

Minco Silver Corporation

Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(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

Vancouver, Canada
March 30, 2016

Larry Tsang, CPA, CA
Interim Chief Financial Officer

March 30, 2016

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, 2015 and 2014 and the consolidated statements of operations and net income (loss), comprehensive income (loss), changes in shareholder's equity and cash flows for each of the years in the three-year period ended December 31, 2015, 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, 2015 and December 31, 2014 and its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2015 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, Canada

Index

	Page
Consolidated Financial Statements	5 - 10
<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
Notes to the Consolidated Financial Statements	11 - 34
<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 Property, plant and equipment	24
12 Share capital	25
13 Income taxes	28
14 Related party transactions	29
15 Geographical information	31
16 Commitments	31
17 Financial instruments and fair value	32
18 Capital management	34

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

	December 31, 2015	December 31, 2014
Assets	\$	\$
Current assets		
Cash and cash equivalents (note 6)	26,202,564	11,938,544
Short-term investments (note 7)	32,143,068	33,560,374
Receivables	517,359	370,903
Due from related parties (note 14)	177,330	3,603,847
Prepaid expenses and deposits	201,647	181,991
Investments (note 10)	-	10,865,140
	<u>59,241,968</u>	<u>60,520,799</u>
Mineral interests (note 8)	63,676,055	31,621,827
Property, plant and equipment (note 11)	434,999	422,012
	<u>123,353,022</u>	<u>92,564,638</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	638,550	419,592
	<u>638,550</u>	<u>419,592</u>
Equity		
Equity attributable to owners of the parent		
Share capital (note 12(a))	106,630,256	106,630,256
Contributed surplus	22,977,633	22,615,759
Accumulated other comprehensive income	14,813,721	4,194,260
Deficit	(34,468,043)	(41,295,229)
	<u>109,953,567</u>	<u>92,145,046</u>
Non-controlling interest (note 9)	12,760,905	-
Total equity	<u>122,714,472</u>	<u>92,145,046</u>
Total liabilities and equity	<u>123,353,022</u>	<u>92,564,638</u>

Commitments (note 16)

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, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

	2015	2014	2013
	\$	\$	\$
Administrative recovery (expenses)			
Audit, legal and regulatory	284,789	246,236	328,194
Amortization	106,674	123,266	177,053
Consulting	161,074	226,390	68,633
Directors' fees	116,000	127,250	99,500
Field office expenses	860,980	686,418	563,576
Foreign exchange gain	(4,173,854)	(1,039,265)	(1,375,542)
Investor relations	16,297	15,350	175,225
Office administration expenses	237,310	205,984	185,053
Property investigation	31,331	169,852	72,665
Rent	376,544	356,736	290,930
Salaries and benefits	440,095	431,477	451,214
Share-based compensation (note 12(b))	146,742	750,226	2,393,720
Travel and transportation	27,780	36,956	28,777
	<hr/>	<hr/>	<hr/>
Operating income (loss)	1,368,238	(2,336,876)	(3,458,998)
Finance and other income (expenses)			
Gain on disposal of investment (note 10)	4,792,888	-	-
Interest income	911,213	980,945	806,038
Other expenses (note 14(a))	(391,392)	(309,585)	(334,073)
	<hr/>	<hr/>	<hr/>
	5,312,709	671,360	471,965
	<hr/>	<hr/>	<hr/>
Net income (loss) for the year	6,680,947	(1,665,516)	(2,987,033)
Net income (loss) attributable to:			
Shareholders of the Company	6,827,186	(1,665,516)	(2,987,033)
Non-controlling interest	(146,239)	-	-
	<hr/>	<hr/>	<hr/>
	6,680,947	(1,665,516)	(2,987,033)
Income (loss) per share – basic and diluted	0.11	(0.03)	(0.05)
Weighted average number of common shares outstanding – basic and diluted	59,631,418	59,590,457	59,165,144

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, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

	2015	2014	2013
	\$	\$	\$
Net income (loss) for the year	6,680,947	(1,665,516)	(2,987,033)
Other comprehensive income			
<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	7,827,356	3,494,690	3,309,545
Other comprehensive income for the year	<u>10,851,532</u>	<u>470,514</u>	<u>3,309,545</u>
Comprehensive income (loss) for the year	<u>17,532,479</u>	<u>(1,195,002)</u>	<u>322,512</u>
Comprehensive income (loss) attributable to:			
Shareholders of the Company	17,446,647	(1,195,002)	322,512
Non-controlling interest	85,832	-	-
	<u>17,532,479</u>	<u>(1,195,002)</u>	<u>322,512</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, 2015, 2014 and 2013

(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, 2013	59,041,418	105,669,226	18,555,614	414,201	(36,642,680)	87,996,361	-	87,996,361
Net loss for the year	-	-	-	-	(2,987,033)	(2,987,033)	-	(2,987,033)
Other comprehensive income	-	-	-	3,309,545	-	3,309,545	-	3,309,545
Share-based compensation	-	-	3,859,945	-	-	3,859,945	-	3,859,945
Issuance of shares for restricted share units	280,000	459,200	(459,200)	-	-	-	-	-
Proceeds on issuance of shares from exercise of options	6,667	12,410	(5,410)	-	-	7,000	-	7,000
Balance – December 31, 2013	59,328,085	106,140,836	21,950,949	3,723,746	(39,629,713)	92,185,818	-	92,185,818
Balance - January 1, 2014	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
Balance – December 31, 2014	59,631,418	106,630,256	22,615,759	4,194,260	(41,295,229)	92,145,046	-	92,145,046

Minco Silver Corporation

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2015, 2014 and 2013

(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 (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
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

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, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

	2015	2014	2013
	\$	\$	\$
Operating activities			
Net income(loss) for the year	6,680,947	(1,665,516)	(2,987,033)
Adjustments for:			
Amortization	106,674	123,266	177,053
Foreign exchange gain	(4,173,854)	(1,038,828)	(1,377,671)
Share-based compensation (note 12(b))	146,742	750,226	2,393,720
Gain on disposal of investment	(4,792,888)	-	-
Changes in items of working capital:			
Receivables	(28,020)	(57,907)	(122,736)
Prepaid expenses and deposits	115,728	257,126	1,530
Accounts payable and accrued liabilities	4,695	(115,171)	(9,625)
Due from related parties (note 14)	(428,425)	(16,819)	(1,302,596)
Net cash used in operating activities	<u>(2,368,401)</u>	<u>(1,763,623)</u>	<u>(3,227,358)</u>
Financing activities			
Proceeds from stock option exercises	-	18,666	7,000
Net cash generated from financing activities	<u>-</u>	<u>18,666</u>	<u>7,000</u>
Investing activities			
Development costs	(1,811,422)	(1,550,105)	(2,378,304)
Advances from related parties	-	-	(1,300,000)
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)	(34,487)
Purchase of short-term investments	(16,941,170)	(14,430,923)	(11,326,456)
Redemption of short-term investments	11,288,990	18,683,677	17,216,279
Net cash generated from (used in) investing activities	<u>12,573,459</u>	<u>(11,216,495)</u>	<u>2,177,032</u>
Effect of exchange rates on cash	<u>4,058,962</u>	<u>1,319,482</u>	<u>2,037,542</u>
Increase (decrease) in cash and cash equivalents	14,264,020	(11,641,970)	994,216
Cash and cash equivalents - Beginning of year	<u>11,938,544</u>	<u>23,580,514</u>	<u>22,586,298</u>
Cash and cash equivalents - End of year	<u>26,202,564</u>	<u>11,938,544</u>	<u>23,580,514</u>

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, 2015, 2014 and 2013

(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, 2015, Minco Gold Corporation (“Minco Gold”) owned an 18.45% (December 31, 2014 – 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 30, 2016.

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”), Foshan Minco Fuwan Mining Co. Ltd. (“Foshan 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”). Foshan Minco is subject to a 10% net profit interest held by Guangdong Geological Bureau (“GGB”). The Company, indirectly through Foshan 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
Foshan Minco	Exploring, evaluating and developing mineral properties (90%)	China
Zhongjia	Service company (90%)	China
Minco China	Exploring and evaluating mineral properties (100%)	China
Yuanling Minco	Exploring and evaluating mineral properties (100%)	China
Tibet Minco	Exploring and evaluating mineral properties (100%)	China
Huaihua	Exploring and evaluating mineral properties (100%)	China
Minco Resources	Holding company (100%)	China
Mingzhong	Exploring and evaluating mineral properties (51%)	China
Minco International Resources	Investment and service company (100%)	China

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(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 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, 2015, 2014 and 2013

(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, 2015, 2014 and 2013

(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, 2015, 2014 and 2013

(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, 2015, 2014 and 2013

(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, 2015, 2014 and 2013

(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, 2015 and 2013, 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. An early adoption of this standard is permitted; however, the mandatory adoption date is for annual periods beginning on or after January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(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. The Company will evaluate the impact of the change to the consolidated financial statements based on the characteristics of leases outstanding at the time of adoption.

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 despite negative sentiments in the precious metals sector which contributed to the Company's carrying amount of net assets exceeding its market capitalization, 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 Foshan Minco Fuwan Mining Co. Ltd. ("Foshan Minco") and a 51% interest in Guangdong Mingzhong, which owns the Changkeng Gold Project. By acquiring control of Minco China, the Company obtained legal ownership of Foshan Minco and consequently no longer requires trust agreements related to the funding of the Fuwan Project. 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, 2015, 2014 and 2013

(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>

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, 2015	As at December 31, 2014
	\$	\$
Cash	22,886,760	10,127,337
Term deposits	3,315,804	1,811,207
	<u>26,202,564</u>	<u>11,938,544</u>

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

6. Cash and cash equivalents (continued)

As at December 31, 2015, cash and cash equivalents of \$11,482,616 (RMB 53,728,309) (December 31, 2014 - \$2,451,024 (RMB 12,972,292)) are 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.

7. Short-term investments

As at December 31, 2015, short-term investments consist of cashable guaranteed investment certificates with one year to maturity. The yields on these investments were between 1.22% and 3.08%. As at December 31, 2015, short-term investments of \$22,079,638 (RMB 103,312,834) (December 31, 2014 - \$13,822,164 (RMB 73,155,186)) are in China.

As at December 31, 2014, short-term investments consist of cashable guaranteed investment certificates with one year to maturity. The yields on these investments were between 1.68% and 3.30%.

8. Mineral interests

	\$
Fuwan Silver Deposit (a)	37,565,101
Changkeng Project (c)	26,110,954
Total mineral interests	<u>63,767,055</u>

(a) Fuwan Silver Deposit

Minco Silver has a 90% interest in Foshan Minco, the operating company and permit holder for the Fuwan 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 project. The Exploration Permit for the Fuwan 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 Deposit and restricts the use of this land to mining activities expires on April 10, 2016.

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 agreements or transfers.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

8. Mineral interests (continued)

The following is a summary of project development costs capitalized to mineral interests from January 1, 2015 to December 31, 2015.

	2015	2014
	\$	\$
Opening Balance – January 1	31,621,827	27,369,966
Consulting fees	657,446	499,689
Salaries and benefits	147,761	340,509
Feasibility study	110,813	-
Share-based compensation	215,132	385,338
Mining design costs	18,826	16,288
Mining license application	181,992	401,287
Environment impact assessment	57,277	12,872
Travel	65,664	63,801
Other development costs	396,045	210,263
Foreign exchange	4,092,318	2,321,814
Ending Balance – December 31	37,565,101	31,621,827

(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. The Company decided not to renew the Guanhuatang property permit, which expired April 7, 2014. The Guyegang-Sanyatang permit expires on March 17, 2017. The Company has submitted the renewal application for the Hecun permit that was originally set to expire on April 7, 2014. The renewal applications are currently being processed by the Ministry of Land and Resources.

During the year ended December 31, 2015, the Company did not conduct any regional exploration activities on the Fuwan Silver Belt, except for maintaining the exploration permits.

(c) Changkeng Project

During the year, the Company announced that it had completed the acquisition of Minco Gold's 51% interest in the Changkeng Gold Project, which is held by Mingzhong (note 3). The Changkeng Project immediately adjoins the Fuwan Silver Deposit.

Mingzhong signed an exploration permit transfer agreement with No. 757 Exploration Team of Guangdong Geological Bureau ("757 Exploration Team") and on January 5, 2008 Mingzhong received the Changkeng exploration permit (the "Changkeng Exploration Permit"). This exploration permit expires on September 10, 2017. Prior to the acquisition of Minco Gold's interest in Mingzhong, Minco Gold had assigned its right to earn a 51% interest in the Changkeng Silver Mineralization to Minco Silver.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

8. Mineral interests (continued)

As at July 31, 2015, Mingzhong completed the capital injection from the minority shareholders.

The following is a summary of project development costs capitalized to mineral interest from August 1, 2015, the date of acquisition to December 31, 2015:

	2015
	\$
Opening Balance – August 1	-
Acquisition costs	25,312,695
Salaries and benefits	90,693
Drilling	142,863
Feasibility study	112,201
Other development costs	446
Foreign exchange	452,056
Ending Balance – December 31	26,110,954

9. Non-controlling interest

Below is summarized financial information for Mingzhong, the Company's 51% owned indirect subsidiary.

Summarized statement for financial position

	December 31,
	2015
	\$
NCI percentage	49%
Current assets	977,783
Current liabilities	154,860
	<u>822,923</u>
Non-current asset	<u>26,110,954</u>
Net assets	<u>26,933,877</u>
Accumulated non-controlling interests	<u>12,760,908</u>

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

9. Non-controlling interest (continued)

Summarized income statement

	For the period ended from August 1 to December 31, 2015
	\$
Net loss	146,239
Loss allocated to NCI	146,239

Summarized cash flows

	For the period ended from August 1 to December 31, 2015
	\$
Cash out flows from operating activities	45,695
Cash out flows from investing activities	169,639

10. Investments

Available for sale investments, as of and for the year ended December 31, 2015:

	Fair value December 31, 2014	Fair value adjustment December 31, 2014	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)	-
Total	10,865,140	7,817,064	(18,682,204)	-

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.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

11. Property, plant and equipment

	Leasehold improvements	Mining equipment	Motor vehicles	Office equipment and furniture	Total
	\$	\$	\$	\$	\$
Year ended December 31, 2014					
At January 1, 2014	100,830	-	294,439	88,012	483,281
Additions	-	-	-	29,829	29,829
Depreciation	(44,322)	-	(46,984)	(31,960)	(123,266)
Exchange differences	3,000	-	22,975	6,193	32,168
At December 31, 2014	59,508	-	270,430	92,074	422,012
At December 31, 2014					
Cost	408,294	-	500,258	359,124	1,267,676
Accumulated depreciation	(348,786)	-	(229,828)	(267,050)	(848,664)
Net book value	59,508	-	270,430	92,074	422,012
Year ended December 31, 2015					
At January 1, 2015	59,508	-	270,430	92,074	422,012
Additions	-	30,087	39,347	7,122	76,556
Disposals	-	-	(14,924)	(28,697)	(43,621)
Depreciation	(5,308)	(3,249)	(61,921)	(36,196)	(106,674)
Exchange differences	4,190	(169)	49,344	33,361	86,726
At December 31, 2015	58,390	26,669	282,276	67,664	434,999
Cost	412,484	29,918	574,025	370,910	1,387,337
Accumulated depreciation	(354,094)	(3,249)	(291,749)	(303,246)	(952,338)
Net book value	58,390	26,669	282,276	67,664	434,999

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

12. 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.

The Company recorded \$200,326 of the option component of share-based compensation for the year ended December 31, 2015. Share-based compensation expense of \$135,634 (2014 - \$722,109, 2013 - \$2,301,139) was recorded in the statement of operations and net loss and share-based compensation expense of \$64,692 (2014 - \$231,517, 2013 - \$654,677) was capitalized to mineral interests.

A summary of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price \$
Balance, January 1, 2014	6,705,836	2.92
Granted	1,425,000	0.80
Exercised	(23,333)	0.80
Expired	(375,000)	1.21
Forfeited	(1,254,668)	2.83
Balance, December 31, 2014	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

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

12. Share capital (continued)

The weighted average share price on the day options were exercised was \$Nil (2014 - \$1.01, 2013 - \$1.99). As at December 31, 2015, there was \$186,241 (2014 - \$75,211) 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	1,490,000	4.71	0.42	-	0.00
0.80 – 2.00	2,055,667	2.54	1.27	2,055,667	1.27
2.01 – 2.35	1,635,000	1.24	2.35	1,635,000	2.35
2.36 – 5.57	1,305,000	0.12	5.31	1,305,000	5.31
	6,485,667	2.23	2.16	4,995,667	2.68

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

	2015	2014	2013
Risk-free interest rate	0.46%-1.69%	1.21% - 1.69%	1.17%-1.76%
Dividend yield	0%	0%	0%
Volatility	71% - 76%	71% - 76%	70% - 100%
Forfeiture rate	27%	26%	26%
Estimated expected lives	5 years	5 years	5 years

Option pricing models require the use of subjective estimates and assumptions including the expected stock price volatility. The stock price volatility is calculated based on the Company's historical volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

12. Share capital (continued)

Restricted Share Units, Performance Share Units

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	<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. 280,000 RSUs vested on August 1, 2013, and the remaining 280,000 RSUs vested on February 1, 2014.

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

A summary of the PSUs outstanding is as follows:

	Number outstanding	Weighted average fair value \$
Balance, January 1, 2014	940,000	0.80
Forfeited	<u>(55,000)</u>	<u>0.80</u>
Balance, December 31, 2014	885,000	0.80
Forfeited	<u>(150,000)</u>	<u>0.80</u>
Balance, December 31, 2015	<u>735,000</u>	<u>0.80</u>

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

12. Share capital (continued)

During the year ended December 31, 2013, the Company granted 940,000 performance share units to employees of the Company whereby 50% vests upon the Company receiving the final approval from Guangdong Provincial Government for the EIA report for the Fuwan Silver Project and the remaining 50% vests upon the completion of the Company's obtaining the mining license issued by MOLAR in respect to the Fuwan Silver Project. The weighted average grant date fair value of the PSU's was \$0.80 per unit. In valuing the PSUs, the Company used a forfeiture rate of 26% and an expected life of 3 years.

During the year ended December 31, 2015, the Company recorded \$161,548 (2014 - \$142,938) of share-based compensation for PSUs. Share-based compensation of \$11,108 (2014 - \$24,217) was recorded in the statement of operations and net income (loss) and share-based compensation expense of \$150,440 (2014 - \$118,721) was capitalized to mineral properties.

13. Income taxes

The Company has subsidiaries and one branch in China which are Minco Yinyuan, Foshan Minco, Minco China, Yuanling Minco, Tibet Minco, Huaihua, and Foshan Minco Beijing Branch.

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:

	2015	2014	2013
	\$	\$	\$
Income (loss) before income taxes	6,680,947	(1,665,518)	(2,987,033)
Statutory income tax rate	26%	26%	25.75%
Expected tax recovery at statutory income tax rate	1,737,046	(433,035)	(769,161)
Non-deductible expenses and other items	63,663	(118,206)	835,061
Difference in tax rates	(607,441)	13,434	(264,146)
Temporary differences from acquisition transaction	(3,435,860)	-	-
Change in deferred income tax asset not recognized	2,858,979	625,349	448,909
Foreign exchange	(616,387)	(87,542)	(250,663)
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, 2015 and 2014 are as follows:

	2015	2014
	\$	\$
Deferred income tax assets not recognized		
Non-capital losses	5,313,066	2,605,758
Mineral interests	1,549,489	1,211,504
Investments	-	393,143
Other	34,708	220,319
	<u>6,897,264</u>	<u>4,430,724</u>

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

13. Income taxes (continued)

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

	\$
2030	1,149,910
2031	1,880,258
2032	2,229,724
2034	1,470,692
	<u>6,730,575</u>

14. Related party transactions

(a) Funding of Foshan Minco

Up to July 31, 2015, the Company was not able to invest directly in Foshan Minco as Foshan 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 Foshan 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 Foshan 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 Foshan 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, 2015, Minco China paid and accrued consultancy fees totaling RMB 1,304,709 (\$268,100) (2014 – RMB 139,692 (\$25,063), 2013 – RMB 1,697,520 (\$281,888)) due to a third party, who assisted in the completion of currency exchange of the US funds into RMB.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

14. Related party transactions (continued)

(b) Shared expenses

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

Amounts due from Minco Gold as at December 31, 2015 were \$177,330 (December 31, 2014 – \$3,603,847), representing the shared office expenses. As at December 31, 2014, the amount due from Minco Gold of \$3,603,847, represented funds advanced from Minco Silver to Minco Gold to support its operating activities in Canada, net of shared office expenses. This receivable was settled as part of the acquisition of the Changkeng Gold Project (note 5).

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

In the year ended December 31, 2015, the Company paid or accrued \$101,701 (December 31, 2014 – \$124,833, December 31, 2013 - \$157,296) in respect of rent and \$563,588 (December 31, 2014 – \$663,667, December 31, 2013 - \$617,044) 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 years ended December 31, 2015, 2014 and 2013, 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.

	Years ended December 31,		
	2015	2014	2013
	\$	\$	\$
Cash remuneration	784,608	1,026,436	1,039,674
Share-based compensation	274,632	745,925	2,751,426
	<u>1,059,240</u>	<u>1,772,361</u>	<u>3,791,100</u>

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

15. 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, 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

	December 31, 2014		
	Canada	China	Total
	\$	\$	\$
Current assets	34,367,232	26,153,567	60,520,799
Non-current assets	20,022	32,023,817	32,043,839

16. Commitments

- (a) The Company has commitments in respect of its portion of office leases in China and Canada, requiring minimum payments of \$1,363,416, as follows:

	\$
2016	758,273
2017	539,934
2018	41,700
2019	7,053
2020 – 2022	<u>16,456</u>
	<u>1,363,416</u>

- (b) The Company has commitments in respect of the Environmental Impact Assessment for the Fuwan Project and other various reports requiring payments of \$300,000. The payments are anticipated to continue through to 2016.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

17. Financial instruments and fair values

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of operations or comprehensive loss. Those categories are: fair value through profit or loss, loans and receivables, available-for-sale and other financial liabilities. The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
Loans and receivables	\$	\$
Cash and cash equivalents	26,202,564	11,938,544
Short-term investments	32,143,068	33,560,374
Receivables	517,359	370,903
Due from related parties	177,330	3,603,847
	<u>59,040,321</u>	<u>49,473,668</u>
Available-for-sale		
Investments	-	10,865,140
	<u>-</u>	<u>10,865,140</u>
	December 31, 2015	December 31, 2014
Other financial liabilities	\$	\$
Accounts payable and accrued liabilities	638,550	419,592
	<u>638,550</u>	<u>419,592</u>

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, receivable, accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying value due to their short-term nature.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

17. Financial instruments and fair values (continued)

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\$22.3 million monetary assets at year-end. This sensitivity analysis shows that a change of +/- 10% in US\$ foreign exchange rate would have a +/- US\$2.2 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. This sensitivity analysis shows that a change of +/- 100 basis points in interest rate would have a +/- \$0.6 million impact on net loss. This impact is primarily as a result of the Company holding short-term investments such as guaranteed investment certificates and as a result of the Company having cash invested in interest bearing accounts.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015, 2014 and 2013

(Expressed in Canadian dollars, unless otherwise stated)

17. 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, 2015, the Company has a positive working capital of approximately \$58.7 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.

18. 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, 2015, the Company does not have any long-term debt and has sufficient funds to meet its current operating and exploration and development obligations.