

# **Minco Silver Corporation**

Consolidated Financial Statements

**For the years ended December 31, 2018, and 2017**

(Expressed in Canadian dollars, unless otherwise stated)

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

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

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

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

Dr. Ken Cai  
President and CEO

Larry Tsang, CPA, CA  
Chief Financial Officer

Vancouver, Canada  
March 29, 2019



## *Independent auditor's report*

To the Shareholders of Minco Silver Corporation

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Minco Silver Corporation and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of operations and net loss for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Lana Kirk.

**(signed) PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
March 29, 2019

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# Minco Silver Corporation

## Consolidated Statements of Financial Position

(Expressed in Canadian dollars, unless otherwise stated)

	December 31, 2018	December 31, 2017
Assets	\$	\$
<b>Current assets</b>		
Cash and cash equivalents (note 5)	6,555,249	22,102,526
Short-term investments (note 6)	25,161,492	25,338,081
Note receivable (note 7)	14,630,621	-
Receivables	985,978	612,140
Due from related parties (note 13)	207,353	-
Prepaid expenses and deposits	292,677	250,001
	<u>47,833,370</u>	<u>48,302,748</u>
<b>Mineral interests</b> (note 8)	64,083,505	61,098,589
<b>Property, plant and equipment</b>	181,235	208,662
	<u>112,098,110</u>	<u>109,609,999</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	309,010	474,699
Due to minority shareholders (note 9)	351,968	164,000
Due to a related party (note 13)	-	27,523
	<u>660,978</u>	<u>666,222</u>
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital (note 11(a))	107,538,681	107,538,681
Contributed surplus	27,023,391	25,498,500
Accumulated other comprehensive income	7,345,105	6,530,421
Deficit	(41,817,684)	(41,767,830)
	<u>100,089,493</u>	<u>97,799,772</u>
<b>Non-controlling interest</b> (note 9)	11,347,639	11,144,005
<b>Total equity</b>	<u>111,437,132</u>	<u>108,943,777</u>
<b>Total liabilities and equity</b>	<u>112,098,110</u>	<u>109,609,999</u>

*Commitments (note 15)*

*Subsequent events (note 18)*

**Approved by the Board of Directors:**

(signed) Maria Tang Director

(signed) George Lian Director

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



# Minco Silver Corporation

## Consolidated Statements of Operations and Net Loss

Years ended December 31, 2018 and 2017

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

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Administrative expenses</b>		
Audit, legal and regulatory	281,600	250,154
Amortization	52,983	70,681
Consulting	171,802	84,014
Directors' fees	92,250	95,000
Field office expenses	512,495	459,904
Investor relations	7,322	12,337
Office administration expenses	211,247	258,626
Property investigation expenses	366,196	-
Rent	191,065	317,322
Salaries and benefits	290,333	611,652
Share-based compensation (note 11(b))	1,118,167	2,245,859
Travel and transportation	75,421	50,029
<b>Loss before finance and other income (expenses)</b>	<b>(3,370,881)</b>	<b>(4,455,578)</b>
<b>Finance and other income (expenses)</b>		
Foreign exchange gain (loss)	1,229,970	(1,365,447)
Gain on disposal of investment (note 10)	-	15,332
Gain on sale of subsidiaries	1,518,886	-
Impairment of short-term investment	(761,776)	(46,058)
Interest income	1,356,351	637,478
Other income (expenses)	(143,245)	9,057
	<b>3,200,186</b>	<b>(749,638)</b>
<b>Net loss for the year</b>	<b>(170,695)</b>	<b>(5,205,216)</b>
<b>Net loss attributable to:</b>		
Shareholders of the Company	(49,854)	(5,075,534)
Non-controlling interest	(120,841)	(129,682)
	<b>(170,695)</b>	<b>(5,205,216)</b>
<b>Loss per share – basic and diluted</b>	<b>(0.003)</b>	<b>(0.090)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<b>60,704,748</b>	<b>60,621,427</b>

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

# Minco Silver Corporation

## Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2018 and 2017

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

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Net loss for the year</b>	(170,695)	(5,205,216)
<b>Other comprehensive income (loss)</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation from functional to presentation currency	2,627,278	(309,320)
Exchange differences on translation of disposed subsidiaries	(1,488,119)	-
<b>Comprehensive income (loss) for the year</b>	<u>968,464</u>	<u>(5,514,536)</u>
<b>Comprehensive income (loss) attributable to:</b>		
Shareholders of the Company	764,830	(5,340,200)
Non-controlling interest	203,634	(174,336)
	<u>968,464</u>	<u>(5,514,536)</u>

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

# Minco Silver Corporation

## Consolidated Statements of Changes in Shareholders' Equity

### Years ended December 31, 2018 and 2017

#### Changes in Shareholders' Equity

	Number of Shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Subtotal \$	Non-controlling interest \$	Total equity \$
<b>Balance – January 1, 2017</b>	60,246,413	107,216,932	22,682,099	6,795,087	(36,692,296)	100,001,822	11,318,341	111,320,163
Net loss for the year	-	-	-	-	(5,075,534)	(5,075,534)	(129,682)	(5,205,216)
Other comprehensive loss	-	-	-	(264,666)	-	(264,666)	(44,654)	(309,320)
Share-based compensation	-	-	2,938,049	-	-	2,938,049	-	2,938,049
Issuance of shares – options exercised	458,335	321,749	(121,648)	-	-	200,101	-	200,101
<b>Balance – December 31, 2017</b>	60,704,748	107,538,681	25,498,500	6,530,421	(41,767,830)	97,799,772	11,144,005	108,943,777
Net loss for the year	-	-	-	-	(49,854)	(49,854)	(120,841)	(170,695)
Other comprehensive income	-	-	-	2,302,803	-	2,302,803	324,475	2,627,278
Reclassification to profit or loss on disposal of subsidiaries	-	-	-	(1,488,119)	-	(1,488,119)	-	(1,488,119)
Share-based compensation	-	-	1,524,891	-	-	1,524,891	-	1,524,891
<b>Balance – December 31, 2018</b>	60,704,748	107,538,681	27,023,391	7,345,105	(41,817,684)	100,089,493	11,347,639	111,437,132

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

**Minco Silver Corporation**  
**Consolidated Statements of Cash Flows**  
**Years ended December 31, 2018, and 2017**

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

	<b>2018</b>	<b>2017</b>
	\$	\$
<b>Operating activities</b>		
Net loss for the year	(170,695)	(5,205,216)
Adjustments for:		
Amortization	52,983	70,681
Interest income	(1,356,351)	(637,478)
Foreign exchange loss (gain)	(1,229,970)	1,365,447
Share-based compensation (note 11(b))	1,118,167	2,245,859
Gain on disposal of investment	-	(15,332)
Gain on disposal of subsidiaries	(1,518,886)	-
Impairment of short-term investment	761,776	46,058
Changes in items of working capital:		
Receivables	216,804	(72,369)
Prepaid expenses and deposits	(37,137)	(48,019)
Accounts payable and accrued liabilities	(170,861)	50,176
Due from/to related parties (note 13)	(232,645)	(16,548)
<b>Net cash used in operating activities</b>	<b>(2,566,815)</b>	<b>(2,216,741)</b>
<b>Financing activities</b>		
Proceeds from stock option exercises	-	200,101
Increase of due to minority shareholders (note 9)	181,394	163,223
<b>Net cash generated from financing activities</b>	<b>181,394</b>	<b>363,324</b>
<b>Investing activities</b>		
Development costs	(876,565)	(1,472,034)
Interest income received	783,218	637,478
Proceeds from disposition investments	-	500,276
Proceeds from disposition of subsidiaries	6,482,523	-
Cash in subsidiaries that were disposed	(6,252,484)	-
Acquisition of investments	-	(484,947)
Issuance of a promissory note (note 7)	(14,043,925)	-
Proceeds used in acquisition of property, plant and equipment	(37,039)	-
Proceeds from disposal of property, plant and equipment	16,359	14,827
Purchase of short-term investments	(21,437,863)	(14,002,812)
Redemption of short-term investments	21,516,418	19,061,890
<b>Net cash generated from (used in) investing activities</b>	<b>(13,849,358)</b>	<b>4,254,678</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>687,502</b>	<b>(493,934)</b>
<b>Decrease (increase) in cash and cash equivalents</b>	<b>(15,547,277)</b>	<b>1,907,327</b>
<b>Cash and cash equivalents - Beginning of year</b>	<b>22,102,526</b>	<b>20,195,199</b>
<b>Cash and cash equivalents - End of year</b>	<b>6,555,249</b>	<b>22,102,526</b>

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

# Minco Silver Corporation

## Notes to the financial statements

### Years ended December 31, 2018, and 2017

(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 2060 – 1055 West Georgia Street, Vancouver, British Columbia, Canada.

#### 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”). The consolidated financial statements are prepared under the historical cost convention. These consolidated financial statements were approved by the board of directors for issue on March 29, 2019.

#### 3. Summary of significant accounting policies

##### Consolidation

These consolidated financial statements include the accounts of Minco Silver Corporation and its wholly owned subsidiaries, Minco Investment Holding HK Ltd (“Minco HK”), Changfu Minco Mining Co. Ltd, formerly Foshan Minco Fuwan Mining Co. Ltd., (“Changfu Minco”), Zhongjia Jinggu Limited (“Zhongjia”), Minco Resource Limited (“Minco Resources”), Minco Mining (China) Corporation (“Minco China”), Tibet Miming Co. Ltd. (“Tibet Minco”), and its 51% interest in Mingzhong Mining Co. Ltd. (“Mingzhong”). Changfu Minco is subject to a 10% net profit interest held by Guangdong Geological Bureau (“GGB”), Yuanling Minco Mining Ltd. and Huaihua Tiancheng Mining Ltd. (collectively the “Yuanling”) up to May 10, 2018, Minco Yinyuan Co. (“Minco Yinyuan”) up to July 6, 2018, and Beijing Minco International Resources Investment Services Ltd. (“Minco International Resources”) up to July 31, 2018. The Company, indirectly through Changfu Minco, owns 90% of Zhongjia. Information about subsidiaries:

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

During the year ended December 31, 2018, the Company disposed the following Chinese subsidiaries:

(1) 100% interest in Yuanling was sold in an arm’s length transaction on May 10, 2018 for gross proceeds of \$30,102 (RMB 150,000).

(2) 100% interest in Minco Yinyuan was disposed of to a subsidiary of Minco Base Metals Corporation for a consideration of \$6,264,423 (RMB 31,656,834); and

(3) 100% of Beijing Minco International Resources was sold to a subsidiary of Minco Base Metals Corporation for gross proceeds of \$187,998 (RMB 1,000,000).

# Minco Silver Corporation

Notes to the financial statements

**Years ended December 31, 2018, and 2017**

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

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

### **Consolidation (continued)**

Refer to Note 4 and 13 for more details of the disposition of subsidiaries.

Minco Yinyuan and Minco International Resources do not hold any material mineral interests. The proceeds are approximately same as the net equity of these subsidiaries, thus no gain or loss has been recorded.

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.

### **Adoption of new accounting standards**

Commencing January 1, 2018 the Company adopted IFRS 9. The adoption of this new accounting standard did not have material impact to the Company's financial statements.

IFRS 9 addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 Financial Instruments. The new standard contains three classification for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit and loss ("FVTPL"). The new standard eliminates the previous IAS 39 categories of held to maturity, loan and receivables, and available for sale.

Recognition and Measurement for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. Requirements for financial liabilities are largely carried forward from the existing requirements in IAS 39 except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

Following is the new accounting policy for financial instruments under IFRS 9:

#### Classification

The Company's cash and cash equivalents, short-term investments, receivables, note receivable, accounts payable, due to minority shareholders, and due to/from related parties are amortized cost financial instruments.

#### Measurement

The Company's financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs respectively, and subsequently carried at amortized cost less any impairment.

# Minco Silver Corporation

Notes to the financial statements

**Years ended December 31, 2018, and 2017**

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

## **3. Summary of significant accounting policies (Continued)**

### **Adoption of new accounting standards (continued)**

#### Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company shall recognize in the consolidated statements of operation and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

### **Foreign currency translation**

#### (i) Functional and presentation currency

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

The functional currency of Minco Silver Corporation is Canadian dollars.

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

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

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

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

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

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

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

# Minco Silver Corporation

Notes to the financial statements

Years ended December 31, 2018, and 2017

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

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

### Foreign currency translation (continued)

amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

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.

#### (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-

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of three months or less.

### 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

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:



# Minco Silver Corporation

Notes to the financial statements

Years ended December 31, 2018, and 2017

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

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

### Exploration and evaluation costs (continued)

- 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.

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.

# Minco Silver Corporation

Notes to the financial statements

**Years ended December 31, 2018, and 2017**

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

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

### Share-based payments (continued)

#### (ii) Stock Options (continued)

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.

#### (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.

### 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, 2018 and 2017, 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.

# Minco Silver Corporation

## Notes to the financial statements

### Years ended December 31, 2018, and 2017

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

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

##### **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**

The IASB has replaced IAS 17, Leases in its entirety with IFRS 16, Leases, which will require lessees to recognize nearly all leases on the balance sheet to reflect their right to use an asset for a period of time and the associated lease liability. IFRS 16 is effective for annual periods commencing on or after January 1, 2019. The Company does not expect the adoption of this standard will have a material impact to the Company's financial statements.

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

##### *Impairment*

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

The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, success renewal of the exploration permits of the Fuwan Silver Property and Changkeng Gold Project, maintenance of the title of the mineral interests, changes in commodity prices, future plans for the Company's mineral properties and mineral resources and/or reserve estimates.

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

##### *Note receivable*

At each reporting date, the Company applies its judgement to evaluate the collectability of material receivable and note receivable and make a provision based on the assessed amount of expected credit losses.

# Minco Silver Corporation

Notes to the financial statements

Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

## 4. Disposition of subsidiaries

Information about the subsidiaries disposed of during 2018 are as follow:

	Minco Yinyuan RMB	Minco International Resources RMB	Minco Yinyuan \$	Minco International Resources \$
Consideration of disposition (all cash)	31,656,834	1,000,000	6,264,423	187,998
Cash and cash equivalent held by the subsidiary when disposed	31,656,834	377,608	6,264,423	70,990
Asset, other than cash and cash equivalent, held by the subsidiary when disposed	-	1,599,431	-	300,690
Liabilities held by the subsidiary when disposed	-	959,335	-	180,353

## 5. Cash and cash equivalents

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

December 31,	2018	2017
	\$	\$
Cash	3,493,468	9,983,575
Term deposits	3,061,781	12,118,951
	<u>6,555,249</u>	<u>22,102,526</u>

As at December 31, 2018, cash and cash equivalents of \$4,832,163 (or RMB 24,374,470) (December 31, 2017 - \$15,662,255 (or RMB 81,176,416)) resided in China. Under Chinese law, cash advances to the Company's Chinese subsidiaries as registered share capital and must be maintained in the subsidiaries' registered capital bank account. Remittance of these funds back to Canada requires approvals by the relevant government authorities or designated banks in China or both.

# Minco Silver Corporation

Notes to the financial statements

Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

## 6. Short-term investments

As at December 31, 2018, short-term investments consisted of the following:

	Currency	Amount (\$)	Term	Interest rate
Corporate bonds	USD	2,481,958	January 11, 2019 to November 4, 2019	4.85-6.2%
Term deposit	USD	5,111,122	January 10, 2019 to August 7, 2019	2.7 % to 3.18%
Term deposit	RMB	13,268,416	April 24, 2019 to December 17, 2019	1.6% to 2.10%
Term deposit	CAD	4,299,996	March 6, 2019 to November 15, 2019	1.7% to 2.75%
		<u>25,161,492</u>		

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

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

Remittance of short-term investment kept in RMB from China to Canada requires approvals by the relevant government authorities or designated banks in China or both.

As at December 31, 2018, the Company invested in three corporate bonds each with face value of USD 800,000 (totaling \$3.26 million). Among these three investments, the bond issued by China Energy Reserve & Chemicals Group Co. ("CERCG") with the maturity date of January 15, 2019 was in default from June 30, 2018 and the Company has written down the fair value of this investment from USD\$802,000 (on December 31, 2017) to USD\$271,280 (on December 31, 2018) according to the closing price in an active trading market, a decrease of \$687,813. The total decrease in fair value of the Company's three bond investments during year ended December 31, 2018 was \$761,778.

## 7. Note receivable

During 2018, the Company entered into a preliminary agreement (the "Proposed Acquisition") to acquire 70% of the equity interests in Changing Longxin Mining Co., Ltd ("Longxin Mining"), a Chinese mining company which holds a 100% interest in the Longwangshan Gold Mine. The estimated purchase price for the 70% equity interest in Longxin Mining under the preliminary agreement was a range of 147-168 million RMB (approximately \$28-32 million).

In conjunction with the Proposed Acquisition, on August 6, 2018, Minco China entered into a loan agreement with Longxin Mining and its shareholders pursuant to which Minco China provided the shareholders of Longxin Mining with a loan of \$14,630,621 (73.8 million RMB) (the "Note").

# Minco Silver Corporation

## Notes to the financial statements

### Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

#### 7. Note receivable (Continued)

The Note was due and payable six months from issuance, bears interest at the rate of 10% per annum, and is secured by 100% equity interest in Longxin Mining and all assets of the Longwangshan Gold Mine. In addition, the Note is guaranteed by both Longxin Mining's shareholders and a real estate company controlled by them. The Note was meant to form part of the consideration for the Proposed Transaction.

The Company decided not to proceed with the Proposed Acquisition on February 4, 2019, therefore the Note became due and payable. The Note was extended to June 30, 2019 with an increased interest rate of 12% per annum, and continues to be secured by a 100% equity interest in Longxin Mining and all assets of the Longwangshan Gold Mine. On February 4, 2019, Minco China received the full interest payments of \$718,564 (RMB 3.6 million) for this six-month period and also received a reimbursement of \$396,500 (RMB 2 million) for the due diligence cost in accordance with the preliminary agreement.

#### 8. Mineral interests

	2018	2017
	\$	\$
Fuwan Silver Project (a)	38,506,444	36,626,372
Changkeng Project (c)	25,577,061	24,472,217
Total mineral interests	<u>64,083,505</u>	<u>61,098,589</u>

##### (a) Fuwan Silver Project

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

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

	2018	2017
	\$	\$
Opening Balance – January 1	36,626,372	35,287,777
Consulting fees	187,178	192,826
Salaries and benefits	211,840	339,150
Share-based compensation (note 11(b))	203,362	346,095
Mining license application	23,891	207,033
Environment impact assessment	-	1,386
Travel	24,050	45,530
Others	209,695	323,599
Effect of change in the exchange rate with RMB	1,020,056	(117,024)
<b>Ending Balance – December 31</b>	<b><u>38,506,444</u></b>	<b><u>36,626,372</u></b>

# Minco Silver Corporation

Notes to the financial statements

Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

## 8. Mineral interests (Continued)

### (b) Fuwan Silver Belt

Fuwan Silver Belt includes two permits, namely the Hecun Property and the Guyegang-Sanyatang Property. The Company's resource estimate in the Fuwan area described in the Company's latest 43-101 technical report dated October 2009 does not include the Hecun Property and the Guyegang-Sanyatang Property. Management considers these two properties not part of the core mineral interests and let the Hecun Property and the Guyegang-Sanyatang Property expired on August 12, 2018 and March 17, 2019 respectively without renewal.

During the year ended December 31, 2018, the Company did not conduct any regional exploration activities on the Fuwan Silver Belt, except for maintaining the exploration permits.

### (c) Changkeng Gold Project

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

The Changkeng exploration permit expires September 10, 2019.

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

	<b>2018</b>	<b>2017</b>
	\$	\$
<b>Opening Balance – January 1</b>	24,472,217	23,853,802
Consulting	187,178	192,826
Salaries and benefits	37,983	163,786
Share-based compensation (note 11(b))	203,362	346,095
Mine design	-	774
Others	242	1,164
Effect of change in the exchange rate with RMB	676,079	(86,230)
<b>Ending Balance – December 31</b>	<b>25,577,061</b>	<b>24,472,217</b>

The Company intends to renew all the permits of Fuwan Silver Project and Changkeng Gold Project when they expire in the future.

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

# Minco Silver Corporation

Notes to the financial statements

Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

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

Below is a summary of the financial information of Mingzhong:

Financial positions:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>NCI percentage</b>	49%	49%
Current assets	471,738	291,755
Current liabilities	(1,022,511)	(554,576)
Net current assets (liabilities)	(550,773)	(262,821)
Non-current asset	24,637,765	23,948,038
Net assets	24,086,992	23,685,217
<b>Accumulated NCI</b>	<b>11,347,639</b>	<b>11,144,005</b>

Income statements:

Years ended December 31,	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Net loss	246,614	264,657
<b>Loss allocated to non-controlling interest</b>	<b>120,841</b>	<b>129,682</b>

Summary of statements of cash flows:

Years ended December 31,	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Cash inflows from operating activities	55,337	62,130
Cash inflow from financing activities	181,394	163,223
Cash outflows from investing activities	(37,597)	(166,071)

During the year ended 2017, Mingzhong initiated equity financing to raise capital to finance its operations and has received \$164,000 from its minority shareholders.

During the year ended December 31, 2018, two of the three minority shareholders paid \$187,968 (\$351,968 accumulative) for the subscription. The equity financing requires the remittance from its remaining minority shareholder to complete the transaction.



# Minco Silver Corporation

Notes to the financial statements

**Years ended December 31, 2018, and 2017**

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

## **10. Investments**

During the year ended December 31, 2018, the Company did not have investments in common shares.

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

## **11. Share capital**

### (a) Common Shares

Authorized: Unlimited number of common shares without par value.

### (b) Long-term Incentive Plan

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

#### *Stock Options*

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

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

During the year ended December 31, 2018, the Company granted 1,968,000 stock options to purchase common shares to employees, consultants, and directors at an exercise price of \$0.69 per common share. These options vest over an 18 month period from the grant date and expire on February 14, 2023.

The Company recorded \$1,331,922 of the option component of share-based compensation for the year ended December 31, 2018. Share-based compensation expense of \$1,051,592 (2017 - \$2,168,089) was recorded in the statement of operations and net loss and share-based compensation of \$280,330 (2017 - \$544,540) was capitalized to mineral interests.

# Minco Silver Corporation

Notes to the financial statements

Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

## 11. Share capital (continued)

(b) Long-term Incentive Plan (continued)

Stock Options (continued)

A summary of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price \$
Balance, January 1, 2017	4,280,672	1.43
Granted	4,000,000	1.40
Exercised	(458,335)	0.44
Expired	(1,415,000)	2.34
Forfeited	(257,000)	1.63
Balance, December 31, 2017	6,150,337	1.27
Granted	1,968,000	0.69
Expired	(812,000)	1.70
Forfeited	(910,000)	1.17
Balance, December 31, 2018	6,396,337	1.05

The weighted average share price on the days options were exercised was \$Nil (2017 - \$1.32). As at December 31, 2018, there was \$120,774 (2017 - \$568,722) 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 – 0.50	673,337	1.71	0.42	673,337	0.42	
0.51 – 0.69	1,753,000	4.12	0.69	584,327	0.69	
0.70 – 0.81	565,000	0.06	0.80	565,000	0.80	
0.82 – 1.40	3,405,000	3.14	1.40	3,405,000	1.40	
	6,396,337	2.99	1.05	5,227,664	1.13	

# Minco Silver Corporation

Notes to the financial statements

Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

## 11. Share capital (continued)

(b) Long-term Incentive Plan (continued)

*Stock Options (continued)*

Subsequent to the year ended December 31, 2018, 565,000 options expired.

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

	2018	2017
Risk-free interest rate	1.16% - 2.09%	0.66% - 1.16%
Dividend yield	0%	0%
Volatility	77% - 79%	75% - 79%
Forfeiture rate	23%	24%
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.

*Performance Share Units ("PSU")*

A summary of the PSUs outstanding is as follows:

	Number outstanding	Weighted average fair value \$
Balance, December 31, 2017	1,000,000	1.40
Forfeited	(50,000)	1.40
Balance, December 31, 2018	950,000	1.40

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

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

# Minco Silver Corporation

## Notes to the financial statements

### Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

#### 11. Share capital (continued)

(b) Long-term Incentive Plan (continued)

##### *Performance Share Units (continued)*

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

During the year ended December 31, 2018, the Company recorded \$192,969 (2017 - \$225,420) of share-based compensation to account for the vesting of PSUs. Share-based compensation of \$66,575 was recorded in the statement of operations (2017 - \$77,770) and \$126,394 was capitalized to the Fuwan Silver Deposit and the Changkeng Project (2017 - \$147,650) (Note 8 (a) and 8 (c)).

#### 12. Income taxes

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

	<b>2018</b>	<b>2017</b>
	\$	\$
Income (loss) before income taxes	(170,695)	(5,205,216)
Statutory income tax rate	27%	26%
Expected tax recovery at statutory income tax rate	(46,088)	(1,353,356)
Non-deductible expenses and other items	464,289	584,008
Difference in tax rates	(208,739)	(68,431)
Expiry of losses	112,863	2,785,786
Change in deferred income tax asset not recognized	(146,262)	(2,074,518)
Foreign exchange	(176,063)	126,511
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, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
	\$	\$
<b>Deferred income tax assets not recognized</b>		
Non-capital losses	2,534,496	2,928,079
Mineral interests	2,040,981	1,799,358
	<u>4,575,477</u>	<u>4,727,437</u>

# Minco Silver Corporation

Notes to the financial statements

Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

## 12. Income taxes (continued)

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

	\$
2030	1,004,044
2031	1,880,258
2032	2,229,724
2034	1,470,692
2036	954,126
2037	1,084,409
2038	-
	<u>8,623,253</u>

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

	\$
2019	230,098
2020	217,501
2021	-
2022	441,813
	<u>889,412</u>

## 13. Related party transactions

### (a) Shared expenses

Minco Silver, Minco Capital Corp. ("Minco Capital"), and Minco Base Metals Corporation ("MBM"), have common directors and officers, and these three companies share offices and certain administrative expenses.

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

	December 31, 2018	December 31, 2017
	\$	\$
Due from Minco Base Metals	206,299	-
Due from (to) Minco Capital	1,054	(27,523)
	<u>207,353</u>	<u>(27,523)</u>

# Minco Silver Corporation

## Notes to the financial statements

### Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

#### 13. Related party transactions (continued)

The amounts due from (to) MBM and Minco Capital are administrative and shared expenses to be settled after the year end. The amounts due are unsecured, non-interest bearing and payable on demand. During the year ended December 31, 2018, the Company paid or accrued \$53,721 (December 31, 2017 – \$106,991) in respect of rent and \$263,857 (December 31, 2017 – \$302,289) in respect of shared head office expenses and administration costs to Minco Capital.

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

#### (c) Transaction and trust arrangement MBM

As discussed in the Note 4, the Company disposed Minco Yinyuan and Minco International to MBM. After the disposition, Minco Yinyuan has a trust arrangement with Minco China, a wholly owned subsidiary of the Company, to continue holding certain cash and short-term investments for Minco China. The amount held by Minco Yinyuan in trust for Minco China was \$130,452 on December 31, 2018.

#### (d) Key management compensation

During the years ended December 31, 2018, and 2017, the following amounts were paid to and accrued for key management compensation. The compensation accrued as at December 31, 2018 was \$123,245 (2017 - \$82,257). Key management includes the Company's directors and senior management. This compensation is included in development costs and administrative expenses.

	Years ended December 31,	
	2018	2017
	\$	\$
Cash remuneration	761,200	812,861
Share-based compensation	1,156,108	2,109,551
	<u>1,917,308</u>	<u>2,922,412</u>

#### 14. Geographical information

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

December 31, 2018	Canada	China	Total
	\$	\$	\$
Current assets	13,817,194	34,016,176	47,833,370
Non-current assets	36,536	64,228,204	64,264,740
	<u>13,853,730</u>	<u>64,264,740</u>	<u>78,118,470</u>
December 31, 2017	Canada	China	Total
	\$	\$	\$
Current assets	16,519,308	31,783,440	48,302,748
Non-current assets	4,964	61,302,287	61,307,251
	<u>16,524,272</u>	<u>61,307,251</u>	<u>77,831,523</u>

# Minco Silver Corporation

## Notes to the financial statements

### Years ended December 31, 2018, and 2017

(Expressed in Canadian dollars, unless otherwise stated)

#### 15. Commitments

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

	\$
2019	79,907
2020	81,094
2021	75,153
2022 – 2023	73,696
	<u>309,850</u>

#### 16. Financial instruments and fair values

The following table shows the carrying values of the Company's financial assets and liabilities as at December 31, 2018 and 2017:

<u>Amortized cost financial assets</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	\$	\$
Cash and cash equivalents	6,555,249	22,102,526
Short-term investments	25,161,492	25,338,081
Note receivable	14,630,621	-
Receivables	985,978	612,140
Due from related parties	207,353	-

<u>Amortized cost financial liabilities</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	\$	\$
Due to related party	-	27,523
Accounts payable and accrued liabilities	309,010	474,699
Due to minority shareholders	351,968	164,000

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

# Minco Silver Corporation

Notes to the financial statements

Years ended December 31, 2018, and 2017

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

## 16. 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\$6.7 million monetary assets at year-end. This sensitivity analysis shows that a change of +/- 10% in US\$ foreign exchange rate would have a -/+ US\$0.7 million impact on net loss.

### Interest rate risk

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

The Company mainly holds short-term investments such as guaranteed investment certificates at fixed interest rates. As a result, the Company is not exposed to significant interest rate risk.

### 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, 2018, the Company has a positive working capital of approximately \$47.17 million and therefore has sufficient funds to meet its current operating and exploration and development obligations. However, the Company will require significant additional funds to complete its plans for the construction of the Fuwan project.

## 17. Capital management

The Company's objectives in the managing of the liquidity and capital are to safeguard the Company's ability to continue as a going concern and provide the financial capacity to meet its strategic objectives. The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued share capital, common share purchase warrants, contributed surplus, accumulated other comprehensive income and accumulated deficit.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt and/ or acquire or dispose of assets to facilitate the management of its capital requirements. The Company prepares annual expenditure budgets that are updated as necessary depending upon various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Company's board of directors.



# Minco Silver Corporation

Notes to the financial statements

**Years ended December 31, 2018, and 2017**

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

**17. Capital management** (continued)

As at December 31, 2018, the Company does not have any long-term debt and has sufficient funds to meet its current operating and exploration and development obligations.

**18. Subsequent events**

On February 1, 2019, the Company granted 1,500,000 stock options to purchase common shares to employees, consultants and directors at an exercise price of \$0.57 per common share. These options vest over an 18 month period from the grant date and expire on February 1, 2024.

Details of the extension of repayment of a promissory note receivable is available in the Note 7.