

# **NEW PACIFIC METALS CORP.**

## **Management's Discussion and Analysis**

**For the three and nine months ended March 31, 2013**

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

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### **DATE OF REPORT: May 10, 2013**

*Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected New Pacific Metals Corp. and its subsidiaries' ("New Pacific" or the "Company") performance and such factors that may affect its future performance. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended March 31, 2013 and the related notes contained therein. In addition, the following should be read in conjunction with the audited consolidated financial statements for year ended June 30, 2012, the related MD&A, and the Annual Information Form (available on SEDAR at [www.sedar.com](http://www.sedar.com)). The Company reports its financial position, financial performance and cash flow in accordance with International Financial Reporting Standards ("IFRS"). The Company's significant accounting policies are set out in Note 2 of the unaudited condensed consolidated interim financial statements ended March 31, 2013 as well as Note 2 to the audited consolidated financial statements for the year ended June 30, 2012.*

### **FORWARD LOOKING STATEMENTS**

*Except for statements of historical fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", and other similar words, or statements that certain events or conditions "may" or "will" or "can" occur. Forward-looking statements are based on the opinions and estimates of management on the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the exploration, development, and mining of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors described in this report. There can be no assurance that such forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on such statements. Except as required by applicable securities laws, the Company expressly disclaims any obligation to update any forward-looking statements or forward-looking statements that are incorporated by reference herein.*

*Additional information relating to the Company can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com), and on the Company's website at [www.newpacificmetals.com](http://www.newpacificmetals.com).*

### **BUSINESS STRATEGY**

The Company's strategy is to build shareholder value through discovery and resource development in China and Canada. New Pacific Metals Corp.'s current projects are the Tagish Lake Gold Property in Yukon, Canada and RZY Silver-Lead-Zinc project in Qinghai, China.

The Company is a reporting issuer in British Columbia, Alberta, Manitoba, Ontario, and Quebec, and trades on the Toronto Stock Exchange under the symbol NUX.

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### PROJECTS OVERVIEW

#### 1. Tagish Lake Gold Property

In December 2010, the Company completed the acquisition of 100% of the Tagish Lake Gold Property through the acquisition of Tagish Lake Gold Corp. ("TLG"). TLG is a wholly owned direct subsidiary of the Company. The Tagish Lake Gold Property is located 80 kilometres by road south of Whitehorse, Yukon, Canada, and consists of 1,510 mineral claims covering approximately 254 square kilometres. Within the property, three geographically distinct projects have been identified: the Skukum Creek, Goddell, and Mt. Skukum projects.

On September 14, 2012, the Company filed an updated National Instrument 43-101 ("NI 43-101") report for the Skukum Creek, Goddell and Mt. Skukum projects. The undiluted Indicated mineral resources at the Tagish Lake Gold Property are 1,416,500 tonnes grading 6.14 g/t gold and 122 g/t silver, representing 390,810 ounces of gold and gold-equivalent silver (50:1 silver to gold ratio). In addition, undiluted Inferred mineral resources total 1,160,400 tonnes grading 6.09 g/t gold and 54 g/t silver, representing 267,223 ounces of gold and gold-equivalent silver.

#### *Exploration Progress*

Since the acquisition of the Tagish Lake Gold Property in December 2010, the Company has had only one exploration season that commenced on May 18, 2011 and ended on October 9, 2011.

On February 23, 2012, TLG received a five year exploration permit known as a "Mining Land Use Approval," under the *Quartz Mining Act*, Yukon, Canada; the exploration permits allows the following activities:

- up to 165,000 metres of surface and underground drilling;
- up to 10,000 cubic metres of sampling and trenching;
- up to the 200,000 tonnes of rock excavation during the period, of which 100,000 tonnes may be mined in any single year;
- construction of 10 kilometres of new single lane surface roads and an additional 9 kilometres of drill trails; and
- up to a 50 person camp and associated facilities operating year round.

The exploration permit is subject to the payment by the Company of a security deposit for reclamation work of the Tagish Lake Gold Property. Currently, the Company and Yukon government regulatory authorities are working together to finalize the determination of such security deposit; the Company is hopeful that a final resolution will be effected in mid-2013. The Company has retained external financial advisors to examine all strategic alternatives for the Tagish Lake Gold Property.

As of the date of this MD&A, the summary of exploration progress of the Tagish Lake Gold Property is as follows:

#### *(a) Skukum Creek*

Skukum Creek is a mesothermal quartz-sulphide vein type gold-silver deposit hosted in Cretaceous granodiorite. The deposit consists of several separate subparallel sub-vertical mineralized veins, of which the prominent one is called the Rainbow Zone. Historically from 1985 to 2008, a total of 348 diamond

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drill holes were completed with a total metreage of 44,097 core, plus a total of 4,050 metres of underground tunnel development. In the summer of 2011, underground drilling was carried out at the south end of Xcut-3 of the 1,300m level, targeting an area about 150 metres long by 60 metres wide of the Rainbow Zone near the bottom of the 1,225m level ramp. A total of 1,709.3 metres in 14 holes was drilled from July 23 to August 19, 2011 with one hole abandoned. Assay results from the 2011 underground drilling confirmed mineralization of the Rainbow Zone that was evidenced by historical drillholes: hole 86-R8 which yielded 2.95m at 30.01 g/t gold and 603.55 g/t silver; and hole 87-UG17R which had 25.6m at 11.24 g/t gold and 291.78 g/t silver, including 8.29m at 28.19 g/t gold and 748.54 g/t silver.

In addition to the underground drill program, a surface deep drill program was completed in the summer of 2011 aiming to target the downdip extension of the Rainbow Zone. A total of six holes were completed totalling 3,169 meters. The deepest mineralization hit in 2011 surface drill holes is about 450 meters from surface, meaning that the mineralization zone is expanded about 100 meters down-dip from the limit outlined by historical drilling. The mineralization zone still remains open at further depth and on strike.

The Raca prospect is located along the northeast structural extension of the Skukum Creek mineralization zones (Rainbow Zone), and the Chieftain Hill site is located at the northeast extension of the Raca prospect. Mineralization at Raca is characterized by quartz-sulphide veins and breccia containing high grade silver, hosted along the contacts of a rhyolite dyke with volcanics in the hanging wall, and Cretaceous K-feldspar megacrystic Bennett granite in the footwall.

Typically at Raca, lower gold and based metal grades but higher silver grades are seen. Four holes were historically drilled totalling 1,050.34 metres in 1986 and 1997, with the best intercept of 3.61m at 2.66g/t gold and 561.37g/t silver from hole RACA97-1. Drilling in 2011 at Raca was designed to test the depth extension and strike extent of known mineralization zone for which approximately 3,900 metres of core drilling was planned at the beginning of the year. Drilling started on June 26, 2011 and terminated on July 31, 2011. A total of five holes totalling 1,251.45 metres was drilled with two holes completed to planned depth, and the rest abandoned due to down-hole problems such as thick overburden and fault zones in a tuffaceous andesite unit. Both of the two completed holes intersected mineralization zones at expected depth; the first hole, Raca11-01, intersected a new zone (referred to as Zone 1) of high grade silver in the hanging wall volcanics.

#### ***(b) Goddell***

Goddell is a shear zone hosted gold deposit, in a five kilometre strike length structure, associated with fine disseminated sulphides in altered andesite and rhyolite dykes, breccias and quartz monzonite. From 1987 to 2004, substantial drilling was completed by previous owners to define an area of the shear structure with a strike length of approximately 1,000 metres to a depth extent of 600 metres from surface, yielding some very wide gold intercepts. The summary of completed historical work includes 77 diamond drill holes totalling 20,722 metres plus 780 metres of underground decline development.

In 2011, the Company planned an underground drill program at Goddell aimed at testing the down dip extension of the PD zone known as the "Merged Zone"; the current geological interpretation points to a merging of the Goddell Gully Zone with the PD Zone. Due to ground conditions encountered in the decline during dewatering, surface drilling was carried out in place of underground drilling. Three drill holes were completed to the planned depth: these holes consistently intersected the anticipated wide "Merged Zone" of disseminated sulphide mineralization, characterized by fine disseminated pyrite and

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fine acicular arsenopyrite, overprinted by minor stibnite and quartz veinlets. However, some holes failed to reach the target depth due to faults and drilling performance. Such results confirmed the previously determined wide gold intercepts that look promising for large "bulk-mining" sized stopes, envisioned for a future potential mining operation. The drilled section accounts only for a small strike sector of the five kilometres long mineralized Goddell shear structure.

#### **(c) Mt. Skukum**

Mt. Skukum is a high-level low-sulfidation epithermal gold deposit characterized by high-grade auriferous quartz-calcite-adularia veins, hosted in Tertiary andesitic volcanic rocks. The deposit hosts multiple mineralized veins. The historic Mt. Skukum Gold Mine extracted 233,400 tons of ore from 1986 to 1988, producing 77,790 ounces of gold from the Main Cirque Vein, which is one of the veins related to this system.

In the 1980's, drilling and underground development were completed at the Lake Vein, as well as other veins. The Company reviewed the historical exploration data and concluded that the deposit was not adequately explored. Consequently, the Company initiated a surface drilling program at the Lake Vein in the summer of 2011, aiming to confirm the high-grade nature of the mineralization, to infill drill the gap areas of historical data, and to define potential step-outs of the high grade pockets demonstrated by historical drilling. Drilling occurred between September 8, 2011 and October 1, 2011. 16 holes were completed totaling 2,482 metres. Stockwork vein zones of quartz-calcite-adularia veins of various widths were intersected. The Company is planning future drilling to fully explore the potential of the deposit, and to fully define and estimate these potential additional resources.

#### **(d) Summary of exploration work**

Exploration activities in 2011 are summarized in the table below.

	Holes	Metres
Surface drilling	37	10,778.47
Underground drilling	14	1,709.30
<b>Sub-total</b>	<b>51</b>	<b>12,487.77</b>
Surface mapping	1.8 square kilometres at Raca-Chieftain Hill	
Surface sampling	293 rock chip samples, 25 grab samples, 180 soil samples and 2 talus samples	
Supplementary core sampling	314 samples from 50 holes	
Road repair and construction	32.3 kilometres of road repaired; and 2.46 kilometres new road constructed	
Underground de-watering and refurbishment	460 metres	
Water sampling	348 samples	
Staking	571 claims	
Image processing	276 square kilometres	

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### **2. RZY Silver-Lead-Zinc Project**

In December 2012, the Company signed a binding letter of agreement (the "Agreement") with Silvercorp Metals Inc. ("Silvercorp") to acquire 80% of the interest in the RZY Silver-Lead-Zinc Project ("RZY Project") held by Silvercorp's subsidiary, Fortress Mining Inc. ("FMI"). Pursuant to the terms of the Agreement, the Company will pay US\$3.5 million for the initial 80% of FMI's interest in the RZY Project, with an option to acquire the remaining 20% within two years for US\$5 million after the Company has spent US\$15.9 million on the project. The initial payment of US\$3.5 million was completed on March 28, 2013.

In 2007 FMI and the Qinghai Geological Survey Institute ("QGS") established a Sino-Foreign Co-Operative Company; Qinghai Found Mining ("QFM"), with a term of 30 years. FMI owns an 82% interest and QGS owns an 18% carried interest in QFM. In April 2011, QFM entered into an exploration agreement with its shareholder, QGS to jointly explore its RZY Project, an early stage exploration project located in Qinghai Province, China (collectively, the "Exploration Agreement"). The major terms of the agreement are:

- The RZY project exploration permit is held by QGS. QFM has a 67% interest in the RZY Project by funding exploration and drilling in 2012.
- The exploration permit will be transferred to QFM when one of two events occur (1) QFM completes funding of RMB30 million (US\$4.8 million) on RZY project exploration or capital expenditures; or (2) the RZY project matures to a development stage project. Once transferred; QFM will have a 100% interest in the RZY project, giving FMI an 82% interest in the project.
- QFM, funded 100% by FMI; is then committed to invest an additional RMB170 million (US\$27.2 million) on RZY project exploration and capital expenditures to have a total investment of RMB200 million (US\$32.0 million) in exploration and capital expenditures on the RZY project.
- If QFM does not fund the required exploration and capital expenditures, the Exploration Agreement will be terminated while QFM maintains its interest in the Project.

To date, pursuant to the Exploration Agreement, FMI has invested approximately US\$3.5 million in QFM and QFM has spent US\$1.5 million on exploration and development expenditures in the RZY Project.

The TSX has approved the RZY transaction subject to the approval by the disinterested shareholders of the Company.

#### ***RZY Project Location, Background, and Geological Exploration***

The RZY project is an early stage silver-lead-zinc exploration project, situated on a high plateau with an average elevation of 5,000 metres above sea level. The RZY project is located approximately 237 kilometres via paved and gravel roads from the capital city of Yushu Tibetan Autonomous Prefecture, or 820 kilometres via paved highway from Qinghai Province's capital city of Xining. Regular commercial flights are available from Xining to Yushu.

Known mineralization is silver-lead-zinc veins controlled by altered structure zones developed in the lower Permian marine clastic sediments. Multiple silver-lead-zinc mineralized zones, are hosted in an altered structure zone with a strike extent of 6.5 kilometres and width of 25 to 100 metres have been identified by historical surface work conducted by Qinghai Geological Survey Institute including trenching, pitting, geology mapping and geophysics surveying. The geochemical profile indicated that the silver-lead-zinc mineralization is in situ, not floats of dispersion from sources in the surrounding mountainous area. The

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soil geochemical anomaly also indicated there could be another mineralized zone to the north in a flat area about one kilometre from the mountains. Historical assay results of trench, pit sampling and limited drilling also indicated the presence of high grade silver-lead-zinc mineralization at the RZY Project.

In 2012, seven trenches were completed by RZY's previous owner and assay results from the trenches confirmed the presence of high grade silver-lead-zinc mineralization as indicated by the historical results (see the Company's news release dated December 21, 2012). To test the potential depth of the mineralization exposed by surface workings, over 890 metres in five drill holes was drilled in 2012. The assay results of the drill core samples indicated that the mineralization occurs in the major east-west structural zones and continues at depth, although the width and grades of the drill intercepts were inferior to the results of the surface trenches and pits. Nevertheless, the Company believes there is enough evidence to justify continued exploration at the Project in 2013.

#### Exploration Outlook

In 2013, the Company plans to conduct 10,000 metres of surface diamond drilling to test the extent of the known mineralized zones and to develop a better understanding of the nature of the mineralization. The Program also includes the completion of a surface grid soil survey and a geophysics survey to define future drill targets. The budget for the Program is \$3 million. The Company is currently sourcing drilling equipment and preparing other resources necessary to execute the Program.

Alex Zhang, P.Geo., Vice President Exploration of the Company, is a Qualified Person pursuant to NI 43-101 and has reviewed and given consent to the technical information in this MD&A.

#### Exploration Expenditures

The following table summarizes the exploration expenditures of the Company for the nine months ended March 31, 2013:

Cost	Tagish Lake	RZY Project	Total
Balance, June 30, 2012	37,084,565	-	37,084,565
Acquisition of mineral property interest (Note 3)		2,618,838	2,618,838
<u>Capitalized exploration expenditures</u>			
Reporting and assessment	42,429	-	42,429
Drilling and assaying	-	22,818	22,818
Staking and mapping	39,485	-	39,485
Geophysical and geochemical surveys	-	-	-
Camp services	-	-	-
Site preparation	-	-	-
Permitting	1,335	-	1,335
Environmental study	16,035	-	16,035
Care and maintenance	338,724	-	338,724
Other	161,013	-	161,013
Foreign currency translation impact	-	(199)	(199)
<b>Balance, March 31, 2013</b>	<b>\$ 37,683,586</b>	<b>\$ 2,641,457</b>	<b>\$ 40,325,043</b>

During the three and nine months ended March 31, 2013, a total of \$213,698 and \$621,640, respectively, of exploration expenditures were incurred in Tagish Lake Gold property and the RZY Project (three and nine months ended March 31, 2012 – \$441,435 and \$5,989,956).

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### RESULTS OF OPERATIONS

For the three months ended March 31, 2013, the Company reported net income attributable to the equity holders of \$8,049 or \$0.0001 per share, compared to loss of \$922,170 or \$0.014 per share in the same prior year period.

For the nine months ended March 31, 2013, the Company incurred a loss attributable to the equity holders of \$1,448,313 or \$0.022 per share, compared to loss of \$1,074,118 or \$0.016 per share in the same prior year period.

The change is mainly due to fluctuations in foreign exchange rates as the Company holds a significant portion of US dollars. In the current period, the Company has no significant source of income as the Company is still in the process of developing its mining properties.

#### 1. Expenses

**Audit and accounting fees** for the three months ended March 31, 2013 were \$15,440 compared to \$1,855 in the same prior year period. For the nine months ended March 31, 2013, audit and accounting fees were \$43,834 compared to \$82,808 in the same prior year period.

The overall higher audit and accounting fees incurred in the prior year were due to additional services related to the conversion to IFRS.

**Consulting fees** for the three months ended March 31, 2013 were \$46,520 compared to \$24,500 in the same prior year period. For the nine months ended March 31, 2013, consulting fees were \$108,520 compared to \$60,500 in the same prior year period.

The overall higher consulting fees incurred in the current year is due to the additional consulting services required for acquisition of the RZY Project and having two routine consultants compared to one in the prior year.

During the fiscal period, the Company capitalized \$11,550 of consulting fees to mineral property interests, as one of the consultants solely worked on the TLG Project.

**Filing and listing fees** for the three months ended March 31, 2013 were \$30,039 compared to \$9,387 in the same prior year period. For nine months ended March 31, 2013, filing and listing fees were \$134,109 compared to \$44,476 in the same prior year period.

The increased filing and listing fees incurred in the current year were due to the Company transferring its listing from the TSX Venture Exchange in the prior fiscal year to the TSX in the current fiscal year.

**Foreign exchange gain** was \$405,266 and a loss of \$98,306 for three and nine months ended March 31, 2013, respectively. For the three and nine months ended March 31, 2012, foreign exchange loss was \$371,881 and a gain of \$733,774, respectively.

As the Company holds a large portion of cash and cash equivalents in US dollars, the fluctuation in exchange rates between the US dollar and Canadian dollar will impact the financial results of the Company.

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**General exploration expense** for the three and nine months ended March 31, 2013 was \$11,858 and \$121,031, respectively, compared to \$nil and \$nil in the same prior year periods. General exploration expense consist of preliminary project prospecting expenses such as drilling, assaying, and travelling as the Company explored other strategic alternatives. No such expenses were incurred in the prior year as the Company was only developing the TLG project.

**Investor relations expense** for the three months ended March 31, 2013 was \$15,885 compared to \$62,004 in the same prior year period. For nine months ended March 31, 2013, investor relations expense was \$31,028 compared to \$387,172 in the same prior year period.

The decrease in Investor Relations expense compared to the prior year is due to the Company reducing Investor Relations activities during the current fiscal period.

**Legal and professional fees** for the three months ended March 31, 2013 were \$20,517 compared to \$46,425 in the same prior year period. For nine months ended March 31, 2013, legal and professional fees was \$65,171 compared to \$67,968 in the same prior year period.

The current period increase is due to external consultations made in connection with legal matters in the normal course of business.

**Salaries and benefits expense** for the three months ended March 31, 2013 was \$122,141 compared to \$175,265 in the same prior year period. For nine months ended March 31, 2013, salaries and benefit expense was \$444,770 compared to \$423,851 in the same prior year period.

The overall increase was mainly due to geologist salaries no longer being capitalized as the Tagish Lake Gold Property remained in care and maintenance during the period. As such, geologist salaries were expensed in the current period, whereas they were capitalized in the prior year. This increase is offset by the overall reduction of administrative and geologist staff at the Company as compared to the prior year.

**Office and administration expense** for the three months ended March 31, 2013 was \$38,913 compared to \$66,953 in the same prior year period. For the nine months ended March 31, 2013, office and administration expense was \$94,938 compared to \$259,565 in the same prior year period.

The decrease was due to the reduction of corporate and operational activities in Tagish Lake Gold Property as it remained in care and maintenance in the current period.

**Rent expense** for the three months ended March 31, 2013 was \$33,647 compared to \$54,386 in the same prior year period. For nine months ended March 31, 2013, rent expense was \$130,674 compared to \$158,324 in the same prior year period.

**Travel and promotion expense** for the three months ended March 31, 2013 was \$39,001 compared to \$38,319 in the same prior year period. For nine months ended March 31, 2013, travel and promotion expense was \$54,708 compared to \$93,446 in the same prior year period.

The overall decrease pertains to the reduction of corporate promotional activities in the current period.

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**SUMMARY OF QUARTERLY RESULTS**

	<b>For the Quarters Ended</b>			
	Mar 31, 2013	Dec 31, 2012	Sept 30, 2012	Jun 30, 2012
Income (expenses)	\$ (93,030)	\$ (342,534)	\$ (1,193,457)	\$ 14,583
Other income (expenses)	92,206	45,465	34,164	(183,961)
Net income (loss) attributable to equity holders of the Company	8,049	(297,069)	(1,159,293)	(169,378)
Basic and diluted earning (loss) per share	0.00	(0.00)	(0.02)	(0.00)
Total assets	69,308,714	68,487,638	68,874,277	69,950,306

	<b>For the Quarters Ended</b>			
	Mar 31, 2012	Dec 31, 2011	Sept 30, 2011	Jun 30, 2011
Income (expenses)	\$ (956,174)	\$ (1,101,132)	\$ 878,610	\$ (824,848)
Other income (expenses)	34,004	65,009	5,565	83,094
Income (loss) from continuing operations	-	(1,036,123)	884,175	(741,754)
Income (loss) from discontinued operations	-	-	-	581,406
Net income (loss) attributable to equity holders of the Company	(922,170)	(1,036,123)	884,175	(203,246)
Basic and diluted earning (loss) per share from continuing operations	(0.01)	(0.02)	0.01	(0.01)
Basic earnings (loss) per share from discontinued operations	-	-	-	0.01
Diluted earnings (loss) per share from discontinued operations	-	-	-	0.01
Total assets	70,051,077	70,988,314	73,146,976	71,676,694

The expenses incurred by the Company are typical of junior exploration companies that have not yet established mineral reserves. The Company's fluctuations in expenditures from quarter to quarter were mainly related to exploration activities and corporate activities conducted during the respective quarter. The fluctuation of other income and expenses from quarter to quarter is mainly attributed to interest income which fluctuate along with the changes of interest rates and the balances of cash and cash equivalents and short term investments.

**LIQUIDITY AND CAPITAL RESOURCES**

**1. Working Capital**

As at March 31, 2013, the Company had a working capital position of \$26,303,506 (June 30, 2012 - \$29,997,684) comprised mainly of cash and cash equivalents of \$11,478,834 (June 30, 2012 - \$22,527,940), and short term investments of \$15,314,500 (June 30, 2012 - \$8,080,500) offset by current liabilities of \$795,627 (June 30, 2012 - \$874,781).

**2. Cash Flows**

**Cash used in operating activities** for the three months ended March 31, 2013 was \$332,335 (three months ended March 31, 2012 – used \$587,997), which mainly resulted from net loss, after items not affecting cash of \$359,627, compared to \$445,090 in the same prior year period. Changes in non-cash working capital for the three months ended March 31, 2013 has provided \$27,292 compared to \$142,907 used in the same prior year period.

During the nine months ended March 31, 2013, cash used in operating activities was \$994,265 (nine months ended March 31, 2012 - used \$1,440,424), which mainly resulted from net loss, after items not affecting cash of \$1,134,715, compared to \$1,472,471 in the same prior year period. Changes in non-cash working capital for the nine months ended March 31, 2013 provided \$140,450 compared to \$32,047 provided in the same prior year period.

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**Cash used in investing activities** for the three months ended March 31, 2013 was \$17,396,465 (three months ended March 31, 2012 – used \$404,512), which mainly resulted from net purchase of short term investment for \$15,234,000 and acquisition of the net assets of FMI & QFM (net of cash acquired) for \$2,017,474. In the same prior year period, investing activities was resulted from capital expenditures on mineral property interests and equipment of \$404,512.

During the nine months ended March 31, 2013, cash used in investing activities was \$9,691,467 (nine months ended March 31, 2012 – provided \$1,698,929), which mainly resulted from net purchase of short term investments of \$7,234,000 and acquisition of the net assets from FMI & QFM (net of cash acquired) for \$2,017,474. In the same prior year period, investing activities is mainly attributable to net redemption is short term investment of \$7,942,500 offset by capital expenditures on mineral property interests and equipment of \$6,243,571.

**Cash used in financing activities** for the three months ended March 31, 2013 was \$122,692 (three months ended March 31, 2012 – provided \$165,027), which mainly resulted from cash paid for share buyback of \$108,608 and movement in the due to related parties account of \$14,084. In the same prior year period, the amount was resulted from movement in the due to related parties account of \$160,027 and shares issued for cash of \$5,000.

During the nine months ended March 31, 2013, cash used in financing activities was \$268,434 (nine months ended March 31, 2012 - provided \$120,224), which mainly resulted from cash paid for share buyback of \$252,084 and decrease in related parties account for \$28,850, offset by shares issued for cash of \$12,500. In the same prior year period, the amount was a result from increase in the due to related parties account of \$95,566 and shares issued for cash of \$24,658.

**Foreign exchange effect** was positive \$408,667 and negative \$371,881 for the three months ended March 31, 2013 and 2012, respectively. The foreign exchange effect was negative \$94,940 and positive \$733,774 for the nine months ended March 31, 2013 and 2012, respectively. Foreign exchange effect is mainly due to the period end translation of US and Chinese denominated funds that the Company holds.

### 3. Liquidity and Capital Resources

As at March 31, 2013, the Company had working capital of \$26,303,506 which mainly was derived from net proceeds of \$23.2 million from the private placement in December 2010 and net proceeds of \$19.2 million from the disposition of its Chinese subsidiary in March 2011. Management believes that the Company has sufficient funds for planned capital expenditures, as well as to discharge liabilities as they come due.

The Company is in the exploration stage and does not generate revenues. The Company relies on equity or debt financing for its working capital requirements and to fund its exploration activities.

On March 28, 2013, the Company paid US\$3.5 million to finalize the acquisition of 80% interest in the RZY Project. The Company has the option to acquire the remaining 20% within two years for an additional consideration of US\$5 million. The Company has no other commitments or obligations as at March 31, 2013.

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### FINANCIAL INSTRUMENTS

The Company manages its exposure to financial risks, including liquidity risk, foreign exchange rate risk, interest rate risk and credit risk in accordance with its risk management framework. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

#### (a) Fair Value

The Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of inputs used in making the measurements as defined in IFRS 7 – Financial Instruments: Disclosures ("IFRS 7").

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The following table sets forth the Company's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at March 31, 2013, those financial assets are classified in their entirety based on the level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Cash and cash equivalents	\$ 11,478,834	\$ -	\$ -	\$ 11,478,834
Short term investments	15,314,500	-	-	15,314,500

#### (b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its short term business requirements. The Company has in place planning and budgeting processes to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion plans. As of March 31, 2013, the Company has sufficient funds to meet its short-term financial liabilities.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following summarizes the remaining contractual maturities of the Company's financial liabilities:

	March 31, 2013	June 30, 2012
	<b>Due within a year</b>	
Accounts payable and accrued liabilities	\$ 686,509	\$ 661,813
Due to related parties	28,118	56,968
	<b>\$ 714,627</b>	<b>\$ 718,781</b>

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#### (c) Currency Risk

The Company undertakes transactions denominated in foreign currencies and as such is exposed to risks due to fluctuations in foreign exchange rates.

The Company does not hedge its foreign currency risk, and the exposure of the Company's financial assets and financial liabilities to foreign exchange risk is summarized as follows:

The amounts are expressed in CAD equivalents	March 31, 2013		June 30, 2012	
United States dollars	\$	21,146,753	\$	21,209,196
Chinese RMB		1,467,227		-
Financial assets in foreign currency	\$	22,613,980	\$	21,209,196
United States dollars		-		-
Chinese RMB		69,103		-
Financial liabilities in foreign currency	\$	69,103	\$	-
USD financial instrutments in CAD (net)	\$	21,146,753	\$	21,209,196
RMB financial instrutments in CAD (net)		1,398,124		-

As at March 31, 2013, with other variables unchanged, a 1% strengthening (weakening) of the U.S. dollar against the Canadian dollar would have increased (decreased) net income by approximately \$200,000.

As at March 31, 2013, with other variables unchanged, a 1% strengthening (weakening) of the Chinese RMB against the Canadian dollar would have increased (decreased) net income by approximately \$14,000.

#### (d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents and short term investments primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. The Company also holds a portion of cash and cash equivalents in bank accounts that earn variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of March 31, 2013.

#### (e) Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk primarily associated with cash and cash equivalents, short term investments, accounts receivable. The carrying amount of financial assets included on the balance sheet represents the maximum credit exposure.

The Company has deposits of cash equivalents that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote, as majority of its cash and cash equivalents, short term investments are with major financial institutions in Canada. As at March 31, 2013, the Company has an accounts receivable balance of \$305,799 (June 30,

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2012 - \$264,025).

### RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in the MD&A are as follows:

Transactions with related parties	Three months ended March 31,		Nine months ended March 31,	
	2013	2012	2013	2012
Silvercorp Metals Inc. (a)	\$ 69,666	\$ 124,881	\$ 315,286	\$ 433,126
R. Feng Consulting Ltd. (b)	-	18,000	36,000	54,000
Parkside Management Ltd. (c)	18,000	-	18,000	-
	\$ 87,666	\$ 142,881	\$ 369,286	\$ 487,126

Related party transactions are entered into based on normal market conditions at the amounts agreed on by the parties. As at March 31, 2013, the balances with related parties, which are unsecured, non-interest bearing, and due on demand, are as follows:

Due to (from) related parties	March 31, 2013	June 30, 2012
Silvercorp Metals Inc. (a)	\$ 10,118	\$ 36,808
R. Feng Consulting Ltd. (b)	-	20,160
Parkside Management Ltd. (c)	18,000	-
	\$ 28,118	\$ 56,968

(a) Silvercorp has two common directors and officers with the Company and shares office space and provides various general and administrative services to the Company. During the three and nine months ended March 31, 2013, the Company recorded total expenses of \$69,666 and \$315,286 respectively (three and nine months ended March 31, 2012 - \$124,881 and \$433,126 respectively) for services rendered and expenses incurred by Silvercorp on behalf of the Company.

(b) During the three and nine months ended March 31, 2013, the Company incurred \$nil and \$36,000 respectively (three and nine months ended March 31, 2012 - \$18,000 and \$54,000 respectively) in consulting fees for consulting services rendered by R. Feng Consulting Ltd., a company controlled by a director and an officer of the Company.

(c) During the three and nine months ended March 31, 2013, the Company incurred \$18,000 and \$18,000 respectively (three and nine months ended March 31, 2012 - \$nil and \$nil respectively) in consulting fees for consulting services rendered by Parkside Management Ltd., a company controlled by a director and an officer of the Company.

### PROVISIONS

The Company is involved in legal action associated with the normal course of operations. As at March 31, 2013, the Company has made a provision of \$81,000 for certain legal matters (June 30, 2012 - \$156,000). The legal provision is based on management's best estimate of the amount and timing of the potential settlement.

During the current year, certain legal matters were settled for \$24,150. As such, the related provisions of \$75,000 to these legal matters were reversed in the year.

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### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet financial arrangements.

### **PROPOSED TRANSACTIONS**

There are no proposed acquisitions or disposals of assets or business, other than those in the ordinary course of business, approved by the board of directors as at the date of this MD&A.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported on the consolidated financial statements. These critical accounting estimates represent management estimates that are uncertain and any changes in these estimates could materially impact the Company's financial statements. Management continuously reviews its estimates and assumptions using the most current information available. The Company's critical accounting policies and estimates are described in Note 2 of the accompanied unaudited condensed consolidated interim financial statements for the three and nine months ended March 31, 2013.

Management has identified: (a) Mineral rights and properties, (b) Stock-based payments, and (c) Deferred income taxes as the critical estimates for the following discussion:

- (a) Mineral rights and properties are the most significant assets of the Company, representing \$40.3 million on the balance sheet as at March 31, 2013. The Company has determined that acquisition costs, direct exploration, evaluation and development expenditures, including costs incurred during production to increase future output by providing access to additional sources of mineral resource, are capitalized where costs related to specific properties for which resources exists.

Upon commencement of commercial production, mineral rights and properties and capitalized expenditures are depleted over the mine's estimated life using the units of production method calculated based on proven and probable reserves. Changes to estimates of proven and probable reserves can result in a change of future depletion rates.

Mineral rights and properties are reviewed and tested for impairment when indicators of impairment are considered to exist. Indicators are assessed based on a number of factors such as market prices of commodities, production costs, recovery rates, and overall economic and legal environment. An impairment loss is recognized for any excess of the carrying amount over its recoverable amount, which is the greater of its fair value less costs to sell and value in use. For mineral rights and properties, the fair value less costs to sell is estimated as the discounted future net cash flow expected to be derived from parameters such as expected future production, metal prices, and net proceeds from the disposition of assets on retirement, less operating and capital costs. The Company estimates these parameters based on the information available.

- (b) Stock-based payments. The Company accounts for stock options granted to employees, officers, directors, and consultants using the fair value method. The fair value of options granted to employees, officers, and directors is determined using the Black-Scholes option pricing model with market related inputs as of the date of grant. The fair value of stock options granted to consultants is measured at the fair value of the services delivered. Market related inputs using the Black-Scholes option pricing model are subject to estimation and includes risk free interest rate, expected life of

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option, expected volatility, expected dividend yield, and estimated forfeiture rate.

- (c) Deferred income tax assets and liabilities are recognized using the balance sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that management believes it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that management believes it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered. Management's expectation on future taxable income is based on information available and is subject to estimation.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Any changes to tax rates and laws will have an impact on the carrying amount of deferred income tax assets and liabilities.

### FUTURE ACCOUNTING CHANGES

For annual periods beginning on or after January 1, 2013:

IFRS 10 – *Consolidated Financial Statements* supersedes SIC 12 – *Consolidation – Special Purpose Entities* and the requirements relating to consolidated financial statements in IAS 27 – *Consolidated and Separate Financial Statements*. IFRS 10 establishes the principle and application of control as the basis for an investor to identify whether an investor controls an investee and thereby requiring consolidation.

IFRS 12 – *Disclosure of Interests in Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

The Company does not anticipate the application of IFRS 10 and IFRS 12 to have a significant impact on the consolidated financial statements.

IFRS 11 – *Joint Arrangements* establishes the principle a joint arrangement are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangement, rather than its legal form.

IAS 28 – *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method for investments in associates and joint ventures.

The Company does not anticipate the application of IFRS 11 and IAS 28 to have a significant impact on the consolidated financial statements.

IFRS 13 – *Fair Value Measurement* defines fair value and sets out a single framework for measuring fair value which is application to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires valuation technique used should maximize the use of relevant

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observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability. The Company does not anticipate the application of this standard to have a significant impact on the consolidated financial statements.

Amendments to IFRS 10, IFRS 11, IFRS 12 provides additional transitional relief in applying the respective standards by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The Company does not anticipate the application of this amendment to have a significant impact on the consolidated financial statements.

#### **For annual periods beginning on or after January 1, 2014:**

Amendments to IAS 32 - *Financial Instruments* - this amends IAS 32 - *Financial Instruments: Presentation* to provide clarifications on the application of the offsetting rules. The Company does not anticipate the application of this amendment to have a significant impact on the consolidated financial statements.

#### **For annual periods beginning on or after January 1, 2015:**

IFRS 9 – *Financial Instruments* is intended to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principle-based and less complex than IAS 39. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at FVTP, financial guarantees and certain other exceptions. The IASB issued amendments to IFRS 9 which deferred the mandatory effective date of IFRS 9 from January 1, 2013 to annual periods beginning on or after January 1, 2015. The amendments also provided relief from the requirement to restate comparative financial statements for the effects of applying IFRS 9. The Company is currently evaluating the impact the final standard is expected to have on the consolidated financial statements.

### **OUTSTANDING SHARE DATA**

As at the date of this MD&A, the following securities were outstanding:

#### **(a) Share Capital**

Authorized - unlimited number of common shares without par value

Issued and outstanding – 67,056,081 common shares with a recorded value of \$57,285,529

Shares subject to escrow or pooling agreements is nil.

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### (b) Options

The outstanding options as at the date of this MD&A are summarized as follows:

<b>Options outstanding</b>	<b>Exercise prices \$</b>	<b>Expiry Date</b>
<b>475,000</b>	0.50	January 18, 2014
<b>1,175,000</b>	0.65	June 13, 2015
<b>250,000</b>	1.44	November 1, 2015
<b>320,000</b>	1.60	November 29, 2015
<b>160,000</b>	1.65	December 21, 2015
<b>10,000</b>	2.04	December 28, 2015
<b>25,000</b>	1.42	June 15, 2016
<b>1,795,000</b>	0.61	September 23, 2017
<b>4,210,000</b>		

### RISK FACTORS

The Company is subject to many risks which are outlined in its Annual Information Form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). In addition, please refer to the *Financial Instruments Section* for the analysis of financial risk factors.

### DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the design and maintenance of disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. Current disclosure controls include meetings with the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and members of the Board of Directors and Audit Committee through emails, telephone conferences and informal meetings to review public disclosure. All public disclosures are reviewed by certain members of senior management and of the Board of Directors and Audit Committee. The Board of Directors has delegated the duties to the Chief Executive Officer whom is primarily responsible for financial and disclosure controls.

Based on current securities legislation in Canada, the CEO and the CFO of the Company evaluated the design and effectiveness of the Company's disclosure controls and procedures as of March 31, 2013 and concluded that such disclosure controls and procedures were operating effectively at that date.

Management is responsible for designing, establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner in accordance with IFRS.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Audit Committee fulfills its role of ensuring the integrity of the reporting information through its review of the interim and annual financial statements.

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There are inherent limitations in the effectiveness of internal controls over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

The CEO and the CFO evaluated the design and effectiveness of internal controls over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee Sponsoring Organizations of the Treadway Commission (“COSO”) as at March 31, 2013. Based on this evaluation, as at March 31, 2013, the Company believes that its internal controls over financial reporting were designed and operating effectively to provide reasonable, but not absolute, assurance that the objectives of the control system are met.

The Company continues to review and assess its internal controls over financial reporting. There were no significant changes made to internal controls over financial reporting during the three and nine months ended March 31, 2013.