 common shares to its directors, officers and employees at a weighted exercise price of \$1.40 per share that vest over an 18-month period from the grant date.

Minco Silver Corporation

Notes to the Consolidated Financial Statements Years ended December 31, 2017, 2016, and 2015

(Expressed in Canadian dollars, unless otherwise stated)

10. Share capital (continued)

(b) Long-term Incentive Plan (continued)

Stock Options (continued)

The Company recorded \$2,712,629 of the option component of share-based compensation for the year ended December 31, 2017. Share-based compensation expense of \$2,168,089 (2016 - \$183,278, 2015 - \$135,634) was recorded in the statement of operations and net loss and share-based compensation of \$544,540 (2016 - \$73,649, 2015 - \$64,692) was capitalized to mineral interests.

A summary of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price \$
Balance, January 1, 2016	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
Granted	4,000,000	1.40
Exercised	(458,335)	0.44
Expired	(1,415,000)	2.34
Forfeited	(257,000)	1.63
Balance, December 31, 2017	6,150,337	1.27

The weighted average share price on the days options were exercised was \$1.32 (2016 - \$1.27, 2015 - \$Nil). As at December 31, 2017, there was \$568,722 (2016 - \$15,864) 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	673,337	2.71	0.42	673,337	0.42	
0.80 – 0.81	665,000	1.06	0.80	665,000	0.80	
0.82 – 2.00	4,000,000	4.14	1.40	1,333,328	1.40	
2.01 – 2.35	812,000	0.08	1.70	812,000	1.70	
	6,150,337	3.11	1.27	3,483,665	1.17	

10. Share capital (continued)

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(b) Long-term Incentive Plan (continued)

Stock Options (continued)

Subsequent to the year ended December 31, 2017, 812,000 options were expired.

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

	2017	2016
Risk-free interest rate	0.66%-1.16%	-
Dividend yield	0%	-
Volatility	75% - 79%	-
Forfeiture rate	24%	-
Estimated expected lives	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.

Performance Share Units ("PSU")

A summary of the PSUs outstanding is as follows:

	Number outstanding	Weighted average fair value \$
Balance, January 1, 2016	735,000	0.80
Forfeited	(735,000)	0.80
Balance, December 31, 2016	-	-
Granted	1,000,000	1.40
Balance, December 31, 2017	1,000,000	1.40

On February 20, 2017, the Company granted 1,000,000 PSUs to employees and consultants of the Company, whereby 50% of these PSU vest upon the receipt of the final approval for the Environmental Impact Assessment (EIA) report for the Fuwan Silver Project, the Changkeng Gold Project or the Combination of both. The remaining 50% vests upon the receipt of the mining license issued by Ministry of Land and Resources ("MOLAR) for the Fuwan Silver Project, the Changkeng Gold Project, or the combination of both (collectively the "Performance Criteria").

PSU are vested when each of the Performance Criteria is met on or before February 20, 2020, the end of the three-year performance cycle. Each PSU will become one common share of the Company when it is vested.

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10. Share capital (continued)

(b) Long-term Incentive Plan (continued)

Performance Share Units (continued)

The fair value of the PSU's was estimated as \$1.40 per unit at the grant date based on the share price on that date. The Company recognizes compensation expenses equal to the market value of the PSU granted over the vesting period using the Black-Schole option pricing model taking into consideration forfeiture estimates made based on the Company's history.

During the year ended December 31, 2017, the Company recorded \$225,420 (2016 - \$Nil, 2015 - \$Nil) of share-based compensation to account for the vesting of PSUs. Share-based compensation of \$77,770 was recorded in the statement of operations (2016 - \$Nil, 2015 - \$Nil) and \$147,650 was capitalized to the Fuwan Silver Deposit and the Changkeng Project (2016 - \$Nil, 2015 - \$Nil) (Note 7 (a) and 7 (c)).

During 2016, the performance criteria of the 735,000 PSU that had been granted in 2013 were not fulfilled before the end of the performance cycle. Consequently all of the 735,000 PSU expired unvested on October 10, 2016. 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 was reversed accordingly.

11. 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:

	2017	2016	2015
	\$	\$	\$
Income (loss) before income taxes	(5,205,216)	(2,407,668)	6,680,947
Statutory income tax rate	26%	26%	26%
Expected tax recovery at statutory income tax rate	(1,353,356)	(625,994)	1,737,046
Non-deductible expenses and other items	584,008	509,573	63,663
Difference in tax rates	(68,431)	4,524	(607,441)
Expiry of losses	2,785,786		
Temporary differences from acquisition transaction	-	-	(3,435,860)
Change in deferred income tax asset not recognized	(2,074,518)	(95,308)	2,858,979
Foreign exchange	126,511	207,205	(616,387)
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, 2017 and 2016 are as follows:

	2017	2016
	\$	\$
Deferred income tax assets not recognized		
Non-capital losses	2,928,079	5,188,584
Mineral interests	1,799,358	1,613,372
	<u>4,727,437</u>	<u>6,801,956</u>

Minco Silver Corporation

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11. Income taxes (continued)

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	954,126
2037	968,168
	<u>9,117,910</u>

The Company's Chinese subsidiaries have non-capital losses carried forward for China income tax purposes which expire as follows:

	\$
2018	1,052,339
2019	239,772
2020	224,763
2021	7,342
2022	419,370
	<u>1,943,586</u>

12. Related party transactions

(a) Trust agreement with Minco Gold

During 2015, the Company entered into a trust agreement with Minco Gold to hold certain receivables and mineral interests in China. This trust agreement was eliminated on June 30, 2017 when the Company remitted the proceeds from the disposition of all of the Minco Gold's assets to Minco Gold.

(b) Shared expenses

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

(c) Due to and due from related parties

	December 31, 2017	December 31, 2016
	\$	\$
Due from Minco Base Metal (i)	-	163,167
Due to Minco Gold (ii)	27,523	205,145
	<u>27,523</u>	<u>205,145</u>

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12. Related party transactions (continued)

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

(ii) The amount of \$27,523 represents the shared expenses to be reimbursed to Minco Gold.

The December 31, 2016 amount of \$205,145 was the net payable to Minco Gold in connection with the trust agreement (note 12(a)) and with the shared expenses.

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

In the year ended December 31, 2017, the Company paid or accrued \$106,991 (December 31, 2016 – \$101,377, December 31, 2015 - \$101,701) in respect of rent and \$302,289 (December 31, 2016 – \$304,788, December 31, 2015 - \$563,588) in respect of shared head office expenses and administration costs to Minco Gold.

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

(d) Key management compensation

In the years ended December 31, 2017, 2016 and 2015, the following amounts were paid to and accrued for key management compensation. The compensation accrued as at December 31, 2017 was \$82,257 (2016 - \$97,344). Key management includes the Company's directors and senior management. This compensation is included in development costs and administrative expenses.

	Years ended December 31,		
	2017	2016	2015
	\$	\$	\$
Cash remuneration	812,861	757,649	784,608
Share-based compensation	2,109,551	(46,798)	274,632
	2,922,412	710,851	1,059,240

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 10 (b)).

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13. Geographical information

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

December 31, 2017	Canada	China	Total
	\$	\$	\$
Current assets	16,519,308	31,783,440	48,302,748
Non-current assets	4,964	61,302,287	61,307,251
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

14. Commitments

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

	\$
2018	380,209
2019	63,333
2020	53,347
2021 – 2023	128,868
	<u>625,757</u>

15. Financial instruments and fair values

The following table shows the carrying values of the Company's financial assets and liabilities as at December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Loans and receivables	\$	\$
Cash and cash equivalents	22,102,526	20,195,199
Short-term investments	25,338,081	31,410,880
Receivables	612,140	541,293
Due from related parties	-	163,167

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15. Financial instruments and fair values (continued)

	December 31, 2017	December 31, 2016
Other financial liabilities	\$	\$
Due to related party	27,523	205,145
Accounts payable and accrued liabilities	474,699	424,635
Accounts payable to minority shareholders	164,000	-

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.

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\$15.8 million monetary assets at year-end. This sensitivity analysis shows that a change of +/- 10% in US\$ foreign exchange rate would have a +/- US\$1.6 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 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.

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15. Financial instruments and fair values (continued)

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, 2017, the Company has a positive working capital of approximately \$47.6 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.

16. Capital management

The Company's objectives in the managing of the liquidity and capital are to safeguard the Company's ability to continue as a going concern and provide the financial capacity to meet its strategic objectives. The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued share capital, common share purchase warrants, contributed surplus, accumulated 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, 2017, the Company does not have any long-term debt and has sufficient funds to meet its current operating and exploration and development obligations.

17. Subsequent event

On February 14, 2018, the Company granted 1,968,000 stock options to purchase common shares to employees, consultants and directors at an exercise price of \$0.69 per common share. These options vest over an 18 month period from the grant date and expire on February 14, 2023.