

Minco Silver Corporation

(A development stage enterprise)

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2012 and 2011

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

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Minco Silver Corporation

(A development stage enterprise)

Condensed Consolidated Interim Statement of Financial Position

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

	September 30, 2012	December 31, 2011
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (notes 3 and 7)	21,920,465	27,574,152
Short-term investments (note 4)	44,239,074	40,058,042
Receivables	483,627	674,973
Due from related parties (note 7)	297,704	-
Prepaid expenses and deposits	720,210	2,705,760
	<u>67,661,080</u>	<u>71,012,927</u>
Mineral interests (note 5(a))	19,543,387	17,811,322
Property, plant and equipment	601,229	751,463
	<u>87,805,696</u>	<u>89,575,712</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	102,844	539,576
Due to related parties (note 7)	-	429,114
	<u>102,844</u>	<u>968,690</u>
Shareholders' equity		
Share capital (note 6(a))	105,665,503	104,804,411
Contributed surplus (note 6(b))	17,978,275	15,026,739
Accumulated other comprehensive income	225,872	742,002
Deficit	(36,166,798)	(31,966,130)
	<u>87,702,852</u>	<u>88,607,022</u>
Total liabilities and equity	<u>87,805,696</u>	<u>89,575,712</u>

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

Approved by the Board of Directors

(signed) Chan-Seng Lee Director

(signed) George Lian Director

Minco Silver Corporation

(A development stage enterprise)

Condensed Consolidated Interim Statements of Operations and Net Income (Loss)

For the three and nine months ended September 30, 2012 and 2011

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

	Three months ended September 30,		Nine months ended September 30,	
	2012 \$	2011 \$	2012 \$	2011 \$
Administrative expenses				
Audit, legal and regulatory	106,066	71,939	364,824	386,469
Amortization	41,845	48,075	133,424	116,027
Consulting	7,968	56,152	157,522	244,805
Directors' fees	17,250	13,500	57,750	45,750
Field office expenses	110,755	88,727	326,314	275,582
Foreign exchange (gain) loss	803,436	(1,582,106)	657,106	(1,192,237)
Investor relations	59,686	104,230	204,363	406,677
Office administration expenses	31,985	23,191	126,254	83,914
Property investigation	-	17,269	-	28,898
Rent	78,364	58,916	229,514	187,051
Salaries and benefits	93,132	70,518	267,076	211,067
Share-based compensation (note 6(b))	836,362	1,034,424	2,347,329	4,232,122
Travel and transportation	9,654	8,636	17,836	19,575
Operating loss	2,196,503	13,471	4,889,312	5,045,700
Finance and other income (expenses)				
Gain on settlement of break fee (note 8)	-	-	424,238	-
Interest income	219,872	229,004	637,968	497,560
Other expenses (Note 7(a))	(301,337)	-	(373,562)	-
	(81,465)	229,004	688,644	497,560
Net income (loss) for the period	(2,277,968)	215,533	(4,200,668)	(4,548,140)
Earnings (loss) per share – basic and diluted	(0.04)	0.00	(0.07)	(0.08)
Weighted average number of common shares outstanding – basic and diluted	59,003,005	58,515,779	58,889,607	56,414,909

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

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Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

For the three and nine months ended September 30, 2012 and 2011

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Net income (loss) for the period	(2,277,968)	215,533	(4,200,668)	(4,548,140)
Other comprehensive income (loss)				
Exchange differences on translation from functional to presentation currency	(725,442)	1,000,781	(516,130)	1,024,454
Comprehensive income (loss) for the period	<u>(3,003,410)</u>	<u>1,216,314</u>	<u>(4,716,798)</u>	<u>(3,523,686)</u>

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

Minco Silver Corporation

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Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the nine months ended September 30, 2012 and 2011

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

Changes in Shareholders' Equity						
	Number of Shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total \$
Balance - January 1, 2011	49,618,619	58,491,460	9,185,991	(189,650)	(25,995,288)	41,492,513
Net loss for the period	-	-	-	-	(4,548,140)	(4,548,140)
Exchange differences on translation from functional to presentation currency	-	-	-	1,024,454	-	1,024,454
Share-based compensation	-	-	5,636,067	-	-	5,636,067
Proceeds on issuance of common shares in bought deal	7,600,000	41,393,649	775,103	-	-	42,168,752
Proceeds on issuance of shares from exercise of options	362,632	1,714,477	(856,846)	-	-	857,631
Proceeds on issuance of shares from exercise of warrants	941,500	2,471,151	(446,926)	-	-	2,024,225
Balance – September 30, 2011	58,522,751	104,070,737	14,293,389	834,804	(30,543,428)	88,655,502
Balance - January 1, 2012	58,696,084	104,804,411	15,026,739	742,002	(31,966,130)	88,607,022
Net loss for the period	-	-	-	-	(4,200,668)	(4,200,668)
Exchange differences on translation from functional to presentation currency	-	-	-	(516,130)	-	(516,130)
Share-based compensation	-	-	3,409,127	-	-	3,409,127
Proceeds on issuance of shares from exercise of options	343,334	861,092	(457,591)	-	-	403,501
Balance – September 30, 2012	59,039,418	105,665,503	17,978,275	225,872	(36,166,798)	87,702,852

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

Minco Silver Corporation
(A development stage enterprise)
Condensed Consolidated Interim Statements of Cash Flows
For the nine months ended September 30, 2012 and 2011

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

	2012	2011
	\$	\$
Cash flows from operating activities		
Net loss for the period	(4,200,668)	(4,548,140)
Adjustments for:		
Amortization	133,424	116,027
Foreign exchange (gain) loss	554,141	(1,064,396)
Gain on settlement of break fee (note 8)	(424,238)	-
Share-based compensation (note 6(b))	2,347,329	4,232,122
Changes in items of working capital:		
Receivables	(85,746)	(139,934)
Prepaid expenses and deposits	1,942,379	(238,757)
Accounts payable and accrued liabilities	(429,747)	(301,616)
Due to related parties (note 7)	(680,737)	(357,337)
Net cash used in operating activities	<u>(843,863)</u>	<u>(2,302,031)</u>
Cash flows from financing activities		
Proceeds from stock option and warrant exercises	403,501	2,881,856
Net proceeds from the issuance of common shares	-	42,168,752
Net cash generated from financing activities	<u>403,501</u>	<u>45,050,608</u>
Cash flows from investing activities		
Development costs	(1,275,482)	(2,216,502)
Proceeds on settlement of break fee (note 8)	693,968	-
Property, plant and equipment	(3,694)	(196,002)
Short-term investments	(4,387,116)	(25,434,153)
Net cash used in investing activities	<u>(4,972,324)</u>	<u>(27,846,657)</u>
Effect of exchange rates on cash	<u>(241,001)</u>	<u>1,170,177</u>
Increase (decrease) in cash and cash equivalents	(5,653,687)	16,072,097
Cash and cash equivalents - Beginning of period	<u>27,574,152</u>	<u>5,110,554</u>
Cash and cash equivalents - End of period	<u>21,920,465</u>	<u>21,182,651</u>

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

Minco Silver Corporation

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2012 and 2011

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

1. General information

Minco Silver Corporation (“Minco Silver” or the “Company”) is a development stage enterprise, engaged in exploring, evaluating and developing silver-dominant mineral properties and projects in China. 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”). The Company trades under the symbol “MSV” and its registered office is 2772 – 1055 West Georgia Street, Vancouver, British Columbia, Canada.

As at September 30, 2012, Minco Gold Corporation (“Minco Gold”) owned a 22.02% (December 31, 2011 – 22.15%) equity interest in Minco Silver.

2. Basis of preparation

These condensed consolidated interim financial statements include the accounts of Minco Silver Corporation and its wholly owned subsidiaries, Minco Silver Ltd., Minco Yinyuan Co. and Minco Investment Holdings HK Ltd. In addition, these consolidated financial statements include the accounts of Foshan Minco Fuwan Mining Co. Ltd. (“Foshan Minco”). Foshan Minco is legally owned by Minco Mining (China) Corporation, (“Minco China”) a subsidiary of Minco Gold, in trust for Minco Silver. As a result of this structure Minco Silver must advance funds through Minco Gold and Minco China in order to fund the activities of Foshan Minco. Foshan Minco is subject to a 10% net profit interest held by Guangdong Geological Bureau (“GGB”).

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

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

These condensed financial statements were approved by the board of directors for issue on November 07, 2012.

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2012 and 2011

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

3. Cash and cash equivalents

	Amount in original currency	September 30, 2012 Canadian dollar equivalent \$
Cash denominated in Canadian dollars	418,917	418,917
Cash denominated in US dollars	13,578,154	13,359,545
Cash denominated in Chinese RMB	52,445,080	8,142,003
		<u>21,920,465</u>
		December 31, 2011 \$
Cash denominated in Canadian dollars	9,665,106	9,665,106
Cash denominated in US dollars	15,851,316	16,166,757
Cash denominated in Chinese RMB	10,875,368	1,742,289
		<u>27,574,152</u>

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 may require approvals by the relevant government authorities or designated banks in China or both.

4. Short-term investments

As at September 30, 2012, short-term investments consist of cashable guaranteed investment certificates with one year to maturity and 90 days short term deposit. The yields on these investments were between 0.95% to 3.1%.

As at December 31, 2011, short-term investments consisted of cashable guaranteed investment certificates. The yields on these investments were between 0.95% to 1.65%.

5. Mineral interests

(a) Fuwan Silver Deposit

Minco Silver has a 100% beneficial interest in Foshan Minco, the operating company and permit holder for the Fuwan project, subject to a 10% net profit interest held by Guangdong Geological Bureau ("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 project. The permit for the Fuwan project is the Luoke-Jilinggang exploration permit, which was renewed on August 11, 2011. The current exploration permit granted by the Ministry of Land and Resources of China is for a two-year period ending on July 20, 2013.

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

5. Mineral interests (continued)

Although the Company has taken steps to verify the title to mineral properties in which it has an interest 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 prior agreements or transfers.

The following is a summary of project development costs capitalized to mineral interests from January 1, 2012 to September 30, 2012.

	\$
Opening Balance – January 1, 2012	17,811,322
Consulting fees	216,000
Salaries and benefits	188,599
Share-based compensation	1,061,798
Mining license application	472,428
Environmental impact assessment	117,249
Travel	65,436
Site office rent and related costs	182,970
Foreign exchange	(572,415)
Ending Balance – September 30, 2012	<u>19,543,387</u>

(b) Fuwan Silver Belt

In 2005, the Company acquired three additional silver exploration permits on the Fuwan belt, referred to as the Guanhuatang Property, the Hecun Property and the Guyegang-Sanyatang Property at a cost of \$267,427 (RMB 1,500,000). These three permits renewed for a two-year period ending on April 07, 2014 are currently held by Minco China in trust for the Company.

During the three and nine months ended September 30, 2012, the Company did not conduct any regional exploration activities on the Fuwan Silver Belt, except for maintaining the exploration permit.

(c) Changkeng Silver Mineralization

Minco Gold has assigned its right to earn a 51% interest in the Changkeng Silver Mineralization to the Company in exchange for common shares of Minco Silver. Minco Gold is responsible for all the costs related to the gold mineralization on the Changkeng Property; Minco Silver is responsible for the costs related to the silver mineralization. The Changkeng exploration permit expires on September 10, 2013.

During the three and nine months ended September 30, 2012, the Company did not conduct any exploration activities at the Changkeng project, except for maintaining the exploration permit.

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

6. Share capital and contributed surplus

(a) Common Shares

Authorized: Unlimited number of common shares without par value.

(b) Stock Options

The Company may grant up to 15% of its issued and outstanding shares as options to its directors, officers, employees and consultants under its stock option plan. The Company's board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted. These options are equity settled.

During the nine months ended September 30, 2012, the Company granted stock options for 2,455,000 common shares at exercise prices between \$1.50 and \$2.35. The stock options vest over an 18-month period from the issue date to its employees, consultants and directors. The options expire in March, June and September 2017 respectively.

The Company recorded \$3,409,127 of share-based compensation for the nine months ended September 30, 2012. Share-based compensation expense of \$2,347,329 was recorded in the statement of operations and net loss and share-based compensation expense of \$1,061,798 was capitalized to mineral interests.

A summary of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price \$
Balance, January 1, 2011	2,940,836	2.33
Granted	2,803,000	5.25
Exercised	(535,965)	2.27
Forfeited	(854,667)	4.17
Balance, December 31, 2011	4,353,204	3.85
Granted	2,455,000	2.33
Exercised	(343,334)	1.18
Expired	(305,000)	2.61
Forfeited	(538,701)	3.49
Balance, September 30, 2012	5,621,169	3.46

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2012 and 2011

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

6. Share capital and contributed surplus (continued)

The weighted average share price on the day options were exercised was \$2.04 (2011 - \$5.24).

Range of exercise prices	Options outstanding			Option exercisable	
	Number outstanding	Weighted average remaining contractual life (year)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$			\$		\$
1.05-1.50	458,667	1.28	1.07	433,667	1.05
1.51-2.25	220,836	2.69	2.00	180,836	2.00
2.26-3.00	2,255,000	4.45	2.35	758,339	2.35
3.01-3.65	496,666	1.72	3.31	496,666	3.31
3.66-5.35	625,000	3.76	5.00	141,665	4.93
5.36-6.45	1,565,000	3.29	5.39	1,551,666	5.38
	5,621,169	3.48	3.46	3,562,839	3.73

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

	2012	2011
Risk-free interest rate	1.04% -1.58%	0.78% -2.56%
Dividend yield	0%	0%
Volatility	72% -106%	68% -110%
Forfeiture rate	26%	25%
Estimated expected lives	5 years	5 years

Option pricing models require the use of subjective estimates and assumptions including the expected stock price volatility. The stock price volatility is calculated based on the Company's historical volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2012 and 2011

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

6. Share capital and contributed surplus (continued)

(c) Warrants

A summary of warrants outstanding is as follows:

	Number outstanding	Weighted average exercised price \$
Balance, January 1, 2011	941,500	2.15
Warrants issued	418,000	5.95
Warrants exercised	(941,500)	2.15
Balance, December 31, 2011	418,000	5.95
Warrants expired	(418,000)	5.95
Balance, September 30, 2012	-	-

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

	2012	2011
Risk-free interest rate	-	1.87%
Dividend yield	-	0%
Volatility	-	66%
Estimated expected lives	-	1.5 years

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Notes to the Condensed Consolidated Interim Financial Statements

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7. Related party transactions

(a) Funding of Foshan Minco

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

During 2011, Minco China received government approvals to increase its registered capital. On June 9, 2011, the Company advanced US\$10 million to Minco China via Minco Gold for the purpose of increasing the registered capital of Foshan Minco. Minco China will invest the US\$10 million, on behalf of the Company, to increase the registered capital of Foshan Minco after exchanging these funds into RMB.

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

As at September 30, 2012, Minco China held US\$437,276 (\$430,236) and RMB 58,890,402, which was equal to the US\$9,297,506, in trust for the Company. During the nine months ended September 30, 2012, Minco China paid and accrued consultancy fees a total of RMB 2,274,904 (\$360,340) due to Beijing Guofufengtian Investment Advisory Company Limited ("BGI"), a third party. BGI has assisted in the completion of currency exchange of the US\$10 million into RMB. The fee has been recorded as other expenses together with relevant sales taxes of RMB 83,473 (\$13,222).

(b) Shared expenses

Minco Silver and Minco Gold share offices and certain administrative expenses in Beijing and Vancouver.

Amounts due from related parties as at September 30, 2012 are \$297,704 (December 31, 2011 – due to related parties of \$429,114) and consisted of the following:

Amount due to Minco China as at September 30, 2012 of \$1,655,483 (December 31, 2011 – \$1,167,282) representing expenditures incurred by Minco China on behalf of Foshan Minco.

Amount due from Minco Gold as at September 30, 2012 of \$1,953,187 (December 31, 2011 – \$738,168) representing funds advanced from Minco Silver to Minco Gold to support its operating activities in Canada net of shared head office expenses.

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

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Notes to the Condensed Consolidated Interim Financial Statements

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7. Related party transactions (continued)

(b) Shared expenses (continued)

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

In the three months ended September 30, 2012, the Company paid or accrued \$37,904 (September 30, 2011 – \$23,302) in respect of rent and \$111,617 (September 30, 2011 – \$129,875) in respect of shared head office expenses and administration costs to Minco Gold.

In the nine months ended September 30, 2012, the Company paid or accrued \$95,245 (September 30, 2011 – \$67,905) in respect of rent and \$414,934 (September 30, 2011 – \$377,841) in respect of shared head office expenses and administration costs to Minco Gold.

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

(c) Key management compensation

In the three and nine months ended September 30, 2012 and 2011, the following compensation was paid to key management. Key management includes the Company's directors and senior management. This compensation is included in development costs and administrative expenses.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Cash remuneration	140,201	234,338	476,531	723,780
Share-based compensation	775,593	846,416	2,111,782	3,891,602
	<u>915,794</u>	<u>1,080,754</u>	<u>2,588,313</u>	<u>4,615,382</u>

8. Settlement of Sterling break fee

On June 30, 2009, the Company filed a proof of claim with the U.S. Bankruptcy Court in Idaho to collect a break fee, in the amount of US\$2,750,000 from Sterling Mining Company ("Sterling"). The break fee was included in the Company's June 23, 2008 agreement with Sterling. The Company reached a Settlement and Release Agreement pertaining to the break fee on May 29, 2012. The settlement amount of US\$675,000 (\$693,968) was approved by the US Bankruptcy Court in Idaho and received by the Company on June 26, 2012. The Company incurred legal fees and other costs of \$269,729 (US\$262,357) in its effort to collect the break fee. The Company has recorded other income of \$424,238 (US\$412,642) on settlement of the break fee.

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9. Geographical information

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

	Three months ended September 30, 2012		
	Canada	China	Total
	\$	\$	\$
General and administration	(1,412,076)	(784,427)	(2,196,503)
Finance and other income (expenses)	203,318	(284,783)	(81,465)
	<u>(1,208,758)</u>	<u>(1,069,210)</u>	<u>(2,277,968)</u>

	Three months ended September 30, 2011		
	Canada	China	Total
	\$	\$	\$
General and administration	(107,498)	94,027	(13,471)
Finance and other income	229,004	-	229,004
	<u>121,506</u>	<u>94,027</u>	<u>215,533</u>

	Nine months ended September 30, 2012		
	Canada	China	Total
	\$	\$	\$
General and administration	(3,792,976)	(1,096,336)	(4,889,312)
Finance and other income (expenses)	1,010,178	(321,534)	688,644
	<u>(2,782,798)</u>	<u>(1,417,870)</u>	<u>(4,200,668)</u>

	Nine months ended September 30, 2011		
	Canada	China	Total
	\$	\$	\$
General and administration	(4,697,726)	(347,974)	(5,045,700)
Finance and other income	497,560	-	497,560
	<u>(4,200,166)</u>	<u>(347,974)</u>	<u>(4,548,140)</u>

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2012 and 2011

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

9. Geographical information (continued)

Assets by geography

	September 30, 2012		
	Canada	China	Total
	\$	\$	\$
Current assets	57,050,907	10,610,173	67,661,080
Non-current assets	2,852	20,141,764	20,144,616
Total assets	<u>57,053,759</u>	<u>30,751,937</u>	<u>87,805,696</u>

	December 31, 2011		
	Canada	China	Total
	\$	\$	\$
Current assets	58,191,756	12,821,171	71,012,927
Non-current assets	10,099	18,552,686	18,562,785
Total assets	<u>58,201,855</u>	<u>31,373,857</u>	<u>89,575,712</u>