

Minco Silver Corporation

(A development stage enterprise)

Consolidated Financial Statements

For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

Management's Responsibility for Financial Reporting

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

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

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered 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

Ellen Wei, C.A.
Chief Financial Officer

Vancouver, Canada
March 28, 2013

Independent Auditor's Report

To the Shareholders of Minco Silver Corporation

We have audited the accompanying consolidated financial statements of Minco Silver Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of operations and net loss, comprehensive loss, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Minco Silver Corporation and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

Vancouver, British Columbia
March 28, 2013

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

	December 31, 2012	December 31, 2011
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 5)	22,586,298	27,574,152
Short-term investments (note 6)	42,550,265	40,058,042
Receivables	148,244	674,973
Due from related parties (note 11)	1,250,129	-
Prepaid expenses and deposits (note 11(a))	388,880	2,705,760
	<u>66,923,816</u>	<u>71,012,927</u>
Mineral interests (note 7)	21,012,566	17,811,322
Property, plant and equipment (note 8)	572,583	751,463
	<u>88,508,965</u>	<u>89,575,712</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	512,604	539,576
Due to related parties (note 11)	-	429,114
	<u>512,604</u>	<u>968,690</u>
Shareholders' equity		
Share capital (note 9(a))	105,669,226	104,804,411
Contributed surplus	18,555,614	15,026,739
Accumulated other comprehensive income	414,201	742,002
Deficit	(36,642,680)	(31,966,130)
	<u>87,996,361</u>	<u>88,607,022</u>
Total liabilities and equity	<u>88,508,965</u>	<u>89,575,712</u>

Commitments (note 14)
Subsequent events (note 17)

Approved by the Board of Directors:

(signed) Chan-Seng Lee Director

(signed) George Lian Director

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

Minco Silver Corporation
(A development stage enterprise)
Consolidated Statements of Operations and Net Loss
For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

	2012	2011	2010
	\$	\$	\$
Administrative expenses			
Audit, legal and regulatory	444,825	531,181	302,662
Amortization	175,377	167,381	57,473
Consulting	236,355	350,155	512,300
Directors' fees	74,250	59,250	71,000
Field office expenses	467,366	395,957	359,826
Foreign exchange (gain) loss	166,997	(918,736)	771,644
Investor relations	292,544	557,014	699,209
Office administration expenses	152,924	104,194	103,272
Property investigation	-	41,781	40,682
Rent	310,538	253,142	136,281
Salaries and benefits	452,574	314,114	272,513
Share-based compensation (note 9(b))	2,792,280	4,757,454	2,190,892
Travel and transportation	30,641	61,179	87,131
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Operating loss	(5,596,671)	(6,674,066)	(5,604,885)
Finance and other income (expenses)			
Gain on loan settlement and break fee (note 12)	424,238	-	1,198,417
Interest income	865,478	703,224	125,569
Other expenses (note 11(a))	(369,595)	-	-
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	920,121	703,224	1,323,986
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Net loss for the year	(4,676,550)	(5,970,842)	(4,280,899)
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Loss per share – basic and diluted	(0.08)	(0.11)	(0.10)
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Weighted average number of common shares outstanding – basic and diluted	58,927,483	56,985,762	43,790,214
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The accompanying notes are an integral part of these consolidated financial statements.

Minco Silver Corporation

(A development stage enterprise)

Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

	2012	2011	2010
	\$	\$	\$
Net loss for the year	(4,676,550)	(5,970,842)	(4,280,899)
Other comprehensive income (loss)			
Exchange differences on translation from functional to presentation currency	(327,801)	931,652	(189,650)
Comprehensive loss for the year	<u>(5,004,351)</u>	<u>(5,039,190)</u>	<u>(4,470,549)</u>

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

Minco Silver Corporation

(A development stage enterprise)

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

	Changes in Shareholders' Equity					
	Number of Shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total \$
Balance - January 1, 2010	40,613,669	37,046,993	11,005,725	-	(21,714,389)	26,338,329
Net loss for the year	-	-	-	-	(4,280,899)	(4,280,899)
Exchange differences from translation from functional to presentation currency	-	-	-	(189,650)	-	(189,650)
Share-based compensation	-	(27,222)	3,077,596	-	-	3,050,374
Proceeds from private placement	2,300,000	3,345,412	539,223	-	-	3,884,635
Proceeds on issuance of shares from exercise of options	2,408,861	5,865,267	(2,412,134)	-	-	3,453,133
Proceeds on issuance of shares from exercise of warrants	4,296,089	12,261,010	(3,024,419)	-	-	9,236,591
Balance - December 31, 2010	49,618,619	58,491,460	9,185,991	(189,650)	(25,995,288)	41,492,513
Balance - January 1, 2011	49,618,619	58,491,460	9,185,991	(189,650)	(25,995,288)	41,492,513
Net loss for the year	-	-	-	-	(5,970,842)	(5,970,842)
Exchange differences on translation from functional to presentation currency	-	-	-	931,652	-	931,652
Share-based compensation	-	-	6,745,591	-	-	6,745,591
Proceeds on issuance of common shares in bought deal	7,600,000	41,393,649	775,103	-	-	42,168,752
Proceeds on issuance of shares from exercise of options	535,965	2,448,151	(1,233,020)	-	-	1,215,131
Proceeds on issuance of shares from exercise of warrants	941,500	2,471,151	(446,926)	-	-	2,024,225
Balance - December 31, 2011	58,696,084	104,804,411	15,026,739	742,002	(31,966,130)	88,607,022
Balance - January 1, 2012	58,696,084	104,804,411	15,026,739	742,002	(31,966,130)	88,607,022
Net loss for the year	-	-	-	-	(4,676,550)	(4,676,550)
Exchange differences on translation from functional to presentation currency	-	-	-	(327,801)	-	(327,801)
Share-based compensation	-	-	3,988,089	-	-	3,988,089
Proceeds on issuance of shares from exercise of options	345,334	864,815	(459,214)	-	-	405,601
Balance - December 31, 2012	59,041,418	105,669,226	18,555,614	414,201	(36,642,680)	87,996,361

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

Minco Silver Corporation
(A development stage enterprise)
Consolidated Statements of Cash Flows
For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

	2012	2011	2010
	\$	\$	\$
Cash flows from operating activities			
Net loss for the year	(4,676,550)	(5,970,842)	(4,280,899)
Adjustments for:			
Amortization	175,377	167,381	57,473
Foreign exchange (gain) loss	170,857	(751,496)	-
Gain on loan settlement and break fee (note 12)	(424,238)	-	(1,198,417)
Share-based compensation (note 9(b))	2,792,280	4,757,454	2,190,892
Changes in items of working capital:			
Receivables	250,387	(342,083)	(223,308)
Prepaid expenses and deposits	2,306,939	(2,163,244)	(223,786)
Accounts payable and accrued liabilities	(19,497)	9,875	228,158
Due to related parties (note 11)	(1,660,816)	(485,019)	(1,269,982)
Net cash used in operating activities	<u>(1,085,261)</u>	<u>(4,777,974)</u>	<u>(4,719,869)</u>
Cash flows from financing activities			
Proceeds from stock option and warrant exercises	405,601	3,239,356	12,689,724
Net proceeds from the issuance of common shares	-	42,168,752	3,884,636
Net cash generated from financing activities	<u>405,601</u>	<u>45,408,108</u>	<u>16,574,360</u>
Cash flows from investing activities			
Development costs	(2,285,604)	(2,701,146)	(2,738,282)
Loan receivable	-	-	(2,632,482)
Proceeds on settlement of break fee (note 12)	693,968	-	-
Proceeds from loan settlement	-	-	12,121,340
Property, plant and equipment	(7,325)	(205,561)	(504,128)
Short-term investments	(2,478,966)	(16,110,515)	(13,849,801)
Net cash used in investing activities	<u>(4,077,927)</u>	<u>(19,017,222)</u>	<u>(7,603,353)</u>
Effect of exchange rates on cash	<u>(230,267)</u>	<u>850,686</u>	<u>11,977</u>
Increase (decrease) in cash and cash equivalents	(4,987,854)	22,463,598	4,263,115
Cash and cash equivalents - Beginning of year	<u>27,574,152</u>	<u>5,110,554</u>	<u>847,439</u>
Cash and cash equivalents - End of year	<u>22,586,298</u>	<u>27,574,152</u>	<u>5,110,554</u>

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

Minco Silver Corporation

(A development stage enterprise)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

1. General information

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

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

2. Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements were approved by the board of directors for issue on March 28, 2013.

3. Summary of significant accounting policies

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention.

Consolidation

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

Subsidiaries are those entities which the Company controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Minco Silver Corporation

(A development stage enterprise)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Foreign currency translation

(i) Functional and presentation currency

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

The functional currency of Minco Silver Corporation is Canadian dollars.

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

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

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

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

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

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation’s functional currency are recognized in the statement of operations and net loss.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Minco Silver Corporation

(A development stage enterprise)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of significant accounting policies (continued)

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of cash and cash equivalents, short-term investments, receivables, and deposits and due from related parties.

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Cash and cash equivalents comprise cash at banks and on hand and guaranteed investment certificates with initial maturities of less than three months. Short-term investments comprise guaranteed investment certificates with initial maturity of greater than three months.

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities and amounts due to related parties.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

The criteria used to determine if objective evidence of an impairment exists include:

- (i) significant financial difficulty of the obligor;
- (ii) delinquencies in interest and principal payments; and
- (iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

Financial assets carried at amortized cost: If evidence of impairment exists, the Company recognizes an impairment loss as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Impairment losses on financial assets carried at amortized cost and available-for-sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

The carrying amount of a replaced asset is derecognized when replaced.

The major categories of property, plant and equipment are depreciated on a straight-line basis as follows:

Computer, Office Equipment and Furniture	5 years
Mining Equipment	5 years
Site Motor Vehicles	10 years
Leasehold Improvements	remaining lease term

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

Exploration and evaluation costs

Exploration and evaluation costs include costs to acquire exploration rights, geological studies, exploratory drilling and sampling and directly attributable administrative costs.

Exploration and evaluation costs relating to non-specific projects or properties or those incurred before the Company has obtained legal rights to explore an area are expensed in the period incurred. In addition, exploration and evaluation costs other than direct acquisition costs are expensed before a mineral resource is identified as having economic potential.

Exploration and evaluation costs are capitalized as mineral interests when a mineral resource is identified as having economic potential on a property. A mineral resource is considered to have economic potential when it is expected that documented resources can be legally and economically developed considering long-term metal prices. Therefore, prior to capitalizing such costs, management determines that the following conditions have been met:

- i) there is a probable future benefit that will contribute to future cash inflows;
- ii) the Company can obtain the benefit and control access to it;

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of significant accounting policies (continued)

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 to sell 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.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Share-based payments

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 is 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.

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 rise to the liability occurs.

As at December 31, 2012 and 2011, the Company did not have any provision for restoration and rehabilitation.

Income tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Minco Silver Corporation

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2012, 2011 and 2010

(Expressed in Canadian dollars, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Earnings per share

Basic earnings per share is 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 loss per share are the same.

Share capital

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

Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013. The Company has not yet assessed the impact of these standards and amendments.

- i. IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 *Financial Instruments: Recognition and Measurement* for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward 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. This new standard is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted.
- ii. IFRS 10, *Consolidated Financial Statements*, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity to present consolidated financial statements; (ii) defines the principle of control and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore has to consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27, *Consolidated Financial Statements* and SIC-12, *Consolidation – Special Purpose Entities*.
- iii. IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

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3. Summary of significant accounting policies (continued)

- iv. IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.
- v. IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

There have been amendments to existing standards, including IAS 27 and IAS 28, *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

- vi. IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012.

4. Critical accounting estimates and judgments

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

Impairment

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

The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, silver prices, future plans for the Company's mineral properties and mineral resources and/or reserve estimates.

Management has assessed for impairment indicators on the Company's mineral interest and has concluded that no impairment indicators existed as at December 31, 2012.

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5. Cash and cash equivalents

	Amount in original currency	December 31, 2012 Canadian dollar equivalent \$
Cash and cash equivalents denominated in Canadian dollars	116,871	116,871
Cash and cash equivalents denominated in US dollars	13,101,378	13,060,764
Cash and cash equivalents denominated in Chinese RMB	59,630,026	9,408,663
		<u>22,586,298</u>
		December 31, 2011 \$
Cash and cash equivalents denominated in Canadian dollars	9,665,106	9,665,106
Cash and cash equivalents denominated in US dollars	15,851,316	16,166,757
Cash and cash equivalents denominated in Chinese RMB	10,875,368	1,742,289
		<u>27,574,152</u>

Under Chinese law, cash advanced to the Company's Chinese subsidiaries as registered share capital is maintained in the subsidiaries' registered capital bank account. Remittance of these funds back to Canada may require approvals by the relevant government authorities or designated banks in China or both.

6. Short-term investments

As at December 31, 2012, short-term investments consist of cashable guaranteed investment certificates with one year to maturity. The yields on these investments were between 0.95% to 1.75%.

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

7. Mineral interests

(a) Fuwan Silver Deposit

Minco Silver has a 100% beneficial interest in Foshan Minco, the operating company and permit holder for the Fuwan project, subject to a 10% net profit interest held by GGB. There will be no distributions to or participation by GGB, until such time as Minco Silver's investment in the project is recovered. GGB is not required to fund any expenditures related to the Fuwan project. The permit for the Fuwan project is the Luoke-Jilinggang exploration permit, which was renewed on August 11, 2011. The current exploration permit granted by the Ministry of Land and Resources of China is for a two-year period ending on July 20, 2013.

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

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7. Mineral interests (continued)

The following is a summary of project development costs capitalized to mineral interests from January 1, 2011 to December 31, 2012.

	2012	2011
	\$	\$
Opening Balance – January 1	17,811,322	12,141,851
Consulting fees	519,804	908,480
Salaries and benefits	279,949	358,818
Share-based compensation	1,195,809	1,988,135
Mining design costs	212,466	130,783
Mining license application	682,088	874,801
Environment impact assessment	257,269	20,545
Travel	88,082	73,124
Other development costs	243,993	195,835
Foreign exchange	(278,216)	1,118,950
Ending Balance – December 31	21,012,566	17,811,322

(b) Fuwan Silver Belt

In 2005, the Company acquired three additional silver exploration permits on the Fuwan belt, referred to as the Guanhuatang Property, the Hecun Property and the Guyegang-Sanyatang Property at a cost of \$267,427 (RMB 1,500,000). These three permits were renewed for a two-year period ending on April 7, 2014 and are currently held by Minco China in trust for the Company.

During the year ended December 31, 2012, the Company did not conduct any regional exploration activities on the Fuwan Silver Belt, except for maintaining the exploration permits.

(c) Changkeng Silver Mineralization

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

During the year ended December 31, 2012, the Company did not conduct any exploration activities at the Changkeng project, except for maintaining the exploration permit.

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8. Property, plant and equipment

	Leasehold improvements	Motor vehicles	Office equipment and furniture	Total
	\$	\$	\$	\$
Year ended December 31, 2011				
At January 1, 2011	163,384	376,956	141,584	681,924
Additions	161,965	-	41,748	203,713
Disposals	-	-	(3,685)	(3,685)
Depreciation	(77,989)	(41,729)	(47,455)	(167,173)
Exchange differences	12,695	17,205	6,784	36,684
At December 31, 2011	<u>260,055</u>	<u>352,432</u>	<u>138,976</u>	<u>751,463</u>
At December 31, 2011				
Cost	367,182	450,415	303,834	1,121,431
Accumulated depreciation	<u>(107,127)</u>	<u>(97,983)</u>	<u>(164,858)</u>	<u>(369,968)</u>
Net book value	<u>260,055</u>	<u>352,432</u>	<u>138,976</u>	<u>751,463</u>
Year ended December 31, 2012				
At January 1, 2012	260,055	352,432	138,976	751,463
Additions	-	-	7,324	7,324
Depreciation	(91,199)	(41,394)	(42,784)	(175,377)
Exchange differences	(3,134)	(5,773)	(1,920)	(10,827)
At December 31, 2012	<u>165,722</u>	<u>305,265</u>	<u>101,596</u>	<u>572,583</u>
At December 31, 2012				
Cost	364,048	444,642	309,238	1,117,928
Accumulated depreciation	<u>(198,326)</u>	<u>(139,377)</u>	<u>(207,642)</u>	<u>(545,345)</u>
Net book value	<u>165,722</u>	<u>305,265</u>	<u>101,596</u>	<u>572,583</u>

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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 board of directors grants such 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, 2012, the Company granted stock options for 2,455,000 common shares at exercise prices between \$1.50 and \$2.35. The stock options vest over an 18-month period from the issuance date to employees, consultants and directors.

The Company recorded \$3,988,089 of share-based compensation for the year ended December 31, 2012. Share-based compensation expense of \$2,792,280 (2011 - \$4,757,454, 2010 - \$2,190,892) was recorded in the statement of operations and net loss and share-based compensation expense of \$1,195,809 (2011 - \$1,988,137) was capitalized to mineral interests.

A summary of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price \$
Balance, January 1, 2011	2,940,836	2.33
Granted	2,803,000	5.25
Exercised	(535,965)	2.27
Forfeited	(854,667)	4.17
Balance, December 31, 2011	4,353,204	3.85
Granted	2,455,000	2.33
Exercised	(345,334)	1.17
Expired	(305,000)	2.61
Forfeited	(908,701)	4.16
Balance, December 31, 2012	5,249,169	3.34

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9. Share capital (continued)

The weighted average share price on the day options were exercised was \$2.04 (2011 - \$4.36, 2010 - \$4.95).

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$			\$		\$
1.05-1.50	456,667	1.03	1.07	440,001	1.06
1.51-2.25	220,836	2.44	2.00	180,836	2.00
2.26-3.00	2,255,000	4.20	2.35	758,339	2.35
3.01-3.65	496,666	1.46	3.31	496,666	3.31
3.66-5.35	325,000	3.51	4.97	141,665	4.93
5.36-6.45	1,495,000	3.04	5.38	1,488,333	5.37
	5,249,169	3.22	3.34	3,505,840	3.69

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

	2012	2011	2010
Risk-free interest rate	1.04% - 1.58%	0.78% - 2.56%	1.31% - 2.68%
Dividend yield	0%	0%	0%
Volatility	72% - 106%	68% - 110%	87% - 127%
Forfeiture rate	27%	25%	25%
Estimated expected lives	5 years	5 years	5 years

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

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9. Share capital (continued)

Restricted Share Units, Performance Share Units, and Deferred Share Units

As at December 31, 2012, the Company has not granted any restricted share units, performance units or deferred share units.

(c) Warrants

A summary of warrants outstanding is as follows:

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

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

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

10. Income taxes

The Company has two subsidiaries and one branch in China which are Minco Yinyuan, Foshan Minco and Foshan Minco Beijing Branch. Foshan Minco is legally owned by Minco China, a subsidiary of Minco Gold, in trust for Minco Silver.

The operating results of Foshan Minco and Foshan Minco Beijing Branch are included in the Company's tax reporting for Canadian tax purposes.

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:

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10. Income taxes (continued)

	2012 \$	2011 \$	2010 \$
Loss before income taxes	(4,676,550)	(5,970,842)	(4,280,899)
Statutory income tax rate	25%	26.5%	28.5%
Expected tax recovery at statutory income tax rate	(1,169,138)	(1,582,273)	(1,220,056)
Non-deductible expenses and other items	(773,149)	1,366,125	611,151
Impact of change in tax rate	-	51,534	71,464
Change in deferred income tax asset not recognized	1,922,436	257,226	465,227
Foreign exchange	19,851	(92,612)	72,214
Income tax expense	-	-	-

Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of unrecognized deferred income tax assets and liabilities at December 31, 2012 and 2011 are as follows:

	2012 \$	2011 \$
Deferred income tax assets not recognized		
Non-capital losses	3,286,831	2,585,605
Mineral interests	3,452,349	2,294,477
Other	576,035	512,698
	<u>7,315,215</u>	<u>5,392,780</u>

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

	\$
2014	52,800
2015	746,632
2026	1,449,119
2027	998,751
2028	1,003,546
2029	1,940,808
2030	1,990,239
2031	1,251,740
2032	3,713,690
	<u>13,147,325</u>

Included in deferred income tax assets is \$27,060,907 of cumulative foreign resource expenses for Canadian income tax purposes which can be carried forward indefinitely and used to reduce future taxable income in Canada. Certain of these non-capital losses and the cumulative foreign resource expenses are related to the Company's exploration activities in China.

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11. Related party transactions

(a) Funding of Foshan Minco

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

Minco China received government approvals to increase its registered capital during 2011. On June 9, 2011, the Company advanced US\$10 million to Minco China via Minco Gold for the purpose of increasing the registered capital of Foshan Minco.

In August 12, 2011, the Company, Minco Gold and Minco China entered into a trust agreement in which Minco Gold and Minco China confirmed that they received the US\$10 million and Minco China was required to exchange these US fund into RMB in order to increase Foshan Minco's registered share capital. Once all the funds are transferred from Minco China to Foshan Minco, the trust agreement is effectively settled and no repayment is expected by Minco Silver from Minco China.

As at December 31, 2011, Minco China had paid RMB 12 million (\$1,922,400) as a prepayment to effect the foreign currency exchange from US funds to RMB and the amount was recorded as a prepaid expense. During the year ended December 31, 2012, Minco China also paid or accrued consultancy fees of 3.5% of the equivalent RMB exchange which was a total of RMB 2,274,906 (\$359,757) (December 31, 2011 - \$nil, December 31 2010 - \$nil) to Beijing Guofufengtian Investment Advisory Company Limited ("BGI"), a third party. BGI assisted in the completion of the currency exchange of the US\$10 million into RMB. The fee was recorded as other expenses together with relevant sales taxes of RMB 62,211 (\$9,838) (December 31, 2011 - \$nil, December 31 2010 - \$nil).

During the year ended December 31, 2012, Minco China invested RMB 50 million (\$7,969,143), on behalf of the Company, to increase the registered capital of Foshan Minco, repaid RMB 5,524,643 (\$871,715) to Foshan Minco and held the remaining balance of RMB 6,278,874 (\$990,468) in trust.

(b) Shared expenses

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

Amounts due from related parties as at December 31, 2012 were \$1,250,129 (December 31, 2011 – due to related parties of \$429,114) and consisted of the following:

Amount due to Minco China as at December 31, 2012 of \$1,075,820 (December 31, 2011 – \$1,167,282) representing expenditures incurred by Minco China on behalf of Foshan Minco.

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11. Related party transactions (continued)

(b) Shared expenses (continued)

Amount due from Minco Gold as at December 31, 2012 of \$2,325,949 (December 31, 2011 – \$738,168) representing funds advanced from Minco Silver to Minco Gold to support its operating activities in Canada, net of shared head office expenses.

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

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

In the year ended December 31, 2012, the Company paid or accrued \$133,153 (December 31, 2011 – \$91,210, December 31, 2010 - \$87,309) in respect of rent and \$563,879 (December 31, 2011 – \$488,229, December 31, 2010 - \$372,692) in respect of shared head office expenses and administration costs to Minco Gold.

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

(c) Key management compensation

In the years ended December 31, 2012, 2011 and 2010, the following compensation was paid to key management. Key management includes the Company's directors and senior management. This compensation is included in development costs and administrative expenses.

	Years ended December 31,		
	2012	2011	2010
	\$	\$	\$
Cash remuneration	909,302	1,076,231	1,240,454
Share-based compensation	2,493,631	4,649,089	1,060,964
	<u>3,402,933</u>	<u>5,725,320</u>	<u>2,301,418</u>

12. Settlement of Sterling loan receivable and break fee

As of December 31, 2009, the Company had a loan receivable from Sterling Mining Company ("Sterling"), in the amount of \$8,290,441. On June 4, 2010 the Company received US\$11.7 million (\$12.1 million) from Sterling for the repayment of all amounts advanced and incurred, including the interest. The Company recognized a gain in the amount of \$1.2 million which represents the difference between the funds received and the amount recorded as loan receivable immediately prior to the receipt of the repayment.

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

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13. 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 assets and net loss is as follows:

Segment income (loss)

	Year ended December 31, 2012		
	Canada	China	Total
	\$	\$	\$
General and administration	(4,556,646)	(1,040,025)	(5,596,671)
Finance and other income (loss)	1,194,817	(274,696)	920,121
	<u>(3,361,829)</u>	<u>(1,314,721)</u>	<u>(4,676,550)</u>

	Year ended December 31, 2011		
	Canada	China	Total
	\$	\$	\$
General and administration	(6,077,515)	(596,551)	(6,674,066)
Finance and other income	703,224	-	703,224
	<u>(5,374,291)</u>	<u>(596,551)</u>	<u>(5,970,842)</u>

	Year ended December 31, 2010		
	Canada	China	Total
	\$	\$	\$
General and administration	(5,139,681)	(465,204)	(5,604,885)
Finance and other income	1,323,986	-	1,323,986
	<u>(3,815,695)</u>	<u>(465,204)</u>	<u>(4,280,899)</u>

Assets by geography

	December 31, 2012		
	Canada	China	Total
	\$	\$	\$
Current assets	57,113,081	9,810,735	66,923,816
Non-current assets	1,873	21,583,276	21,585,149
Total assets	<u>57,114,954</u>	<u>31,394,011</u>	<u>88,508,965</u>

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13. Geographical information (continued)

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

14. Commitments

- (a) The Company has commitments in respect of its portion of office leases in China and Canada, requiring minimum payments of \$761,404, as follows:

	\$
2013	468,456
2014	187,800
2015	75,168
2016	4,734
2017	4,734
2018 – 2022	<u>20,512</u>
	<u>761,404</u>

- (b) The Company has commitments in respect of the Fuwan mine design contract requiring payments of RMB 7.21 million (approximately \$1.14 million). The payments are anticipated to continue through to 2013.
- (c) The Company has commitments in respect of the Environmental Impact Assessment for the Fuwan Project and other various reports requiring payments of RMB 1.22 million (approximately \$192,000). The payments are anticipated to continue through to 2013.

15. Financial instruments and fair values

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of operations or comprehensive loss. Those categories are: fair value through profit or loss, loans and receivables, and, for liabilities, amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2012 and 2011:

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15. Financial instruments and fair values (continued)

	December 31, 2012	December 31, 2011
Loans and receivables	\$	\$
Cash and cash equivalents	22,586,298	27,574,152
Short-term investments	42,550,265	40,058,042
Receivables	148,244	674,973
Due from related parties	1,250,129	-
	<u>66,534,936</u>	<u>68,307,167</u>

	December 31, 2012	December 31, 2011
Other Financial Liabilities	\$	\$
Accounts payable and accrued liabilities	512,604	539,576
Due to related parties	-	429,114
	<u>512,604</u>	<u>968,690</u>

The carrying value of the Company's financial assets and liabilities approximate their fair value due to their short terms to maturity.

Fair value measurement

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

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

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

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

The Company has no financial assets or liabilities measured at fair value.

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 under policies approved by the board of directors. Management identifies and evaluates the financial risks. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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15. Financial instruments and fair values (continued)

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 earnings are 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\$15.1 million monetary assets at year-end. This sensitivity analysis shows that a change of +/- 10% in US\$ foreign exchange rate would have a +/- US\$1.5 million impact on net loss.

Interest rate risk

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

The Company has completed a sensitivity analysis to estimate the impact that a change in interest rates would have on the net loss of the Company. This sensitivity analysis shows that a change of +/- 100 basis points in interest rate would have a +/- \$0.6 million impact on net loss. This impact is primarily as a result of the Company holding short-term investments such as guaranteed investment certificates and as a result of the Company having cash invested in interest bearing accounts.

Liquidity risk

Liquidity risk includes the risk that the Company cannot meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements and its exploration and development plans. The annual budget is approved by the Company's board of directors. The Company ensures that there are sufficient cash balances to meet its short-term business requirements. At December 31, 2012, the Company has a positive working capital of approximately \$66.4 million and therefore has sufficient funds to meet its current operating and exploration and development obligations. However, the Company will require significant additional funds to complete its plans for the construction of the Fuwan project.

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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, 2012, the Company does not have any long-term debt and has sufficient funds to meet its current operating and exploration and development obligations. The Company has been offered, through Foshan Minco, conditional approval for a debt facility agreement in the amount of RMB 300 million (approximately \$47.3 million) from the Guangdong Branch of the Industrial and Commercial Bank of China. The main condition precedent is the receipt of the Fuwan Silver mining permit. This facility is available to be used for the construction of the Fuwan Silver Project mine.

17. Subsequent events

a) On January 28, 2013, the Company granted stock options for 1,700,000 common shares to various directors, officers and employees at an exercise price of \$1.70 per share that vest over an 18-month period from the issue date.

b) On February 1, 2013, the Company granted 560,000 restricted share units to the CEO of the Company that vest over a 12-month period from the issue date.

c) On February 18, 2013, the Company granted stock options for 200,000 common shares to an employee at an exercise price of \$1.42 per common share that vests over an 18-month period from the issue date.