

# **Minco Silver Corporation**

Consolidated Financial Statements

**For the years ended December 31, 2019, and 2018**

(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, changes in equity, 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 30, 2020

## *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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- 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 30, 2020

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# Minco Silver Corporation

## Consolidated Statements of Financial Position

(Expressed in Canadian dollars, unless otherwise stated)

	December 31, 2019	December 31, 2018
Assets	\$	\$
<b>Current assets</b>		
Cash and cash equivalents (note 5)	12,643,996	6,555,249
Short-term investments (note 6)	18,848,668	25,161,492
Note receivable (note 7)	13,079,993	14,630,621
Receivables	922,227	985,978
Due from related parties (note 13)	6,079	207,353
Prepaid expenses and deposits	378,683	292,677
	<hr/> 45,879,646	<hr/> 47,833,370
<b>Mineral interests</b> (note 8)	-	64,083,505
<b>Right-of-use assets</b> (note 3 )	311,139	-
<b>Property, plant and equipment</b>	126,823	181,235
	<hr/> 46,317,608	<hr/> 112,098,110
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	308,158	309,010
Due to minority shareholders (note 9)	331,746	351,968
Due to a related party (note 13)	77,269	-
Lease obligations, current (note 3 )	152,526	-
	<hr/> 869,699	<hr/> 660,978
<b>Deferred tax liabilities</b> (note 12)	196,200	-
<b>Lease obligations, non-current</b> (note 3 )	214,053	-
	<hr/> 1,279,952	<hr/> 660,978
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital (note 11(a))	107,650,215	107,538,681
Contributed surplus	27,172,197	27,023,391
Accumulated other comprehensive income	1,922,388	7,345,105
Deficit	(90,532,010)	(41,817,684)
	<hr/> 46,212,790	<hr/> 100,089,493
<b>Non-controlling interest</b> (note 9)	(1,175,134)	11,347,639
<b>Total equity</b>	<hr/> 45,037,656	<hr/> 111,437,132
<b>Total liabilities and equity</b>	<hr/> 46,317,608	<hr/> 112,098,110

Subsequent events – note 17

Approved by the Board of Directors:

(signed) Maria Tang Director

(signed) George Lian Director

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



# Minco Silver Corporation

## Consolidated Statements of Operations and Net Loss

Years ended December 31, 2019 and 2018

(Expressed in Canadian dollars, unless otherwise stated)

	2019	2018
	\$	\$
<b>Administrative expenses</b>		
Audit, legal and regulatory	243,267	281,600
Amortization	215,846	52,983
Consulting	178,135	171,802
Directors' fees	73,500	92,250
Field office expenses	650,726	512,495
Investor relations	5,723	7,322
Interest expense	38,453	-
Office administration expenses	170,815	211,247
Property investigation expenses (recovery)	(303,508)	366,196
Rent	62,387	191,065
Salaries and benefits	315,078	290,333
Share-based compensation (note 11(b))	398,765	1,118,167
Travel and transportation	170,931	75,421
<b>Loss before finance and other income (expenses)</b>	<b>(2,220,118)</b>	<b>(3,370,881)</b>
<b>Finance and other income (expenses)</b>		
Impairment of mineral interest	(60,246,258)	-
Foreign exchange gain (loss)	(357,108)	1,229,970
Gain on disposal of investment (note 10)	599,546	-
Gain on sale of subsidiaries	-	1,518,886
Gain (loss) short-term investment (note 6)	(286,896)	(761,776)
Interest income	2,216,988	1,356,351
Other income (expenses)	-	(143,245)
	<b>(58,073,728)</b>	<b>3,200,186</b>
Loss before income taxes	(60,293,846)	(170,695)
Income tax expenses, current (note 12)	(56,176)	-
Income tax expenses, deferred (note 12)	(196,200)	-
<b>Net loss for the year</b>	<b>(60,546,222)</b>	<b>(170,695)</b>
<b>Net loss attributable to:</b>		
Shareholders of the Company	(48,714,645)	(49,854)
Non-controlling interest	(11,831,577)	(120,841)
	<b>(60,546,222)</b>	<b>(170,695)</b>
<b>Loss per share – basic and diluted</b>	<b>(1.00)</b>	<b>(0.00)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<b>60,739,953</b>	<b>60,704,748</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, 2019 and 2018

(Expressed in Canadian dollars, unless otherwise stated)

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Net loss for the year</b>	(60,546,222)	(170,695)
<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	(6,113,913)	2,627,278
Exchange differences on translation of disposed subsidiaries	-	(1,488,119)
	<hr/>	<hr/>
<b>Comprehensive income (loss) for the year</b>	(66,660,135)	968,464
	<hr/>	<hr/>
<b>Comprehensive income (loss) attributable to:</b>		
Shareholders of the Company	(54,137,362)	764,830
Non-controlling interest	(12,522,773)	203,634
	<hr/>	<hr/>
	(66,660,135)	968,464
	<hr/>	<hr/>

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

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## Statements of Changes in Shareholders' Equity

December 31, 2019 and 2018

(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 \$
<b>1, 2018</b>	60,704,748	107,538,681	25,498,500	6,530,421	(41,767,830)	97,799,772	11,144,005
	-	-	-	-	(49,854)	(49,854)	(120,841)
Net loss	-	-	-	2,302,803	-	2,302,803	324,475
Profit or loss on disposal	-	-	-	(1,488,119)	-	(1,488,119)	-
Issuance	-	-	1,524,891	-	-	1,524,891	-
<b>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
	-	-	-	-	319	319	-
	-	-	-	-	(48,714,645)	(48,714,645)	(11,831,577)
Net income	-	-	-	(5,422,717)	-	(5,422,717)	(691,196)
Options exercised	141,002	111,534	(43,164)	-	-	68,370	-
Issuance	-	-	191,970	-	-	191,970	-
<b>December 31, 2019</b>	60,845,750	107,650,215	27,172,197	1,922,388	(90,532,010)	46,212,790	(1,175,134)

Notes are an integral part of these consolidated financial statements

# Minco Silver Corporation

## Consolidated Statements of Cash Flows

### Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

	2019	2018
	\$	\$
<b>Operating activities</b>		
Net loss for the year	(60,546,222)	(170,695)
Adjustments for:		
Amortization	215,846	52,983
Deferred income tax expense	196,200	-
Income tax expense	56,716	-
Interest income	(2,216,988)	(1,356,351)
Interest expense	38,453	-
Impairment of mineral interest	60,246,258	-
Foreign exchange loss (gain)	357,108	(1,229,970)
Share-based compensation (note 11(b))	398,765	1,118,167
Gain on disposal of investment	(599,546)	-
Gain on disposal of subsidiaries	-	(1,518,886)
Loss (gain) on short-term investment	286,896	761,776
Changes in items of working capital:		
Receivables	283,290	216,804
Prepaid expenses and deposits	(102,053)	(37,137)
Accounts payable and accrued liabilities	(30,662)	(170,861)
Due from/to related parties (note 13)	272,217	(232,645)
<b>Net cash used in operating activities</b>	<u>(1,143,722)</u>	<u>(2,566,815)</u>
<b>Financing activities</b>		
Repayment of lease obligations	(152,526)	-
Proceeds from stock option exercises	68,369	-
Increase of due to minority shareholders (note 9)	-	181,394
<b>Net cash (used in) generated from financing activities</b>	<u>(84,157)</u>	<u>181,394</u>
<b>Investing activities</b>		
Development costs	(506,150)	(876,565)
Interest income received	1,991,829	783,218
Proceeds from disposition investment	3,417,552	-
Purchase of investment	(2,807,943)	-
Proceeds from disposition of subsidiaries	-	6,482,523
Cash in subsidiaries that were disposed	-	(6,252,484)
Received (issuance) of a promissory note (note 7)	710,057	(14,043,925)
Proceeds used in acquisition of property, plant and equipment	-	(37,039)
Proceeds from disposal of property, plant and equipment	1,113	16,359
Purchase of short-term investments	(19,892,682)	(21,437,863)
Redemption of short-term investments	24,979,676	21,516,418
<b>Net cash generated from (used in) investing activities</b>	<u>7,893,452</u>	<u>(13,849,358)</u>
<b>Effect of exchange rates on cash and cash equivalents</b>	<u>(576,826)</u>	<u>687,502</u>
<b>Increase (decrease) in cash and cash equivalents</b>	6,088,747	(15,547,277)
<b>Cash and cash equivalents - Beginning of year</b>	6,555,249	22,102,526
<b>Cash and cash equivalents - End of year</b>	<u>12,643,996</u>	<u>6,555,249</u>

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

# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

(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 30, 2020.

## 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 Jingu 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 as at December 31, 2019 is as follows:

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 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 consolidated financial statements

**Years ended December 31, 2019, and 2018**

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

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

### **Consolidation (continued)**

Refer to Note 4 for details of the disposition of subsidiaries in 2018.

Minco Yinyuan and Minco International Resources do not hold any material mineral interests. The proceeds were approximately the 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**

On January 1, 2019, the Company adopted IFRS 16, "Leases" ("IFRS 16") which sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees, thereby removing the distinction between operating and finance leases. IFRS 16 requires a lessee to recognize an asset (right-to-use the leased item) and a financial liability to pay rentals on the consolidated balance sheets with terms of more than 12-months, unless the underlying asset is of low value.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard: (i) the transition application practical expedient allowing the standard to only be applied to contracts that were previously identified as leases applying IAS 17, (ii) the transition application practical expedient to elect to not apply IFRS 16 to leases that expired within 12 months following the adoption date of January 1, 2019; (iii) the recognition exemption to not apply IFRS 16 to lease contracts for which the underlying asset is of low value, and (iv) the recognition exemption to not apply IFRS 16 to lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 8.00%.

The associated right-of-use assets and lease obligation were measured on a modified retrospective basis.

As at December 31, 2019, the Company's recognized right-of-use assets and liabilities were mainly comprised of the present values of all future lease payments of two leases for offices located in Vancouver, Canada and Beijing, China.

The first one is for a lease for a shared office (note 13) located in Vancouver, Canada. This lease started in 2018 and will end on April 30, 2023. The Company was charged a monthly rent ranging from \$3,700 to \$3,770 during 2019.

# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

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

### Adoption of new accounting standards (continued)

The continuity of the asset and liabilities arising from this lease is as follow:

	\$
Right-of-use assets, January 1, 2019	136,238
Amortization	(27,184)
Right-of-use assets, December 31, 2019	<b>109,054</b>

	Non-current	Current	Total
	\$	\$	\$
Lease obligations, January 1, 2019	97,685	38,234	135,919
Interest expense	10,874	-	10,874
Lease payment made	(38,234)	-	(38,234)
Lease obligations, December 31, 2019	<b>70,325</b>	<b>38,234</b>	<b>108,559</b>

Commencing April 1, 2019, the Company entered into a lease for a shared office located in Beijing, China (note 13), that will end on August 31, 2021. The monthly rent shared by the Company was \$14,336 during 2019.

The continuity of the asset and liabilities arising from this lease in Beijing is as follow:

	\$
Right-of-use assets, January 1, 2019	-
Addition	344,733
Amortization	(142,648)
Right-of-use assets, December 31, 2019	<b>202,085</b>

	Non-current	Current	Total
	\$	\$	\$
Lease obligations, January 1, 2019	-	-	-
Addition	230,441	114,292	344,733
Interest expense	27,579	-	27,579
Lease payment made	(114,292)	-	(114,292)
Lease obligations, December 31, 2019	<b>143,728</b>	<b>114,292</b>	<b>258,020</b>

The following table presents the contractual discounted cash flows for lease obligations as at December 31, 2019:

	Vancouver	Beijing	Total
	\$	\$	\$
Less than one year	38,234	114,292	152,526
Beyond one year	70,325	143,728	214,053
	<b>108,559</b>	<b>258,020</b>	<b>366,579</b>

# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

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

### Adoption of new accounting standards (continued)

The change in accounting policy affected the following items in the consolidated balance sheet on January 1, 2019:

	Vancouver	Beijing	Total
	\$	\$	\$
Right-of-use assets, January 1, 2019	136,238	-	136,238
Lease obligation (current and non-current)	135,919	-	135,919
A credit to deficit	<b>319</b>	-	<b>319</b>

The Combined effect of these two leases are as follows:

	Vancouver	Beijing	Total
	\$	\$	\$
Operating lease commitments as at December 31, 2018	157,198	-	157,198
Lease liability recognized as at January 1, 2019 being the operating lease commitments discounted using the Company's incremental borrowing rate	135,919		135,919
Addition	-	344,733	344,733
Interest accreted	10,874	27,579	38,453
Lease payment made	(38,234)	(114,292)	(152,526)
	<b>108,559</b>	<b>258,020</b>	<b>366,579</b>
Right-of-use assets, January 1, 2019	136,238	-	136,238
Addition	-	344,733	344,733
Amortization	(27,184)	(142,648)	(169,832)
Right-of-use assets, December 31, 2019	<b>109,054</b>	<b>202,085</b>	<b>311,139</b>

### Financial instruments

There are three classifications 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.

Financial liabilities have two classifications: 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.

#### 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.



# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

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

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

### Financial instruments (continued)

#### 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.

#### 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, unless exchange rates fluctuated significantly during that period, in this case, the exchange rates at the dates of the transactions are used.

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.

# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

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

### Financial instruments (continued)

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.

The 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
Right-of-Use Assets	term of the lease

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

# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

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

### 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.

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.

# Minco Silver Corporation

Notes to the consolidated financial statements

**Years ended December 31, 2019, and 2018**

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

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

### Share-based payments

#### (i) Stock Options

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

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

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

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

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

### Provision for restoration and rehabilitation

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

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

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

As at December 31, 2019 and 2018, the Company did not have any provision for restoration and rehabilitation.

### 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.

# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

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

### Share capital

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

### 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.

### 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. The Company fully impaired the Fuwan Silver Property and Changkeng Gold Project on September 30, 2019. Refer to Note 8 for details.

#### *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. As at December 31, 2019, the Company's note receivable comprised of a note receivable from Longxin Mining Corp. (Note 7), that had an outstanding balance of \$13,079,993 (RMB 70,000,000). There was an interest receivable of \$784,799 (RMB 4.2 million) included in the Company's Receivable.

# Minco Silver Corporation

## Notes to the consolidated financial statements

### Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

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

##### Critical accounting estimates and judgments (continued)

###### Note receivable (continued)

During 2019, the Company received a repayment of \$0.71 million (RMB 3.8 million) of principal, \$ 1.37 million of interest (RMB 7.1 million). Subsequent to the year ended December 31, 2019, the Company further received \$2.8 million (RMB 15 million) of repayment in principal and interest.

This note receivable came due on December 31, 2019. Given the borrower has paid all the interest on time and the principal has been partially repaid, the Company is considering to renew the term of this promissory note under the request of the borrower.

The Company concluded the collectability of this promissory note is secured by the collateral on hands. As a result, no provision has been made for this promissory note.

#### 4. Disposition of subsidiaries

The Company did not dispose of any subsidiaries during 2019.

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,	2019	2018
	\$	\$
Cash	8,600,768	3,493,468
Term deposits	4,043,228	3,061,781
	<u>12,643,996</u>	<u>6,555,249</u>

As at December 31, 2019, cash and cash equivalents of \$3,420,389 (or RMB 18,304,846) (December 31, 2018 - \$4,832,163 (or RMB24,374,470) 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 approval by the relevant government authorities or designated banks in China or both.

# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

## 6. Short-term investments

As at December 31, 2019, short-term investments consisted of the following:

	Currency	Amount (\$)	Maturity date	Interest rate
Corporate bond (i)	USD	-	January 11, 2019	6.125%
Term deposit	USD	1,459,402	December 20, 2020	2.30%
Term deposit	RMB	15,851,253	Jan 4, 2020 to December 20, 2020	1.65% to 2.10%
Term deposit	CAD	1,538,013	March 16, 2020 to December 16, 2020	1.7% to 2.35%
		18,848,668		

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

	Currency	Amount (\$)	Maturity date	Interest rate
Corporate bonds (i)	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%
		25,161,492		

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

(i) As at December 31, 2018, the Company invested in three corporate bonds with a face value totaling USD \$ 2,400,000. One corporate bond matured in January 2019 and another one matured in November 2019. The remaining was a bond issued by China Energy Reserve & Chemicals Group Co. ("CERCG") with a principal of USD 800,000, with the maturity date of January 15, 2019. This bond was in default since June 30, 2018.

As at December 31, 2019, the Company still had the corporate bond issued by the On December 31, 2019, the Company has fully provided this holding to \$Nil given it is uncertain to dispose this corporate bond through the open market.

# Minco Silver Corporation

Notes to the consolidated financial statements

**Years ended December 31, 2019, and 2018**

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

## 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 to 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").

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 Acquisition.

During 2019, the following extensions of expiry were granted:

- On February 4, 2019, the maturity of the note was extended to June 30, 2019 with an increased interest rate of 12% per annum.
- the maturity of the note was further extended from June 30, 2019 to December 31, 2019 with no change in the interest rate (12 % per annum).

The following repayments were received:

- On February 4, 2019, Minco China received
  - a full interest payments of \$718,564 (RMB 3.6 million) for this six- month period,
  - a reimbursement of \$396,500 (RMB 2 million) for the Company's due diligence cost in connection with the Proposed Acquisition.
- In June and July 2019, the Company received \$729,947 (RMB 3.8 million) repayment of principal, and \$671,013 (RMB 3.4 million) repayment of accrued interest up to June 30, 2019.

As at December 31, 2019, the amount of note receivable outstanding was \$13,079,993 (RMB 70 million). The amount of accrued interest was \$798,292 (RMB 4.2 million) was included in the Company's receivable.

This note receivable came due on December 31, 2019. The note continues to be secured by a 100% equity interest in Longxin Mining, all assets of the Longwangshan Gold Mine and personal guarantees provided by shareholders of Longxin Mining.

Subsequent to the year ended December 31, 2019, the Company further received \$2.8 million (RMB 15 million) of repayment of principal and accrued interest up to December 31, 2019.



# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

## 8. Mineral interests

	2019	2018
	\$	\$
Fuwan Silver Project (a)	-	38,506,444
Changkeng Project (c)	-	25,577,061
Total mineral interests	-	64,083,505

The Company has experienced a delay in the renewal of exploration permits of Fuwan Silver Deposit, which expired in July 2017. The exploration permit of the Changkeng Gold Project expired in September 2019. The Company is applying for a renewal, however the likelihood of getting this approval is unknown. Based on the experience and the current status of the renewal application of Fuwan Silver Deposit, the company expects the permit renewal application for the Changkeng Gold Project may be subject to similar delays. The continued delays in receipt of the renewed exploration permits has been considered as an impairment indicator by the Company leading to a test of the recoverable amount of the Fuwan Silver and Changkeng Gold Project, which resulted in impairment losses of \$60,246,258. A value in use calculation is not applicable as the Company does not have any expected cash flows from using these mineral properties at this stage of operations. In estimating the fair value less cost of disposal, management did not have observable or unobservable inputs to estimate the recoverable amount greater than \$Nil. As this valuation technique requires management's judgment and estimates of the recoverable amount, it is classified within Level 3 of the fair value hierarchy.

### (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. Although the Company has fully impaired the Fuwan Silver Deposit, the renewal application for the Luoke-Jilinggang exploration permit is still on-going and the Company intends to renew and keep the title of this mineral interest in good standing

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

	2019	2018
	\$	\$
Opening Balance – January 1	38,506,444	36,626,372
Consulting fees	120,010	187,178
Salaries and benefits	130,551	211,840
Share-based compensation (note 11(b))	(103,397)	203,362
Mining license application	-	23,891
Travel	-	24,050
Others	102,128	209,695
Effect of change in the exchange rate with RMB	(2,557,978)	1,020,056
Impairment	(36,197,758)	-
<b>Ending Balance – December 31</b>	<b>-</b>	<b>38,506,444</b>

# Minco Silver Corporation

Notes to the consolidated financial statements

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(Expressed in Canadian dollars, unless otherwise stated)

## 8. Mineral interests (continued)

### (b) 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 expired on September 10, 2019. Although the Company has fully impaired the Changkeng Gold Project on September 30, 2019, the renewal application for the Changkeng project exploration permit is still on-going and the Company intends to renew and keep the title of this mineral interest in good standing.

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

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Opening Balance – January 1</b>	25,577,061	24,472,217
Consulting	120,010	187,178
Salaries and benefits	26,320	37,983
Share-based compensation (note 11(b))	(103,397)	203,362
Others	-	242
Effect of change in the exchange rate with RMB	(1,571,494)	676,079
Impairment	(24,048,500)	-
<b>Ending Balance – December 31</b>	<b>-</b>	<b>25,577,061</b>

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

Below is a summary of the financial information of Mingzhong:

Financial positions:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>NCI percentage</b>	49%	49%
Current assets	325,253	471,738
Current liabilities	(964,152)	(1,022,511)
Net current assets (liabilities)	(638,899)	(550,773)
Non-current asset	6,998	24,637,765
Net (liabilities) assets	(631,901)	24,086,992
<b>Accumulated NCI</b>	<b>(1,175,134)</b>	<b>11,347,639</b>

Income statements:

Years ended December 31,	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Net loss	24,097,765	246,614
<b>Loss allocated to non-controlling interest</b>	<b>11,831,577</b>	<b>120,841</b>

# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

## 9. Non-controlling interest ("NCI") (Continued)

Summary of statements of cash flows:

Years ended December 31,	2019	2018
	\$	\$
Cash inflows from (used in) operating activities	(122,727)	55,337
Cash inflow from financing activities	-	181,394
Cash outflows used in investing activities	-	(37,597)

Mingzhong initiated equity financing in 2017 to raise capital to finance its operations 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.

During 2019, the Company received \$Nil. The amount of \$331,746 was remaining as Mingzhong's payable account.

## 10. Investment in marketable securities

During the 2019, the Company, acquired common shares of a public company that are listed on the Shenzhen Stock Exchange of China. The investment is designated as fair-value-through-profit-or-loss (FVTPL) financial asset and is measured at its fair value at inception and at each subsequent reporting period. The Company used approximately \$2.88 million for the acquisition. During the fourth quarter of 2019, the Company sold all the shares and realized a gain of \$599,546.

## 11. Share capital

### (a) Common Shares

Authorized: Unlimited number of common shares without par value.

### (b) Long-term Incentive Plan

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

#### *Stock Options*

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

During the year ended December 31, 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.

# Minco Silver Corporation

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

## 11. Share capital (continued)

### Stock Options (continued)

During the year ended December 31, 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.

The Company recorded \$610,359 of the option component of share-based compensation for the year ended December 31, 2019. Share-based compensation expense of \$543,110 (2018 - \$1,051,592) was recorded in the statement of operations and net loss. Share-based compensation of \$67,250 (2018 - \$280,330) was capitalized to mineral interests.

A summary of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price \$
Balance, January 1, 2018	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
Granted	1,500,000	0.57
Exercised	(141,002)	0.48
Expired	(565,000)	0.80
Forfeited	(70,000)	0.96
Balance, December 31, 2019	7,120,335	0.98

The weighted average share price on the days options were exercised was \$0.8 (2018 - \$Nil)

. As at December 31, 2019, there was \$77,412 (2018 - \$120,744) 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	593,335	0.71	0.42	593,335	0.42	
0.51 – 0.69	1,419,000	4.09	0.69	432,328	0.57	
0.70 – 0.81	1,733,000	3.12	0.80	1,733,000	0.69	
0.82 – 1.40	3,375,000	2.14	1.40	3,375,000	1.40	
	7,120,335	2.65	0.98	6,133,663	1.05	

# Minco Silver Corporation

Notes to the consolidated financial statements

Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

## 11. Share capital (continued)

(b) Long-term Incentive Plan (continued)

*Stock Options (continued)*

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

	2019	2018
Risk-free interest rate	1.85%	1.16% - 2.09%
Dividend yield	0%	0%
Volatility	82%	77% - 79%
Forfeiture rate	23%	23%
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, 2018	950,000	1.40
Forfeited	-	1.40
	<hr/>	<hr/>
Balance, December 31, 2019	950,000	-

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

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Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

## 11. Share capital (continued)

### (b) Long-term Incentive Plan (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-Scholes option pricing model taking into consideration forfeiture estimates made based on the Company's history.

On the quarter ended September 30, 2019, the Company fully impaired the Fuwan Silver Project and Changkeng Gold Project. Management decided the performance criteria would not be met before the expiry. Consequently, the share-based compensation recorded to the Company's statement of operation and to the share-based compensation capitalized to mineral interest from fiscal 2017 up to the September 30, 2019 have been reversed.

These 950,000 PSU expired in February 2020.

Impacts of the reversal are as follows:

	\$
Reversal of share-based compensation previously charged to the statement of operations	144,345
Reversal of capitalized share-based compensation within the Company's mineral interest (note 7)	274,044
<u>A decrease in the Company's contributed surplus</u>	<u>418,389</u>

## 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:

	2019 \$	2018 \$
Income (loss) before income taxes	(60,293,846)	(170,695)
Statutory income tax rate	27%	27%
Expected tax recovery at statutory income tax rate	(16,279,338)	(46,088)
Non-deductible expenses and other items	7,317,285	464,289
Difference in tax rates	829,059	(208,739)
Expiry of losses	-	112,863
Change in deferred income tax asset not recognized	8,465,165	(146,262)
Foreign exchange	(79,795)	(176,063)
Income tax expense	<u>252,376</u>	<u>-</u>

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:

# Minco Silver Corporation

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Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

## 12. Income taxes

	2019	2018
	\$	\$
<b>Deferred income tax assets not recognized</b>		
Non-capital losses	2,592,243	2,534,496
Mineral interests	10,777,235	2,040,981
	<u>13,369,478</u>	<u>4,575,477</u>

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

	\$
2030	1,330,717
2032	1,880,258
2033	2,229,724
2034	1,470,692
2036	954,126
2037	1,084,409
2039	477,578
	<u>9,427,504</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	39,226
	<u>269,324</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,	2019	2018
	\$	\$
Due to:		
A company owned by the CEO – consulting fees	(58,116)	-
Minco Capital -reimbursement of shared expenses	(19,153)	-
Total	<u>(77,269)</u>	<u>-</u>

# Minco Silver Corporation

Notes to the consolidated financial statements

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(Expressed in Canadian dollars, unless otherwise stated)

## 13. Related party transactions (Continued)

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

December 31,	2019	2018
	\$	\$
Due from:		
MBM – reimbursement of shared expenses	6,079	206,299
Minco Capital – reimbursement of shared expenses	-	1,054
Total	6,079	207,353

The amounts due from (to) are unsecured, non-interest bearing and payable on demand.

During the year ended December 31, 2019, the Company paid or accrued \$42,980 (December 31, 2018 – \$53,721) in respect of rent and \$229,828 (December 31, 2018 – \$263,857) 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 3 and 4, the Company disposed of Minco Yinyuan to MBM in 2018. 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 \$177,535 on December 31, 2019.

### (d) Rental agreement with the CEO

On April 1, 2019, the Company's wholly owned subsidiary, Minco China, effectively entered into a lease agreement with the Company's CEO for the use of an office in Beijing, China. The monthly rent is \$17,434 (RMB 90,000) and will expire on August 31, 2021 (Note 2)

### (e) Key management compensation

Key management includes the Company's directors and senior management. Compensation of key management is included in the Company's mineral interests and administrative expenses.

	Years ended December 31,	
	2019	2018
	\$	\$
Cash remuneration	675,995	761,200
Share-based compensation	375,831	1,156,108
	<u>1,051,826</u>	<u>1,917,308</u>



# Minco Silver Corporation

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Years ended December 31, 2019, and 2018

(Expressed in Canadian dollars, unless otherwise stated)

## 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, 2019	Canada	China	Total
	\$	\$	\$
Current assets	12,318,076	33,561,570	45,879,646
Non-current assets	136,187	301,775	437,962
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

## 15. Financial instruments and fair values

The following table shows the carrying values of the Company's financial assets and liabilities as at December 31, 2019 and 2018:

Amortized cost financial assets	December 31, 2019	December 31, 2018
	\$	\$
Cash and cash equivalents	12,643,996	6,555,249
Short-term investments	18,848,668	25,161,492
Note receivable	13,079,993	14,630,621
Receivables	922,227	985,978
Due from related parties	6,079	207,353
Amortized cost financial liabilities	December 31, 2019	December 31, 2018
	\$	\$
Due to related party	77,269	-
Accounts payable and accrued liabilities	308,158	309,010
Due to minority shareholders	331,746	351,968
Lease obligations, current	152,526	-
Lease obligations, non-current	214,053	-

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).

# Minco Silver Corporation

Notes to the consolidated financial statements

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

## 15. Financial instruments and fair values (Continued)

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.

### Financial risk factors

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

### Credit risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if the counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by these counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair value contracts with individual counterparties which are recorded in the consolidated financial statements. The Company considers its Cash and cash equivalent, short-term investments, and note receivable to be exposed to credit risk.

In order to manage credit risk the Company:

- limits its credit exposure on cash and cash equivalents by holding its deposits mainly with high credit quality financial institutions in Canada, Hongkong and China,
- Obtain adequate collateral to secure the recoverability of the note receivable.

### 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\$7.0 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 does not hold cash and cash equivalent and short-term investments at variable rates. As a result, the Company is not exposed to significant interest rate risk.

# Minco Silver Corporation

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

## **15. Financial instruments and fair values (Continued)**

### **Liquidity risk**

Liquidity risk includes the risk that the Company cannot meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements and its exploration and development plans. The annual budget is approved by the Company's board of directors. As at December 31, 2019, the Company has a positive working capital of approximately \$45.01 million and lease obligations of \$152,526 that need to fulfil in the next twelve months. Management concludes that the Company has sufficient funds to meet its current operating and exploration expenditures.

## **16. Capital management**

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

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

As at December 31, 2019, the Company does not have any long-term debt and has sufficient funds to meet its current operating and exploration and development obligations.

## **17. Subsequent events**

In March 2020, the World Health Organization declared a global pandemic related to the virus known as COVID-19. The expected impacts on global commerce are anticipated to be far reaching. To date there have been significant stock market declines and the movement of people and goods has become restricted.

The impact of the crisis on the Company is not yet determinable; however it may have a material impact on the Company's financial position, results of operations and cash flows in future periods. In particular, there may be increased risk of the recoverability of the outstanding note receivable (note 7).