New Pacific Metals Corp.
TSX: NUX

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

(Expressed in Canadian Dollars)

Notice to Readers of the Unaudited Condensed Consolidated Financial Statements
For the three and six months ended December 31, 2012

The unaudited condensed consolidated financial statements of New Pacific Metals Corp. (the “Company”) for the three and six months ended December 31, 2012 (the “Financial Statements”) have been prepared by management and have not been reviewed by the Company’s independent auditors. The Financial Statements should be read in conjunction with the Company’s audited financial statements for the year ended June 30, 2012 which are available at the SEDAR website at www.sedar.com. The Financial Statements are stated in terms of Canadian dollars and are prepared in accordance with International Financial Reporting Standards.

New Pacific Metals Corp.
Unaudited Consolidated Balance Sheets
(Expressed in Canadian dollars)

	Notes		**December 31, 2012**		June 30, 2012
ASSETS					
Current Assets					
Cash and cash equivalents	3	**$**	**28,921,659**	$	22,527,940
Short term investments			**80,500**		8,080,500
Accounts receivable	4		**116,259**		264,025
			29,118,418		30,872,465
Non-current Assets					
Reclamation deposits			**15,075**		15,075
Plant and equipment	6		**1,861,638**		1,978,201
Mineral property interests	5		**37,492,507**		37,084,565
TOTAL ASSETS		**$**	**68,487,638**	$	69,950,306
LIABILITIES AND EQUITY					
Current Liabilities					
Accounts payable and accrued liabilities	7	**$**	**627,205**	$	661,813
Provisions	13		**156,000**		156,000
Due to related parties	9		**42,202**		56,968
Total Liabilities			**825,407**		874,781
Equity					
Share capital	8		**57,394,137**		57,516,613
Contributed surplus			**16,891,579**		16,726,035
Deficit			**(6,623,485)**		(5,167,123)
Total Equity			**67,662,231**		69,075,525
TOTAL LIABILITIES AND EQUITY		**$**	**68,487,638**	$	69,950,306
Commitments	14				

Approved on behalf of the Board:

(Signed) David Kong
Director

(Signed) Rui Feng
Director

See accompanying notes to the unaudited condensed consolidated financial statements

New Pacific Metals Corp.

Unaudited Consolidated Statements of Comprehensive Income (Loss)

(Expressed in Canadian dollars)

	Three months ended December 31,		Six months ended December 31,	
	2012	2011	**2012**	2011
Expenses				
Audit and accounting	**$ 24,600**	$ 54,853	**$ 28,394**	$ 80,953
Consulting	**7,990**	18,000	**62,000**	36,000
Depreciation	**7,231**	7,674	**14,531**	15,379
Filing and listing	**50,998**	13,334	**104,070**	35,089
Foreign exchange (gain) loss	**(233,210)**	451,330	**503,572**	(1,105,655)
General explorations	**109,173**	-	**109,173**	-
Investor relations	**11,512**	191,868	**15,143**	325,168
Legal and professional fees	**30,912**	20,583	**44,654**	21,543
Salaries and benefits	**155,999**	161,536	**322,559**	248,586
Office and administration	**27,819**	69,285	**56,025**	192,612
Rent	**37,860**	51,491	**97,027**	103,938
Stock-based compensation	**107,397**	38,791	**163,136**	213,782
Travel and promotion	**4,253**	22,387	**15,707**	55,127
Loss (income) before other income and expenses	**342,534**	1,101,132	**1,535,991**	222,522
Other income and expenses				
Loss on disposal of plant and equipment	**-**	(1,061)	**-**	(1,061)
Finance expense	**(426)**	(1,360)	**(1,674)**	(3,940)
Finance income	**45,891**	67,430	**81,303**	75,575
	45,465	65,009	**79,629**	70,574
Net income (loss) for the period	**$ (297,069)**	$ (1,036,123)	**$ (1,456,362)**	$ (151,948)
Comprehensive income (loss) for the period	**$ (297,069)**	$ (1,036,123)	**$ (1,456,362)**	$ (151,948)
Basic earnings (loss) per share	**$ (0.00)**	$ (0.02)	**$ (0.02)**	$ (0.00)
Diluted earnings (loss) per share	**$ (0.00)**	$ (0.02)	**$ (0.02)**	$ (0.00)
Weighted average number of shares - basic	**67,333,637**	67,346,703	**67,338,920**	67,332,410
Weighted average number of shares - diluted	**67,333,637**	67,346,703	**67,338,920**	67,332,410

See accompanying notes to the unaudited condensed consolidated financial statements

New Pacific Metals Corp.

Unaudited Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Three months ended December 31, 2012	Three months ended December 31, 2011	Six months ended December 31, 2012	Six months ended December 31, 2011
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	**$ (297,069)**	$ (1,036,123)	**$ (1,456,362)**	$ (151,948)
Add (deduct) items not affecting cash :				
Depreciation	**7,231**	7,674	**14,531**	15,379
Loss on disposal of plant and equipment	**-**	1,061	**-**	1,061
Stock-based compensation	**107,397**	38,791	**163,136**	213,782
Unrealized foreign exchange loss (gain)	**(233,175)**	451,330	**503,607**	(1,105,655)
	(415,616)	(537,267)	**(775,088)**	(1,027,381)
Change in non-cash working capital				
Accounts receivable	**62,851**	1,080,913	**147,766**	954,760
Inventory	**-**	(949,961)	**-**	(821,218)
Accounts payable and accrued liabilities	**(75,848)**	93,736	**(34,608)**	41,412
Cash used in operating activities	**(428,613)**	(312,579)	**(661,930)**	(852,427)
Investing activities				
Expenditures on mineral property interests, net of non-cash items	**(149,654)**	(1,126,096)	**(284,700)**	(5,305,886)
Acquisition of plant and equipment	**(10,302)**	(56,629)	**(10,302)**	(533,173)
Net redemption of short term investments	**-**	2,977,000	**8,000,000**	7,942,500
Cash provided by (used in) investing activities	**(159,956)**	1,794,275	**7,704,998**	2,103,441
Financing activities				
Amount due to related parties	**(46,997)**	(166,895)	**(14,766)**	(64,461)
Shares issued for cash	**12,500**	1,783	**12,500**	19,658
Payments for share buy back	**(68,264)**	-	**(143,476)**	-
Cash used in financing activities	**(102,761)**	(165,112)	**(145,742)**	(44,803)
Effect of exchange rate changes on cash and cash equivalents	**233,175**	(451,330)	**(503,607)**	1,105,655
Increase in cash and cash equivalents	**(458,155)**	865,254	**6,393,719**	2,311,866
Cash and cash equivalents, beginning of period	**29,379,814**	22,072,284	**22,527,940**	20,625,672
Cash and cash equivalents, end of period	**$ 28,921,659**	$ 22,937,538	**$ 28,921,659**	$ 22,937,538
Interest received	**$ 45,891**	$ 67,430	**$ 81,303**	$ 75,575

See accompanying notes to the unaudited condensed consolidated financial statements

New Pacific Metals Corp.

Unaudited Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars, except for share figures)

	Notes	Share Capital					
		Number of shares issued	Number of shares held for cancellation	Amount	Contributed surplus reserve	Deficit	Total equity
Balance, June 30, 2011		67,314,203	-	$ 57,467,380	$ 16,230,915	$ (3,923,627)	$ 69,774,668
Options exercised		32,500	-	30,050	(12,175)	-	17,875
Share issuance costs		-	-	1,783	-	-	1,783
Stock-based compensation		-	-	-	329,590	-	329,590
Net loss for the period		-	-	-	-	(151,948)	(151,948)
Balance, December 31, 2011		67,346,703	-	57,499,213	16,548,330	(4,075,575)	69,971,968
Options exercised		22,500	-	22,400	(9,275)	-	13,125
Share issuance costs		-	-	(5,000)	-	-	(5,000)
Stock-based compensation		-	-	-	186,980	-	186,980
Net loss for the period		-	-	-	-	(1,091,548)	(1,091,548)
Balance, June 30, 2012		67,369,203	-	57,516,613	16,726,035	(5,167,123)	69,075,525
Options exercised		25,000	-	21,000	(8,500)	-	12,500
Normal course issuer bid	8(c)	(216,360)	14,836	(142,321)	-	-	(142,321)
Transaction costs	8(c)	-	-	(1,155)	-	-	(1,155)
Stock-based compensation		-	-	-	174,044	-	174,044
Net loss for the period		-	-	-	-	(1,456,362)	(1,456,362)
Balance, December 31, 2012		**67,177,843**	**14,836**	**$ 57,394,137**	**$ 16,891,579**	**$ (6,623,485)**	**$ 67,662,231**

1. CORPORATE INFORMATION

New Pacific Metals Corp. along with its subsidiaries (collectively the "Company" or "New Pacific"), is a Canadian-based mining company, engaged in the exploration and development of mineral properties in Yukon, Canada and China.

The Company's common shares are listed on the Toronto Stock Exchange. The Company was continued into the Province of British Columbia under the Business Corporation Act in November 2004. The head office, registered address and records office of the Company are located at 200 Granville Street, Suite 1378, Vancouver, British Columbia, Canada, V6C 1S4.

The Company is in the business of exploring and developing its mineral properties and has not yet determined whether its mineral property interests contain economically recoverable mineral reserves. The underlying value and the recoverability of the amounts shown for mineral property interests are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral property interests, and future profitable production or proceeds from the disposition of the mineral property interests.

These unaudited condensed consolidated financial statements have been prepared on a going concern basis. The Company has a history of losses and no operating revenues from its operations. As at December 31, 2012, the Company had a working capital position of $28,293,011 and sufficient cash resources to meet the Company's planned exploration and development expenditures for the foreseeable future, for, but not limited to, the next 12 months. These financial statements do not reflect adjustments, which could be material, to the carrying value of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

The unaudited condensed consolidated financial statements of the Company as at and for the three and six months ended December 31, 2012 were authorized for issue in accordance with a resolution of the Board of Directors dated on February 7, 2013.

These unaudited condensed consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries: Tagish Lake Gold Corp. ("TLG"), Mount Skukum Gold Mining Corporation, New Pacific Offshore Inc., SKN Nickel & Platinum Ltd., Lachlan Gold Ltd., 0876044 B.C. Ltd., Glory Metals Investment Corp. Limited, and Pacific Goldcorp Limited.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These unaudited condensed consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting*. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2012. The unaudited condensed consolidated financial statements follow the same significant accounting policies set out in Note 2 to the audited consolidated financial statements for the year ended June 30, 2012.

(b) *Changes in Accounting Standards*

Accounting standards effective 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 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.

Accounting standards effective 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.

(Expressed in Canadian dollars)

Accounting standards effective 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.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

		December 31, 2012		June 30, 2012
Cash in bank	**$**	**28,921,659**	$	2,207,572
Cash equivalents		**-**		20,320,368
	$	**28,921,659**	$	22,527,940

Cash in bank includes US dollar denominated deposits of US$20,821,200 in premium rate savings accounts redeemable at any time with an average annual interest rate of 0.49% calculated daily and paid monthly.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

		December 31, 2012		June 30, 2012
GST/HST receivable		**31,558**		57,558
Interest receivable		**-**		48,604
Deposits and prepaid expenses		**84,701**		157,863
	$	**116,259**	$	264,025

5. MINERAL PROPERTY INTERESTS

(a) Tagish Lake Gold Project

The Tagish Lake Gold Project, covering an area of 254 square kilometers, is located in Yukon Territory, Canada, and consists of 1,510 mining claims with three identified gold and gold-silver mineral deposits: Skukum Creek, Goddell Gully and Mount Skukum.

(Expressed in Canadian dollars)

The continuity schedule of mineral property acquisition costs and deferred exploration and development costs is summarized as follows:

Cost		**Tagish Lake**
Balance, June 30, 2012		37,084,565
Reporting and assessment		28,878
Staking and mapping		39,485
Permitting		1,335
Environmental study		16,035
Care and maintenance		230,103
Other		92,106
Balance, December 31, 2012	**$**	**37,492,507**

6. PLANT AND EQUIPMENT

Cost		**Buildings**		**Machinery**		**Motor vehicles**		**Office equipment and furniture**		**Computer software**		**Total**
Balance as at June 30, 2012	$	890,754	$	1,118,084	$	62,488	$	94,181	$	155,684	$	2,321,191
Additions		-		-		10,302		-		-		10,302
Reclassification		-		(1,000)		1,000		-		-		-
Balance as at December 31, 2012	**$**	**890,754**	**$**	**1,117,084**	**$**	**73,790**	**$**	**94,181**	**$**	**155,684**	**$**	**2,331,493**
Accumulated depreciation and amortization												
Balance as at June 30, 2012	$	(46,702)	$	(207,063)	$	(11,044)	$	(23,691)	$	(54,490)	$	(342,990)
Depreciation and amortization		(20,883)		(83,654)		(5,364)		(6,846)		(10,118)		(126,865)
Reclassification		-		81		(81)		-		-		-
Balance as at December 31, 2012	**$**	**(67,585)**	**$**	**(290,636)**	**$**	**(16,489)**	**$**	**(30,537)**	**$**	**(64,608)**	**$**	**(469,855)**
Carrying amount												
Balance as at June 30, 2012	$	844,052	$	911,021	$	51,444	$	70,490	$	101,194	$	1,978,201
Balance as at December 31, 2012	**$**	**823,169**	**$**	**826,448**	**$**	**57,301**	**$**	**63,644**	**$**	**91,076**	**$**	**1,861,638**

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised of:

		December 31, 2012		June 30, 2012
Accounts payable	**$**	**38,637**	$	37,708
Acquisition cost payable		**441,903**		441,903
Accrued liabilities		**146,665**		182,202
	$	**627,205**	$	661,813

8. SHARE CAPITAL

(a) Share Capital - authorized share capital

Unlimited number of common shares without par value.
Unlimited number of Class A preferred shares without par value.

(Expressed in Canadian dollars)

(b) Stock Options

The continuity schedule of stock options, as at December 31, 2012, is as follows:

	Number of options		Weighted average exercise price
Balance, July 1, 2012	3,050,250	$	0.98
Options granted	1,795,000		0.61
Options exercised	(25,000)		0.50
Options forfeited	(361,250)		1.15
Options expired	(214,000)		1.55
Balance, December 31, 2012	**4,245,000**	**$**	**0.78**

During the six months ended December 31, 2012, a total of 1,795,000 options were granted to employees and directors of the Company at an exercise price of $0.61 for a term of five years subject to a vesting period of 48 months with 12.5% of the options vesting every six months.

Option pricing model requires the input of highly subjective assumptions including the expected volatility. Changes in the assumptions can materially affect the fair value estimate and therefore, the existing models do not necessarily provide a reliable estimate of the fair value of the Company's stock options. The Company's expected volatility is based on the historical volatility of the Company's share price on the Toronto Stock Exchange.

The fair value of the options granted were estimated using the Black-Scholes options pricing model with the following assumptions:

	Six months ended December 31,	
	2012	2011
Risk free interest rate	**1.22%**	1.41%
Expected volatility	**87%**	109%
Expected life of options in years	**3.25**	4.2
Expected dividend yield	**0%**	0%
Estimated forfeiture rate	**9%**	9%

The weighted average grant date fair value for the options granted during the period was $0.34.

For the three and six months ended December 31, 2012, a total of $107,397 and $163,136 (three and six months ended December 31, 2011 - $38,791 and $213,782) were recorded as stock-based compensation expense. For the three months ended December 31, 2012, $18,358 of stock-based compensation was reversed from mineral property interests due to option cancellations for certain project personnel (three months ended December 31, 2011 – capitalized $21,723). In the six months ended December 31, 2012, $10,908 (six months ended December 31, 2011 - $115,808) were capitalized to mineral property interests.

(Expressed in Canadian dollars)

The following table summarizes information about stock options outstanding as at December 31, 2012:

Exercise prices	Number of options outstanding as at December 31, 2012	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable as at December 31, 2012	Weighted average exercise price
$ 1.55	5,000	0.08	$ 1.55	5,000	$ 1.55
0.50	475,000	1.05	0.50	475,000	0.50
0.65	1,205,000	2.45	0.65	753,125	0.65
1.44	250,000	2.83	1.44	125,000	1.44
1.60	320,000	2.91	1.60	160,000	1.60
1.65	160,000	2.97	1.65	80,000	1.65
2.04	10,000	2.99	2.04	5,000	2.04
1.42	25,000	3.46	1.42	9,375	1.42
0.61	1,795,000	4.73	0.61	-	-
$0.5 - $2.04	4,245,000	3.34	$ 0.78	1,612,500	$ 0.82

(c) Normal Course Issuer Bid

On June 25, 2012, the Company announced a normal course issuer bid ("NCIB") which allows it to acquire up to 5 million of its own common shares. As at December 31, 2012, the Company purchased 231,196 common shares at an average cost $0.62 per share. Transaction costs related to the common share acquisitions were $1,155. As at December 31, 2012, of the total common shares repurchased under the NCIB, 216,360 common shares have been cancelled and returned to treasury. The remaining 14,836 common shares are held for cancellation.

9. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in the consolidated financial statements are as follows:

	Three months ended December 31,		Six months ended December 31,	
Transactions with related parties	**2012**	2011	**2012**	2011
Silvercorp Metals Inc. (a)	**$ 104,321**	$ 125,653	**$ 245,621**	$ 308,245
R. Feng Consulting Ltd. (b)	**18,000**	18,000	**36,000**	36,000
	$ 122,321	$ 143,653	**$ 281,621**	$ 344,245

Related party transactions are entered into based on normal market conditions at the amounts agreed on by the parties. As at December 31, 2012, the balances with related parties, which are unsecured, non-interest bearing, and due on demand, are as follows:

Due to (from) related parties	**December 31, 2012**	June 30, 2012
Silvercorp Metals Inc. (a)	**$ 22,042**	$ 36,808
R. Feng Consulting Ltd. (b)	**20,160**	20,160
	$ 42,202	$ 56,968

(a) Silvercorp Metals Inc. ("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 six months ended December 31, 2012, the Company recorded total expenses of $104,321 and $245,621 (three and six months ended December 31, 2011 - $125,653 and $308,245) for services rendered and expenses incurred by Silvercorp on behalf of the Company.

(Expressed in Canadian dollars)

(b) During the three and six months ended December 31, 2012, the Company incurred $18,000 and $36,000 (three and six months ended December 31, 2011 - $18,000 and $36,000) in consulting fees for consulting services rendered by R. Feng Consulting Ltd., a company controlled by a director and an officer of the Company.

10. 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 December 31, 2012, 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
Financial Assets				
Cash and cash equivalents	$ 28,921,659	$ -	$ -	$ 28,921,659
Short term investments	80,500	-	-	80,500

(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 December 31, 2012, 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:

		December 31, 2012		June 30, 2012
		Due within a year		
Accounts payable and accrued liabilities	**$**	**627,205**	$	661,813
Due to related parties		**42,202**		56,968
	$	**669,407**	$	718,781

(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		**December 31, 2012**		June 30, 2012
United States dollars	**$**	**20,715,012**	$	21,209,196
Total financial assets	**$**	**20,715,012**	$	21,209,196

As at December 31, 2012, with other variables unchanged, a 1% strengthening (weakening) of the U.S. Dollar against the CAD would have increased (decreased) net income by approximately $200,000.

(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 December 31, 2012.

(e) Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meets 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 December 31, 2012, the Company has an accounts receivable balance of $116,259 (June 30, 2012 - $264,025).

11. CAPITAL MANAGEMENT

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirement on an ongoing basis, continue the development and exploration of its mineral properties, and support any expansionary plans.

The capital of the Company consists of the items included in equity. The Board of Directors does not establish a quantitative return on capital criteria for management. 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.

The Company's overall strategy with respect to capital risk management remained unchanged during the period. The Company is not subject to any externally imposed capital requirement as at December 31, 2012.

12. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, which is the acquisition, exploration and development of mineral property interests, which financial information is evaluated regularly by the Company's Chief Executive Officer, the chief operating decision maker. As at December 31, 2012 and June 30, 2012, all assets held by the Company are located in Canada. For the three and six months ended December 31, 2012 and 2011, all operating results are from Canadian operations. Therefore, there are no separately reportable segments based on operations or geographic location.

13. PROVISIONS

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

14. COMMITMENTS

In December 2012, the Company has signed a binding letter of agreement with Silvercorp to acquire 80% interest in its wholly owned subsidiary, Fortress Mining Inc. ("FMI") for US$3.5 million. FMI currently owns 82% interest in Qinghai Found Mining Co. Ltd., which owns 67% interest in the RZY project, an early stage silver-lead-zinc exploration project. The Company has an option to acquire the remaining 20% of FMI within two years for US$5 million upon satisfying the condition that the Company has spent US$15.9 million in exploration and development expenditures on the RZY project.

As this is a related party transaction, the agreement is pending approval from the Toronto Stock Exchange.