

Minco Silver Corporation

Condensed Consolidated Interim Financial Statements

For the three and nine months end September 30, 2018 and 2017

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

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of condensed consolidated interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Minco Silver Corporation have been prepared by, and are the responsibility of, the Company's management. The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

Minco Silver Corporation's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

Dr. Ken Cai
President and CEO

Larry Tsang, CPA, CA
Chief Financial Officer

Vancouver, Canada

November 14, 2018

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Minco Silver Corporation

Condensed Consolidated Interim Statements of Financial Position

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

	September 30, 2018	December 31, 2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 3)	7,833,570	22,102,526
Short-term investments (note 4)	22,806,781	25,338,081
Receivables	883,270	612,140
Due from related parties (note 10)	268,309	-
Prepaid expenses and deposits	236,643	250,001
	<u>32,028,573</u>	<u>48,302,748</u>
Mineral interests (note 5)	60,515,292	61,098,589
Note receivable (note 6)	13,874,272	-
Property, plant and equipment	195,813	208,662
	<u>106,613,950</u>	<u>109,609,999</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	396,981	474,699
Due to minority shareholders of a subsidiary	333,772	164,000
Due to related parties (note 10)	30,274	27,523
	<u>761,027</u>	<u>666,222</u>
Equity		
Equity attributable to owners of the parent		
Share capital (note 9)	107,538,681	107,538,681
Contributed surplus	26,934,504	25,498,500
Accumulated other comprehensive income	4,397,305	6,530,421
Deficit	(43,760,752)	(41,767,830)
	<u>95,109,738</u>	<u>97,799,772</u>
Non-controlling interest (note 7)	10,743,185	11,144,005
Total equity	<u>105,852,923</u>	<u>108,943,777</u>
Total liabilities and equity	<u>106,613,950</u>	<u>109,609,999</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

Condensed Consolidated Interim Statements of Operations and Net Income (Loss) For the three and nine months ended September 30, 2018 and 2017

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Administrative expenses				
Audit, legal and regulatory	44,706	107,887	222,056	186,326
Amortization	11,795	16,961	39,707	55,050
Consulting	39,260	21,036	78,500	62,267
Directors' fees	22,250	22,250	75,750	72,750
Field office expenses	176,622	115,670	435,103	336,556
Investor relations	415	492	6,619	11,790
Office administration expenses	79,555	80,208	190,804	192,734
Property investigation	102,310	-	452,002	-
Rent	55,567	80,567	197,305	247,845
Salaries and benefits	99,393	111,722	247,226	400,800
Share-based compensation (note 8(b))	288,273	678,067	1,051,690	1,800,269
Travel and transportation	10,862	9,519	58,922	36,290
Operating loss	(931,008)	(1,244,379)	(3,055,684)	(3,402,677)
Finance and other income (expenses)				
Foreign exchange gain (loss)	148,575	(665,475)	797,239	(1,333,356)
Gain from disposition of subsidiaries	-	-	31,499	-
Unrealized gain (loss) on short-term investment	117,764	18,568	(769,138)	12,768
Interest income	333,170	198,890	752,601	483,288
Other income	26,585	17,854	148,268	9,057
Net loss for the period	(304,914)	(1,674,542)	(2,095,215)	(4,230,920)
Net loss attributable to:				
Shareholders of the Company	(283,451)	(1,646,051)	(1,992,922)	(4,122,874)
Non-controlling interest	(21,463)	(28,491)	(102,293)	(108,046)
	(304,914)	(1,674,542)	(2,095,215)	(4,230,920)
Loss per share - basic and diluted	(0.01)	(0.03)	(0.03)	(0.07)
Weighted average number of common shares outstanding – basic and diluted	60,246,413	60,684,023	60,246,413	60,593,338

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

Minco Silver Corporation

Condensed Consolidated Interim Statements of Comprehensive Loss For the three and nine months ended September 30, 2018 and 2017

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net income (loss) for the period	(304,514)	(1,674,542)	(2,095,215)	(4,230,920)
Other comprehensive loss				
Exchange differences on translation from functional to presentation currency	(5,131,708)	(1,933,710)	(2,431,643)	(2,917,285)
Comprehensive income (loss) for the period	<u>(5,436,622)</u>	<u>(3,608,252)</u>	<u>(4,526,858)</u>	<u>(7,148,205)</u>
Comprehensive income (loss) attributable to:				
Shareholders of the Company	(4,770,872)	(3,328,931)	(4,126,038)	(6,662,147)
Non-controlling interest	(665,750)	(279,321)	(400,820)	(486,058)
	<u>(5,436,622)</u>	<u>(3,608,252)</u>	<u>(4,526,858)</u>	<u>(7,148,205)</u>

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

Minco Silver Corporation

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the nine months ended September 30, 2018 and 2017

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

	Changes in Shareholders' Equity							
	Number of Shares	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Subtotal \$	Non-controlling interest	Total equity
Balance - January 1, 2017	60,246,413	107,216,932	22,682,099	6,795,087	(36,692,296)	100,001,822	11,318,341	111,320,163
Net loss for the period	-	-	-	-	(4,122,874)	(4,122,874)	(108,046)	(4,230,920)
Other comprehensive loss	-	-	-	(2,539,273)	-	(2,539,273)	(378,012)	(2,917,285)
Share-based compensation	-	-	2,331,723	-	-	2,331,723	-	2,331,723
Proceeds on issuance of shares from exercise of options	445,001	312,749	(118,249)	-	-	194,500	-	194,500
Balance – September 30, 2017	60,691,414	107,529,681	24,895,573	4,255,814	(40,815,170)	95,865,898	10,832,283	106,698,181
Balance - January 1, 2018	60,704,748	107,538,681	25,498,500	6,530,421	(41,767,830)	97,799,772	11,144,005	108,943,777
Net loss for the period	-	-	-	-	(1,992,922)	(1,992,922)	(102,293)	(2,095,215)
Other comprehensive loss	-	-	-	(2,133,116)	-	(2,133,116)	(298,527)	(2,431,643)
Share-based compensation	-	-	1,436,004	-	-	1,436,004	-	1,436,004
Balance – September 30, 2018	60,704,748	107,538,681	26,934,504	4,397,305	(43,760,752)	95,109,738	10,743,185	105,852,923

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

Minco Silver Corporation
Condensed Consolidated Interim Statements of Cash Flows
For the nine months ended September 30, 2018 and 2017

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

	2018	2017
	\$	\$
Operating activities		
Net loss for the period	(2,095,215)	(4,230,920)
Adjustments for:		
Amortization	39,707	55,050
Foreign exchange loss (gain)	(797,239)	1,333,356
Share-based compensation (note 8(b))	1,051,690	1,800,269
Unrealized loss (gain) on investment	767,671	(12,768)
Gain from disposition of a subsidiary	(31,499)	-
Changes in items of working capital:		
Receivables	(298,930)	(225,473)
Prepaid expenses and deposits	6,827	(6,498)
Accounts payable and accrued liabilities	(69,590)	(170,083)
Due to related parties (note 9)	(279,006)	(959,583)
Net cash used in operating activities	(1,705,584)	(1,516,650)
Financing activities		
Proceeds from a share subscription of a 51%-owned subsidiary	182,964	-
Proceeds from stock option exercises	-	194,500
Net cash generated from financing activities	182,964	194,500
Investing activities		
Proceeds from disposal of subsidiaries	6,003,150	-
Cash kept by disposed subsidiaries	(5,971,651)	-
Issuance of a promissory note	(13,874,272)	
Property, plant and equipment	(29,967)	14,825
Development costs	(654,983)	(1,038,199)
Purchase of investments in marketable securities	-	(372,823)
Purchase of short-term investments	(4,871,634)	(9,631,506)
Redemption of short-term investments	6,089,021	12,242,509
Net cash generated from (used in) investing activities	(13,310,336)	1,214,806
Effect of exchange rates on cash and cash equivalents	564,000	(1,169,000)
Decrease in cash and cash equivalents	(14,268,956)	(1,276,344)
Cash and cash equivalents - Beginning of period	22,102,526	20,195,199
Cash and cash equivalents - End of period	7,833,570	18,918,855

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

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

(Expressed in Canadian dollars, unless otherwise stated)

1. General information

Minco Silver Corporation (“Minco Silver” or the “Company”) is engaged in exploring, evaluating and developing precious metals mineral properties and projects. Minco Silver was incorporated on August 20, 2004 under the laws of British Columbia, Canada and its common shares are listed on the Toronto Stock Exchange (“TSX”) and trades under the symbol “MSV”. The Company’s registered office is 2060 – 1055 West Georgia Street, Vancouver, British Columbia, Canada.

As at September 30, 2018, Minco Gold Corporation (“Minco Gold”) owned approximately 18% (December 31, 2017 – 18%) interest in Minco Silver.

2. Basis of preparation

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

Information about subsidiaries as at September 30, 2018 is as follows:

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

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.

During the nine months ended September 30, 2018, the Company disposed the following Chinese subsidiaries:

-100% interest in Yuanling Minco Mining Ltd. (“Yuanling Minco”) was sold in an arm’s length transaction for gross proceeds of \$31,499. The main business of Yuanling was holding various non-material mineral interests that have been fully written off in prior years

-100% interest in Minco Yinyuan Co. (“Minco Yinyuan”), a treasury company, and Beijing Minco International Resources Investment Services Ltd. (“Minco International Resources”), an investment holding company, were sold to a subsidiary of Minco Base Metals Corp (Note 10) for gross proceeds of \$5,971,651. These two former subsidiaries do not hold any material mineral interests. The proceeds are approximately same as the net equity of these subsidiaries, thus no gain or loss has

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

(Expressed in Canadian dollars, unless otherwise stated)

2. Basis of preparation (continued)

been recorded.

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, 2017, 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 annual financial statements for the year ended December 31, 2017 except the adoption of IFRS 9, commencing January 1, 2018.

IFRS 9, Financial Instruments, 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 are largely carried forward from the existing requirements in IAS 39 except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

There are no impacts to the Company’s financial statements for the adoption of IFRS 9.

These condensed consolidated interim financial statements were approved by the board of directors for issue on November 14, 2018.

3. Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and term deposits with initial maturities of less than three months.

	September 30, 2018	December 31, 2017
	\$	\$
Cash	1,843,237	2,906,788
Term deposits	5,990,333	14,681,010
	<u>7,833,570</u>	<u>17,587,798</u>

As at September 30, 2018, cash and cash equivalents of \$4,663,872 (or Chinese Yuan (“RMB”) 24,808,056) (December 31, 2017 - \$15,662,255 (or RMB 81,176,416)) resided in China. Under Chinese law, cash advanced to the Company’s Chinese subsidiaries as registered share capital is maintained in the subsidiaries’ registered capital bank account. Remittance of these funds back to Canada requires approvals by the relevant government authorities or designated banks in China or both.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

(Expressed in Canadian dollars, unless otherwise stated)

4. Short-term investments

As at September 30, 2018, short-term investments consisted of the following:

	Currency	Amount (\$)	Term	Interest rate
Corporate bonds	USD	7,184,390	January 11, to November 4, 2019	2.7 % to 3.18%
Term deposit	RMB	12,322,395	6 to 12 months	1.6% to 2.10%
Term deposit	CAD	3,299,995	October 10, 2018	2.05%
		<u>22,806,780</u>		

As at September 30, 2018, short-term investments of \$12,322,398 (or RMB 65,545,273) (December 31, 2017 - \$15,441,479 (or RMB 80,032,150)) resided in China.

As at September 30, 2018, the Company invested in three corporate bonds each with face value of USD 800,000 (totaling \$3.1 million). Among the three bond investments, the bond issued by China Energy Reserve & Chemicals Group Co. (“CERCG”) with the maturity date on January 15, 2019 was default during the three months ended September 30, 2018. The Company wrote down the fair value of this bond investment in CERCG from USD802,000 (on December 31, 2017) to USD261,760 (on September 30, 2018). The total decrease in fair value of the Company’s bond investment during the nine months ended September 30, 2018 was \$769,138. The Company closely monitors the development of the bond market and will make appropriate actions when needed.

5. Mineral interests

	\$
Fuwan Silver Deposit (a)	36,300,748
Changkeng Project (c)	<u>24,214,544</u>
Total mineral interests	<u>60,515,292</u>

(a) Fuwan Silver Deposit

Minco Silver has a 90% interest in Changfu Minco, the Company’s China’s operating subsidiary and permit holder for the Fuwan Silver Project, subject to a 10% net profit interest held by GGB. There will be no distributions to or participation by GGB, until such time as Minco Silver’s investment in the project is recovered. GGB is not required to fund any expenditures related to the Fuwan Silver Project. The Exploration Permit for the Fuwan Silver Project is the Luoke-Jilinggang exploration permit, which expired on July 20, 2017, and is currently being renewed. The Mining Area Permit which defines the mining limits of the Fuwan Silver Project and restricts the use of this land to mining activities expires on April 10, 2018 and is being renewed.

Following is a summary of the capitalized development expenditures of the Fuwan Silver Project from January 1, 2018 to September 30, 2018.

Minco Silver Corporation

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

(Expressed in Canadian dollars, unless otherwise stated)

5. Mineral interests (continued)

	\$
Opening Balance – January 1, 2018	36,626,372
Consulting fees	119,155
Salaries and benefits	181,223
Share-based compensation (note 8)	192,158
Mining license application	22,954
Travel	10,591
Other	178,015
Effect of change in the exchange rate with RMB	(1,029,720)
Ending Balance – September 30, 2018	36,300,748

(b) Fuwan Silver Belt

As at September 30, 2018, the Company had two active exploration permits on the Fuwan Silver Belt: the Hecun Property and the Guyegang-Sanyatang Property. The Guyegang-Sanyatang permit expires March 17, 2019, and the Hecun permit expires on August 12, 2018 and is being renewed.

During the nine months ended September 30, 2017, the Company did not conduct any regional exploration activities on the Fuwan Silver Belt, except for maintaining the exploration permits.

(c) Changkeng Gold Project

The Company holds 51% interest in Mingzhong which owns the Changkeng Gold Project. The Changkeng Gold Project immediately adjoins the Fuwan Silver Project. The Changkeng exploration permit expires on September 10, 2019.

Development costs capitalized from January 1, 2018 to September 30, 2018 are as follow:

	\$
Opening Balance – January 1, 2018	24,472,217
Consulting	119,155
Share-based compensation (note 8)	192,158
Salaries and benefits	27,402
Other	242
Effect of change in the exchange rate with RMB	(596,630)
Ending Balance – September 30, 2018	24,214,544

The Company intends to renew all the permits when they are expired in the future. Permit renewal process is normal course for the Company's operations.

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

Minco Silver Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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

6. Note receivable

During the nine months ended September 30, 2018, the Company entered into a preliminary agreement to acquire 70% of the equity interests in Changling Longxin Mining Co., Ltd ("Longxin Mining"), a Chinese mining company which holds a 100% interest in the Longwangshan Gold Mine, located in Shuikuoshan mining district, Hunan, China. The Longwangshan Gold Mine is a fully permitted 1,000 tonne-per-day open pit mine with a mill and smelter on site. The estimated purchase price for the 70% equity interest in Longxin Mining under the preliminary agreement is a range of 147-168 million RMB (approximately \$28-32 million).

Under the preliminary agreement, the Company, through its wholly owned Chinese subsidiary, Minco China, has exclusive rights to acquire 70% of the equity interests in the Longwangshan Gold Mine. The preliminary agreement was negotiated between the Company and the existing shareholders of Longxin Mining on an arms-length basis. The Company is conducting a full due diligence review of Longxin Mining and the Longwangshan Gold Mine, including a drilling program to verify the reserves and resources of the mine. In conjunction with the proposed acquisition,

Minco China also entered a loan agreement with Longxin Mining and its shareholders pursuant to which Minco China has provided the shareholders of Longxin Mining with a convertible loan of \$13,874,272 (or 73.8 million RMB) (the "Note"). The term of the Note is six months and bears interest at the rate of 10% per annum. The Note is fully secured by Longxin Mining shareholders' 100% equity interest in Longxin Mining and all assets of the Longwangshan Gold Mine. In addition, the Note has been fully guaranteed by the shareholders of Longxin Mining and a significant real estate company controlled by them. If the results of the due diligence program are positive and the Company decides to proceed with the acquisition, the Note will be converted into equity in Longxin Mining and thereby credited towards the purchase price. If the Company decides not to proceed with the acquisition, then the Note, together with all accrued interest, shall be repaid in full. Further announcements with respect to the acquisition, the Longwangshan Gold Mine and the final purchase price will be made following the completion by the Company of its due diligence investigation, expected to be completed in the fourth quarter of 2018.

7. Non-controlling interest ("NCI")

Below is a summary of the financial information of Mingzhong that holds the NCI:

Summarized statement for financial position

	September 30, 2018	December 31, 2017
	\$	\$
NCI percentage	49%	49%
Current assets	496,096	291,755
Current liabilities	(971,754)	(554,576)
Net current assets (liabilities)	(475,658)	(262,821)
Non-current asset	23,355,463	23,948,038
Net assets	22,879,805	23,685,217
Accumulated NCI	10,743,185	11,144,005

Minco Silver Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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

7. Non-controlling interest (Continued)

Summarized income statement

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net loss	43,802	58,141	208,761	220,844
Loss allocated to NCI (49%)	21,463	28,491	102,293	108,046

Summarized cash flows

	Nine months ended September 30,	
	2018	2017
	\$	\$
Cash out flows from operating activities	96,527	(229,238)
Cash inflow from financing activities	182,964	-
Cash out flows from investing activities	(27,369)	(87,498)

During 2017, Mingzhong initiated equity financing to raise capital to finance its operations and has received the following from its shareholders:

During the nine months ended September 30, 2018, its minority shareholders paid \$169,772 for the subscription. The equity financing is not completed as of the date of this report.

8. Investments

During the nine months ended September 30, 2018, the Company did not invest in the common shares of public companies from open market.

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

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.

Minco Silver Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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

9. Share capital (continued)

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

Stock Options

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

During 2017, the Company granted stock options to employees, consultants and directors for the purchase of 4,000,000 common shares at an exercise price of \$1.40 per common share. These options vest over an 18 month period from the grant date and expire on February 19, 2022.

During the nine months ended September 30, 2018, the Company granted 1,968,000 stock options to purchase common shares to employees, consultants and directors at an exercise price of \$0.69 per common share. These options vest over an 18 month period from the grant date and expire on February 14, 2023.

The Company recorded \$1,243,035 of the option component of share-based compensation for the nine months ended September 30, 2018 (2017 - \$2,188,328). Share-based compensation of \$985,115 (2017 - \$1,750,642) was recorded in the statement of operations and \$257,919 (2017 - \$437,686) was capitalized to the mineral interests.

A continuity of the options outstanding is as follows:

	Number outstanding	Weighted average exercise price \$
Balance, January 1, 2017	4,280,672	1.43
Granted	4,000,000	1.40
Exercised	(458,335)	0.44
Expired	(1,415,000)	2.34
Forfeited	(257,000)	1.63
Balance, December 31, 2017	<u>6,150,337</u>	1.27
Granted	1,968,000	0.69
Expired	(812,000)	1.70
Forfeited	(210,000)	1.35
Balance, September 30, 2018	<u>7,096,337</u>	1.06

During nine months ended September 30, 2018, the weighted average share price on the day options were exercised was \$Nil (2017 - \$1.33). As at September 30, 2018, there were \$230,844 (December 31, 2017 - \$568,722) of total unrecognized compensation costs relating to unvested options.

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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

9. Share capital (continued)

Options outstanding				Options exercisable		
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$			\$			\$
0.42 – 0.50	673,337	1.97	0.42	673,337	0.42	
0.51 – 0.69	1,953,000	4.38	0.69	650,993	0.69	
0.70 – 0.81	665,000	0.31	0.80	665,000	0.80	
0.82 – 1.40	3,805,000	3.39	1.40	3,805,000	1.40	
	7,096,337	3.24	1.06	5,794,330	1.14	

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

	2018	2017
Risk-free interest rate	1.16%-2.09%	0.66%-1.16%
Dividend yield	0%	0%
Volatility	77% - 79%	75% - 79%
Forfeiture rate	23%	24%
Estimated expected lives	5 years	5 years

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

Performance share units ("PSU")

A summary of the PSUs outstanding is as follows:

	Number outstanding	Fair value per unit
		\$
Balance, January 1, 2018	1,000,000	1.40
Forfeited	(50,000)	1.40
Balance, September 30, 2018	950,000	1.40

Minco Silver Corporation

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9. Share capital (continued)

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

Upon satisfaction of the Performance Criteria over the three-year performance cycle ended February 20, 2020, Each PSU represents one common share of the Company on vesting

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

During the nine months ended September 30, 2018 the Company recorded \$192,969 (2017 - \$143,395) of share-based compensation to account for the vesting of PSUs. Share-based compensation of \$66,574 was recorded in the statement of operations (2017 - \$49,627) and \$126,395 was capitalized to the Fuwan Silver Deposit and the Changkeng Project (2017 - \$93,768) (Note 7 (a) and 7 (c)).

10. Related party transactions

(a) Shared expenses

Minco Silver and Minco Base Metals Corporation (“MBM”), a company with which the Company’s CEO has significant influence over, share offices and certain administrative expenses.

(b) Due to and due from related parties

	September 30, 2018	December 31, 2017
	\$	\$
Due from MBM (i)	268,309	-
Due to Minco Gold (ii)	30,274	27,523
Due to minority shareholders of a subsidiary (iii)	333,772	164,000

(i) This was the operating and shared expenses paid by the Company on behalf of MBM that is to be reimbursed.

(ii) The amount of \$30,274 was the share expenses to be reimbursed to Minco Gold.

(iii) As at September 30, 2018, the Company received \$333,772 (December 31, 2017 - \$164,000) from the minority shareholders of Mingzhong, a Chinese subsidiary that the Company has approximately 51% ownership. The increase of share capital of Mingzhong was not completed on September 30, 2018.

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

Minco Silver Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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

10. Related party transactions (continued)

During the three months ended September 30, 2018, the Company paid or accrued 13,383 (September 30, 2017 – \$26,911) in respect of rent and \$78,804 (September 30, 2017 – \$64,375) in respect of shared head office expenses and administration costs to Minco Gold.

During the nine months ended September 30, 2018, the Company paid or accrued \$42,341 (September 30, 2017 – \$80,081) in respect of rent and \$223,848 (September 30, 2017 – \$239,447) in respect of shared head office expenses and administration costs to Minco Gold.

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

(d) Key management compensation

During the three and nine months ended September 30, 2018 and 2017, the following compensation was paid and accrued to key management. Key management includes the Company's directors and senior management. This compensation has been included administrative expenses and the Company's mineral interests (note 5).

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash remuneration	159,730	168,291	502,847	494,321
Share-based compensation	287,222	577,696	1,101,741	1,623,605
	<u>446,952</u>	<u>745,987</u>	<u>1,604,588</u>	<u>2,117,923</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 assets is as follows:

	Canada	China	Total
September 30, 2018:	\$	\$	\$
Current assets	14,052,610	17,975,963	32,028,573
Non-current assets	38,139	74,547,238	74,583,377
December 31, 2017:			
Current assets	16,519,308	31,783,440	48,302,748
Non-current assets	4,964	61,302,287	61,307,251

Minco Silver Corporation

Notes to the Condensed Consolidated Interim Financial Statements

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

12. Financial instruments and fair value measurements

The following table shows the carrying values of the Company's financial assets and liabilities as at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Financial assets at amortized cost:	\$	\$
Cash and cash equivalents	7,833,570	22,102,526
Short-term investments	22,806,781	25,338,081
Receivables	883,270	612,140
Due from related parties	268,309	-
Financial liabilities at amortized cost:		
Due to minority shareholders of a subsidiary	333,772	164,000
Due to related parties	30,274	27,523
Accounts payable and accrued liabilities	396,981	474,699

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

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

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

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

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

The Company did not have financial assets measured at fair value through profit and loss on September 30, 2018.