

# **Minco Silver Corporation**

(A development stage enterprise)

Condensed Consolidated Interim Financial Statements

**For the three and nine months ended September 30, 2015 and 2014**

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

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# Minco Silver Corporation

(A development stage enterprise)

## Condensed Consolidated Interim Statements of Financial Position

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

	September 30, 2015	December 31, 2014
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	35,622,488	11,938,544
Short-term investments (note 5)	22,265,274	33,560,374
Receivables	873,784	370,903
Due from related parties (note 10)	59,198	3,603,847
Prepaid expenses and deposits	276,318	181,991
Investments (note 8)	-	10,865,140
	<u>59,097,062</u>	<u>60,520,799</u>
<b>Mineral interests</b> (note 6)	62,811,948	31,621,827
<b>Property, plant and equipment</b>	465,327	422,012
	<u>122,374,337</u>	<u>92,564,638</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	339,830	419,592
	<u>339,830</u>	<u>419,592</u>
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital (note 9)	106,630,256	106,630,256
Contributed surplus	22,866,749	22,615,759
Accumulated other comprehensive income	13,341,196	4,194,260
Deficit	(34,305,578)	(41,295,229)
	<u>108,532,623</u>	<u>92,145,046</u>
<b>Non-controlling interest</b> (note 7)	13,501,884	-
	<u>122,034,507</u>	<u>92,145,046</u>
<b>Total equity</b>	<u>122,034,507</u>	<u>92,145,046</u>
<b>Total liabilities and equity</b>	<u>122,374,337</u>	<u>92,564,638</u>

Approved by the Board of Directors:

(signed) Maria Tang Director

(signed) George Lian Director

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

# Minco Silver Corporation

(A development stage enterprise)

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

**For the three and nine months ended September 30, 2015 and 2014**

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	\$			
<b>Administrative expenses (recovery)</b>				
Audit, legal and regulatory	70,038	57,575	194,679	174,868
Amortization	26,589	24,627	76,625	97,366
Consulting	35,483	124,194	88,468	144,303
Directors' fees	27,500	22,250	87,750	96,000
Field office expenses	193,202	203,090	583,689	548,314
Foreign exchange gain	(2,376,108)	(528,681)	(3,692,502)	(490,548)
Investor relations	432	1,167	9,448	13,609
Office administration expenses	75,205	45,471	165,193	163,609
Property investigation	-	31,807	31,331	91,199
Rent	133,004	86,765	279,354	262,835
Salaries and benefits	101,456	75,206	281,793	312,123
Share-based compensation (note 9(b))	26,186	128,415	63,749	676,265
Travel and transportation	18,373	4,148	26,542	33,143
	(1,668,640)	276,034	(1,803,881)	2,123,086
<b>Operating income (expense)</b>	1,668,640	(276,034)	1,803,881	(2,123,086)
<b>Finance and other income (expenses)</b>				
Gain on disposal of investment (note 8)	-	-	4,792,888	-
Interest income	108,429	258,619	638,751	741,955
Other income (expenses) (note 10(a))	(4,452)	105	(266,430)	(28,957)
	103,977	258,724	5,165,209	712,998
<b>Net income (loss) for the period</b>	<b>1,772,617</b>	<b>(17,310)</b>	<b>6,969,090</b>	<b>(1,410,088)</b>
<b>Net income (loss) attributable to:</b>				
Shareholders of the Company	1,793,178	(17,310)	6,989,651	(1,410,088)
Non-controlling interest	(20,561)	-	(20,561)	-
	<b>1,772,617</b>	<b>(17,310)</b>	<b>6,969,090</b>	<b>(1,410,088)</b>
<b>Income (loss) per share – basic and diluted</b>	0.03	(0.00)	0.12	(0.02)
<b>Weighted average number of common shares outstanding – basic and diluted</b>	59,631,418	59,615,440	59,631,418	59,576,602

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

# Minco Silver Corporation

(A development stage enterprise)

Condensed Consolidated Interim Statements of Comprehensive Income

**For the three and nine months ended September 30, 2015 and 2014**

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Net income (loss) for the period</b>	1,772,617	(17,310)	6,969,090	(1,410,088)
<b>Other comprehensive income</b>				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Unrealized gain (loss) on investment, net of tax (note 8)	-	(703,048)	7,125,020	(69,422)
Realized gain reclassified to net income (loss) on disposal of investment, net of tax (note 8)	-	-	(4,100,844)	-
Exchange differences on translation from functional to presentation currency	2,620,864	2,091,015	6,226,972	1,530,424
<b>Other comprehensive income for the period</b>	<u>2,620,864</u>	<u>1,387,967</u>	<u>9,251,148</u>	<u>1,434,002</u>
<b>Comprehensive income for the period</b>	<u>4,393,481</u>	<u>1,370,657</u>	<u>16,220,238</u>	<u>23,914</u>
<b>Comprehensive income attributable to:</b>				
Shareholders of the Company	4,309,830	1,370,657	16,136,587	23,914
Non-controlling interest	83,651	-	83,651	-
	<u>4,393,481</u>	<u>1,370,657</u>	<u>16,220,238</u>	<u>23,914</u>

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

# Minco Silver Corporation

(A development stage enterprise)

## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

**For the nine months ended September 30, 2015 and 2014**

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

	Attributable to equity owner of the Company							Non-controlling interest	Total equity
	Number of Shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Subtotal			
		\$	\$	\$	\$	\$			
<b>Balance - January 1, 2014</b>	59,328,085	106,140,836	21,950,949	3,723,746	(39,629,713)	92,185,818	-	92,185,818	
Net loss for the period	-	-	-	-	(1,410,088)	(1,410,088)	-	(1,410,088)	
Other comprehensive income	-	-	-	1,434,002	-	1,434,002	-	1,434,002	
Share-based compensation	-	-	1,010,089	-	-	1,010,089	-	1,010,089	
Proceeds on issuance of shares from exercise of options	23,333	30,220	(11,554)	-	-	18,666	-	18,666	
Issuance of shares for restricted share units	280,000	459,200	(459,200)	-	-	-	-	-	
<b>Balance – September 30, 2014</b>	<b>59,631,418</b>	<b>106,630,256</b>	<b>22,490,284</b>	<b>5,157,748</b>	<b>(41,039,801)</b>	<b>93,238,487</b>	<b>-</b>	<b>93,238,487</b>	
<b>Balance - January 1, 2015</b>	59,631,418	106,630,256	22,615,759	4,194,260	(41,295,229)	92,145,046	-	92,145,046	
Non-controlling interest in acquisition	-	-	-	-	-	-	12,911,658	12,911,658	
Non-controlling interest contribution	-	-	-	-	-	-	506,575	506,575	
Net income for the period	-	-	-	-	6,989,651	6,989,651	(20,561)	6,969,090	
Other comprehensive income	-	-	-	9,146,936	-	9,146,936	104,212	9,251,148	
Share-based compensation	-	-	250,990	-	-	250,990	-	250,990	
<b>Balance – September 30, 2015</b>	<b>59,631,418</b>	<b>106,630,256</b>	<b>22,866,749</b>	<b>13,341,197</b>	<b>(34,305,578)</b>	<b>108,532,623</b>	<b>13,501,884</b>	<b>122,034,507</b>	

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

**Minco Silver Corporation**  
(A development stage enterprise)  
Condensed Consolidated Interim Statements of Cash Flows  
**For the nine months ended September 30, 2015 and 2014**

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

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net income (loss) for the period	6,969,090	(1,410,089)
Adjustments for:		
Amortization	76,526	97,366
Foreign exchange gain	(3,692,371)	(490,019)
Share-based compensation (note 9(b))	63,749	676,265
Gain on disposal of investment	(4,792,888)	-
Changes in items of working capital:		
Receivables	(377,283)	(434,750)
Prepaid expenses and deposits	(63,071)	26,225
Accounts payable and accrued liabilities	(391,781)	(324,910)
Due to related parties (note 10)	(52,807)	(41,864)
<b>Net cash used in operating activities</b>	<u>(2,260,836)</u>	<u>(1,901,776)</u>
<b>Financing activities</b>		
Proceeds from exercise of stock options	-	18,666
<b>Net cash generated from financing activities</b>	<u>-</u>	<u>18,666</u>
<b>Investing activities</b>		
Development costs	(861,108)	(1,037,815)
Cash inflow as result of acquisition of Changkeng Gold Project (note 3)	1,452,910	-
Investment	-	(11,925,149)
Proceeds from disposal of investments (note 8)	18,682,204	-
Property, plant and equipment	2,038	(29,054)
Purchase of short-term investments	(5,943,003)	(18,925,149)
Redemption of short-term investments	8,902,287	15,525,778
<b>Net cash generated (used) in investing activities</b>	<u>22,235,328</u>	<u>(16,137,707)</u>
<b>Effect of exchange rates on cash</b>	<u>3,709,452</u>	<u>36,530</u>
<b>Increase (decrease) in cash and cash equivalents</b>	23,683,944	(17,984,287)
<b>Cash and cash equivalents - Beginning of period</b>	<u>11,938,544</u>	<u>23,580,514</u>
<b>Cash and cash equivalents - End of period</b>	<u>35,622,488</u>	<u>5,596,227</u>

# Minco Silver Corporation

(A development stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and nine months ended September 30, 2015 and 2014**

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

## 1. General information

Minco Silver Corporation (“Minco Silver” or the “Company”) is a development stage enterprise, engaged in exploring and evaluating precious metals mineral properties and projects. Minco Silver was incorporated on August 20, 2004 under the laws of British Columbia, Canada and its Common Shares are listed on the Toronto Stock Exchange (“TSX”) and trades under the symbol “MSV”. The Company’s registered office is 2772 – 1055 West Georgia Street, Vancouver, British Columbia, Canada.

As at September 30, 2015, Minco Gold Corporation (“Minco Gold”) owned 18.45% (December 31, 2014 – 18.45%) equity interest in Minco Silver.

## 2. Basis of preparation

These condensed consolidated interim financial statements include the accounts of Minco Silver Corporation and its wholly owned subsidiaries, Minco Silver Ltd., Minco Yinyuan Co. (“Minco Yinyuan”), Minco Investment Holding HK Ltd (“Minco HK”), Minco Resource Limited (“Minco Resources”), Minco Mining (China) Corporation (“Minco China”), Yuanling Minco Mining Ltd. (“Yuanling Minco”), Tibet Miming Co. Ltd. (“Tibet Minco”), Huaihua Tiancheng Mining Ltd. (“Huaihua”), and its 51% interest in Mingzhong Mining Co. Ltd. (“Mingzhong”). In addition, these condensed consolidated interim financial statements include the accounts of Foshan Minco Fuwan Mining Co. Ltd. (“Foshan Minco”), which is subject to a 10% net profit interest held by Guangdong Geological Bureau (“GGB”). The Company, indirectly through Foshan Minco owns 90% of Zhongjia Jinggu Limited (“Zhongjia”).

Information about subsidiaries:

Name	Principal activities (ownership interest)	Country of Incorporation
Minco Silver Ltd.	Holding company (100%)	British Virgin Islands
Minco Yinyuan	Treasury company (100%)	China
Minco HK	Holding company (100%)	China
Foshan Minco	Exploring, evaluating and developing mineral properties (90%)	China
Zhongjia	Service company (90%)	China
Minco China	Exploring and evaluating mineral properties (100%)	China
Yuanling Minco	Exploring and evaluating mineral properties (100%)	China
Tibet Minco	Exploring and evaluating mineral properties (100%)	China
Huaihua	Exploring and evaluating mineral properties (100%)	China
Minco Resources	Holding company (100%)	China
Mingzhong	Exploring and evaluating mineral properties (51%)	China

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.



# Minco Silver Corporation

(A development stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and nine months ended September 30, 2015 and 2014**

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

## 2. Basis of preparation (continued)

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These condensed consolidated interim financial statements should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2014, which were prepared in accordance with IFRS as issued by the IASB.

The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied in the preparation of the consolidated financial statements for the year ended December 31, 2014.

These condensed consolidated interim financial statements were approved by the board of directors for issue on November 12, 2015.

## 3. Acquisition of Minco Resources

On May 22, 2015, the Company entered into a share purchase agreement (the “SPA”) with Minco Gold and Minco HK. Pursuant to the SPA, the Company agreed to purchase all of the issued and outstanding shares of Minco Gold’s wholly-owned subsidiary, Minco Resources, which holds Minco China. Minco China owns certain subsidiaries including legal ownership of Foshan Minco Fuwan Mining Co. Ltd. (“Foshan Minco”) and a 51% interest in Guangdong Mingzhong, which owns the Changkeng Gold Project. By acquiring control of Minco China, the Company obtained legal ownership of Foshan Minco and consequently no longer requires trust agreements related to the funding of the Fuwan Project. The acquisition closed on July 31, 2015.

This acquisition has been accounted for as an asset purchase.

The following summarizes the consideration paid and estimates of fair value of assets acquired and liabilities assumed:

	\$
Consideration	
Short-term investment and settlement of loan payable from Minco Gold to Minco Silver	13,716,397
Transaction costs	69,627
Total consideration	<u>13,786,024</u>
Net assets acquired	\$
Cash	1,249,209
Receivables	91,901
Prepaid expenses and deposits	126,035
Property, plan, and equipment	76,555
Mineral interest	26,051,813
Accounts payable and accrued liabilities	(698,129)
Due to related parties	(199,702)
Minority interest share of the assets acquired	<u>(12,911,658)</u>
	<u>13,786,024</u>

(9)

# Minco Silver Corporation

(A development stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and nine months ended September 30, 2015 and 2014**

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

## 3. Acquisition of Minco Resources (continued)

Majority of the consideration was paid in the form of a short-term investment and net cash inflow of \$1,452,910 as result of the transaction mainly represented cash balances within the entities acquired.

## 4. Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and guaranteed investment certificates with initial maturities of less than three months.

	As at September 30, 2015	As at December 31, 2014
	\$	\$
Cash	19,070,575	10,127,337
Term deposits	16,551,913	1,811,207
	<u>35,622,488</u>	<u>11,938,544</u>

As at September 30, 2015, cash and cash equivalents of \$17,147,611 (RMB 46,923,919 and USD \$5,401,778) (December 31, 2014 - \$2,451,024 (RMB 12,972,292)) remained in China. Under Chinese law, cash advanced to the Company's Chinese subsidiaries as registered share capital is maintained in the subsidiaries' registered capital bank account. Remittance of these funds back to Canada may require approvals by the relevant government authorities or designated banks in China or both.

## 5. Short-term investments

As at September 30, 2015, short-term investments consist of cashable guaranteed investment certificates with one year to maturity, and bonds. The yields on these investments were between 1.22% and 3.30%. As at September 30, 2015, short-term investments of \$15,457,833 (RMB 73,234,576) (December 31, 2014 - \$13,822,164 (RMB 73,155,186)) remained in China. As at December 31, 2014, short-term investments consisted of cashable guaranteed investment certificates with one year to maturity.

# Minco Silver Corporation

(A development stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and nine months ended September 30, 2015 and 2014**

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

## 6. Mineral interests

	\$
Fuwan Silver Deposit (a)	36,620,816
Changkeng Project from acquisition (c)	26,191,132
Total mineral interests	<u>62,811,948</u>

### (a) Fuwan Silver Deposit

Minco Silver has a 90% interest in Foshan Minco, the operating company and permit holder for the Fuwan project, subject to a 10% net profit interest held by GGB. There will be no distributions to or participation by GGB, until such time as Minco Silver's investment in the project is recovered. GGB is not required to fund any expenditures related to the Fuwan project. The Exploration Permit for the Fuwan project is the Luoke-Jilinggang exploration permit, which expired on July 20, 2015. The Company has submitted the renewal application, which is currently being processed by the Ministry of Land and Resources. The Mining Area Permit which defines the mining limits of the Fuwan Silver Deposit and restricts the use of this land to mining activities was renewed and approved by MOLAR in March 2014. The renewed Mining Area Permit expires on April 10, 2016.

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

The following is a summary of project development costs capitalized to mineral interests from January 1, 2015 to September 30, 2015.

	<b>2015</b>
	\$
<b>Opening Balance – January 1, 2015</b>	<b>31,621,827</b>
Consulting fees	384,199
Feasibility study	221,626
Salaries and benefits	111,182
Share-based compensation	187,241
Mining design costs	18,826
Mining license application	85,601
Travel	35,079
Other development costs	180,801
Foreign exchange	3,774,434
<b>Ending Balance – September 30, 2015</b>	<b><u>36,620,816</u></b>

# Minco Silver Corporation

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Notes to the Condensed Consolidated Interim Financial Statements

**For the three and nine months ended September 30, 2015 and 2014**

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

## 6. Mineral interests (continued)

### (b) Fuwan Silver Belt

In 2005, the Company acquired three additional silver exploration permits on the Fuwan belt, referred to as the Guanhuatang Property, the Hecun Property and the Guyegang-Sanyatang Property. The Company has decided not to renew the Guanhuatang property permit, which expired on April 7, 2014. The Guyegang-Sanyatang permit is expired on March 17, 2016. The Company has submitted the renewal application for the Hecun permit that was originally set to expire on April 7, 2014. The renewal applications are currently being processed by the Ministry of Land and Resources.

During the nine months ended September 30, 2015, the Company did not conduct any regional exploration activities on the Fuwan Silver Belt, except for maintaining the exploration permits.

### (c) Changkeng Project

On July 31, 2015, the Company announced that it had completed the acquisition of Minco Gold's 51% interest in the Changkeng Gold Project, which is held by Mingzhong (note 3). The Changkeng Project immediately adjoins the Fuwan Silver Deposit.

Mingzhong signed an exploration permit transfer agreement with No. 757 Exploration Team of Guangdong Geological Bureau ("757 Exploration Team") and on January 5, 2008 Mingzhong received the Changkeng exploration permit (the "Changkeng Exploration Permit"). This exploration permit expired on September 10, 2015. The renewal applications are currently being processed by the Ministry of Land and Resources.

Prior to the acquisition of Minco Gold's interest in Mingzhong, Minco Gold had assigned its right to earn a 51% interest in the Changkeng Silver Mineralization to Minco Silver.

As at September 30, 2015, following the completion of the acquisition transaction (note 3), Mingzhong completed a capital injection. Funds of RMB 2,400,000 (\$506,575) from three minority shareholders, which were recorded as current liabilities at the date of the acquisition, were recorded as non-controlling interest on the statement of financial position.

# Minco Silver Corporation

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Notes to the Condensed Consolidated Interim Financial Statements

**For the three and nine months ended September 30, 2015 and 2014**

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

## 7. Non-controlling interest

Below is summarized financial information for Mingzhong, the Company's 51% owned indirect subsidiary. The amounts disclosed are based on those included in the condensed consolidated interim financial statement before inter-company eliminations.

Summarized statement for financial position

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
<b>NCI percentage</b>	49%	0%
Current assets	1,171,300	-
Current liabilities	99,216	-
	<u>1,072,084</u>	<u>-</u>
Non-current asset	26,301,945	-
Net assets	<u>27,374,028</u>	<u>-</u>
<b>Accumulated non-controlling interests</b>	<u>13,501,884</u>	<u>-</u>

Summarized income statement

**For the period ended**

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
	<b>\$</b>	<b>\$</b>
Net loss	20,561	-
<b>Loss allocated to NCI</b>	<u>20,561</u>	<u>-</u>

Summarized cash flows

**For the period ended**

	<b>September 30, 2015</b>
	<b>\$</b>
Cash flows from operating activities	(88,661)
Cash flows from investing activities	2,038
Effect of exchange rate changes on cash	9,013

# Minco Silver Corporation

(A development stage enterprise)

Notes to the Condensed Consolidated Interim Financial Statements

**For the three and nine months ended September 30, 2015 and 2014**

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

## 8. Investments

Available for sale investments, as of and for the nine months ended September 30, 2015:

	Fair value December 31, 2014	Fair value adjustment June 30, 2015	Net disposals May 21, 2015	Fair value September 30, 2015
	\$	\$	\$	\$
Common shares in Gold Road Resources Limited	10,865,140	7,817,064	(18,682,204)	-
Total	10,865,140	7,817,064	(18,682,204)	-

During the year ended December 31, 2014, the Company acquired 47,719,423 common shares in Gold Road Resources Limited, a publicly listed resource company traded on the ASX at a cost of \$13,889,316.

During the nine months ended September 30, 2015, the Company disposed of all of its common shares of Gold Road Resources Limited for net proceeds of \$18,682,204. As a result, the Company recorded a gain on disposal of the investment of \$4,792,888 during the nine months ended September 30, 2015.

## 9. 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 nine months ended September 30, 2015, the Company granted stock options for 1,690,000 common shares to its directors, officers, consultants and employees at a weighted exercise price of \$0.42 per share that vest over an 18-months period from the issuance date.

The Company recorded \$102,984 of the option component of share-based compensation for the nine months ended September 30, 2015 (2014 - \$865,118). Share-based compensation expense of \$60,519 (2014 - \$655,696) was recorded in the statement of operations and net income (loss) and share-based compensation expense of \$42,465 (2014 - \$209,422) was capitalized to mineral interests.

# Minco Silver Corporation

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Notes to the Condensed Consolidated Interim Financial Statements

**For the three and nine months ended September 30, 2015 and 2014**

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

## 9. Share capital (continued)

A summary of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price \$
Balance, January 1, 2014	6,705,836	2.92
Granted	1,425,000	0.80
Exercised	(23,333)	0.80
Expired	(375,000)	1.21
Forfeited	(1,254,668)	2.83
Balance, December 31, 2014	6,477,835	2.58
Granted	1,690,000	0.42
Expired	(350,836)	3.03
Forfeited	(621,333)	2.48
Balance, September 30, 2015	7,195,666	2.05

As at September 30, 2015, there was total unrecognized compensation cost of \$299,715 (2014 - \$150,005) relating to unvested options.

<u>Options outstanding</u>				<u>Options exercisable</u>	
Range of exercise prices \$	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
0.42 – 0.79	1,690,000	4.97	0.42	-	0.00
0.80 – 2.00	2,565,666	2.77	1.28	2,565,666	1.28
2.01 – 2.35	1,635,000	1.49	2.35	1,635,000	2.35
2.36 – 5.57	1,305,000	0.37	5.31	1,305,000	5.31
	7,195,666	2.56	2.05	5,505,666	2.55

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

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## 9. Share capital (continued)

	2015	2014
Risk-free interest rate	0.80% - 0.82%	1.27%-1.69%
Dividend yield	0%	0%
Volatility	74% - 75%	70%-76%
Forfeiture rate	27%	26%
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.

### *Restricted Share Units, Performance Share Units*

A summary of the RSUs outstanding is as follows:

	Number outstanding	Weighted average fair value \$
Balance, January 1, 2014	280,000	1.64
Exercised	<u>(280,000)</u>	<u>1.64</u>
Balance, December 31, 2014 and September 30, 2015	<u>-</u>	<u>-</u>

During the nine months ended September 30, 2015, the Company recorded \$Nil (2014 - \$39,000) of share-based compensation for RSUs. Share-based compensation of \$Nil (2014 - \$3,900) was recorded in the statement of operations and net income (loss) and share-based compensation expense of \$Nil (2014 - \$35,100) was capitalized to mineral properties.



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## 9. Share capital (continued)

A summary of the PSUs outstanding is as follows:

	Number outstanding	Weighted average fair value \$
Balance, January 1, 2014	940,000	0.80
Forfeited	<u>(55,000)</u>	0.80
Balance, December 31, 2014	885,000	0.80
Forfeited	<u>(50,000)</u>	0.80
Balance, September 30, 2015	<u>835,000</u>	0.80

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

During the nine months ended September 30, 2015, the Company recorded \$148,006 (2014 - \$105,971) of share-based compensation for PSUs. Share-based compensation of \$3,230 was recorded (2014 - recorded \$16,669) in the statement of operations and net loss and share-based compensation expense of \$144,776 (2014 - \$89,302) was capitalized to mineral properties.

## 10. Related party transactions

### (a) Funding of Foshan Minco

Up to July 31, 2015, the Company was not able to invest directly in Foshan Minco as Foshan Minco was legally owned by Minco Gold. All historical funding supplied by the Company for exploration of the Fuwan Project went through Minco China via Minco Gold and Minco Resources to comply with Chinese law. In the normal course of business the Company used trust agreements when providing cash, denominated in US dollars, to Minco China via Minco Gold and Minco Resources for the purpose of increasing the registered capital of Foshan Minco.

Upon completion of the acquisition of the Changkeng Gold Project (note 3), the requirement for the trust structure was eliminated.

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

## 10. Related party transactions (continued)

During the year ended December 31, 2013, the Company advanced US \$20 million to Minco China via Minco Resources and Minco Gold in accordance with a trust agreement signed on April 30, 2013 in which Minco Silver agreed to advance US \$20 million to Minco China to increase Foshan Minco's registered capital. Minco China was to exchange these US funds into RMB.

Minco China is required to exchange the US dollars into RMB, before the money can be used to increase the registered capital of Foshan Minco. The exchange of US dollars into RMB requires approval from the State Administration of Foreign Exchange ("SAFE"). In order to obtain SAFE approval to effect the foreign currency exchange, Minco China, on behalf of Minco Silver has previously engaged a third party consultant to enter into purchase and sales transaction to exchange US dollars into RMB. During the nine months ended September 30, 2015, Minco China paid and accrued consultancy fees totaling RMB 1,304,709 (\$266,430) (2014 – RMB 139,692 (\$24,911)) due to a third party, who assisted in the completion of currency exchange of the US funds into RMB.

### (b) Shared expenses

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

Amounts due from related parties as at September 30, 2015 were \$59,198 (December 31, 2014 – \$3,603,847) and consisted of the following:

Amounts due from Minco Gold as at September 30, 2015 were \$25,835 (December 31, 2014 – \$3,603,847), representing the shared office expenses. As at December 31, 2014, the amount due from Minco Gold of \$3,603,847, represented funds advanced from Minco Silver to Minco Gold to support its operating activities in Canada, net of shared office expenses. This receivable was settled as part of the acquisition of the Chankeng Gold Project (note 3).

At September 30, 2015, the Company has \$33,363 due from MBM (December 31, 2014 - \$Nil), in relation to share office expenses.

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

During the three months ended September 30, 2015, the Company paid or accrued \$26,154 (September 30, 2014 – \$26,071) in respect of rent and \$115,784 (September 30, 2014 – \$134,632) in respect of shared head office expenses and administration costs to Minco Gold.

During the nine months ended September 30, 2015, the Company paid or accrued \$75,538 (September 30, 2014 – \$99,195) in respect of rent and \$474,888 (September 30, 2014 – \$513,810) in respect of shared head office expenses and administration costs to Minco Gold.

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

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## 10. Related party transactions (continued)

### (c) Key management compensation

During the three and nine months ended September 30, 2015 and 2014, the following compensation was paid to key management. Key management includes the Company's directors and senior management. This compensation is included in development costs and administrative expenses.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Cash remuneration	188,689	198,587	562,006	658,321
Share-based compensation	57,500	137,925	167,043	645,345
	<u>246,189</u>	<u>336,512</u>	<u>729,049</u>	<u>1,303,666</u>

## 11. Geographical information

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

### Non-current assets by geography

	September 30, 2015		
	Canada	China	Total
	\$	\$	\$
Non-current assets	12,127	63,265,148	63,277,275

  

	December 31, 2014		
	Canada	China	Total
	\$	\$	\$
Non-current assets	20,022	32,023,817	32,043,839

## 12. Fair value measurements

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

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## **12. Fair value measurements (continued)**

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

Due from related party amounts are unsecured, non-interest bearing and payable on demand.