

# **NEW PACIFIC METALS CORP.**

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

**For the three and nine months ended March 31, 2014 and 2013**

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

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### **DATE OF REPORT: May 13, 2014**

*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, 2014 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, 2013, 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 for the three and nine months ended March 31, 2014 as well as Note 2 of the audited consolidated financial statements for the year ended June 30, 2013.*

### **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 kilometers by road south of Whitehorse, Yukon, Canada, and consists of 1,510 mineral claims covering approximately 254 square kilometers. 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 one exploration season that commenced on May 18, 2011 and ended on October 9, 2011. Since then, the project has been in maintenance status pending the agreement to the amount of security deposit required for the exploration permit.

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. The Company and Yukon government regulatory authorities are working together to finalize the determination of such security deposit.

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

On March 28, 2013, the Company acquired 80% of Fortress Mining Inc.'s ("FMI") interest in the RZY Silver-Lead-Zinc Project ("RZY Project") through the purchase of all the outstanding common shares of FMI from Silvercorp Metals Inc. ("Silvercorp"), a related party of the Company, for cash consideration of US\$3.5 million. The RZY Project is held through FMI's 82% owned subsidiary, Qinghai Found Mining Co. Ltd. ("QFM"). The RZY Project exploration permit has been transferred from Qinghai Geological Survey Institute ("QGS"), the minority shareholder of QFM, to QFM as of September 3, 2013.

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

The RZY Project, located in Qinghai, China 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 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 RZY Project.

### ***Exploration Progress***

The 2013 drilling program at the RZY Project was successfully completed on October 20, 2013 which was designed to test the size and nature of the silver-lead-zinc mineralized structure and to confirm the assay results of historical trenching and drilling by previous owners. A total of 5,481.48 metres of drilling in 20 holes, (including 86.3m in an abandoned hole) by four drill rigs was completed. These holes were drilled in a 100 metre by 200 metre grid and cover approximately 2,000 metres in length along the main mineralized structure that extends nearly east-west. Mineralization zones of various widths were intercepted by the drill holes and mineralization is featured by massive and disseminated sulfides of galena-sphalerite-pyrite in altered sandstone and dacitic dykes within and near the sheared structures developed in Permian marine turbiditic clastic sediments.

Assay result from the 2013 drilling program indicated that the Project intersected significant silver-lead-zinc-antimony-copper-tin mineralization in two mineralization zones: the known main mineralized structure zone ("Zone 1") was discovered by historical exploration; and a new mineralized structure zone ("Zone 2", previously a target of interest based upon its soil geochemical anomaly), was confirmed this year by surface trenches and drilling to the depth. The new zone is located about 300 metres to the north of, and parallel to, the main zone.

The 2013 drilling program covered only a two-kilometre long section of the entire six kilometre long known mineralized zones on a drill grid of one hundred metres by two hundred metres, aiming to test the size and nature of the silver-lead-zinc mineralized structure and to confirm the assay results of historical

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trenching and drilling. With successful drill results of 2013 the Company believes that the Project may have the potential of hosting significant silver dominated polymetallic resources, and the Company plans to commence resource definition drilling at the known mineralized Zone 1 and Zone 2, and, in addition, plans to continue with regional exploration to identify more mineralized zones at other prospects of the Project during the 2014 field campaign.

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, 2014:

<b>Cost</b>	<b>Tagish Lake</b>		<b>RZY Project</b>		<b>Total</b>
Balance, June 30, 2012	\$	37,084,565	\$	-	\$ 37,084,565
Acquisition of mineral property interest				1,927,991	1,927,991
<u>Capitalized exploration expenditures</u>					
Reporting and assessment		42,429		-	42,429
Drilling and assaying		-		81,155	81,155
Staking and mapping		43,165		-	43,165
Camp services		441,218		-	441,218
Permitting		1,335		-	1,335
Environmental study		16,035		-	16,035
Other		225,610		12,256	237,866
Foreign currency translation impact		-		96,264	96,264
Balance, June 30, 2013	\$	37,854,357	\$	2,117,666	\$ 39,972,023
<u>Capitalized exploration expenditures</u>					
Reporting and assessment		9,550		-	9,550
Drilling and assaying		-		1,322,415	1,322,415
Surveying		-		989,520	989,520
Camp services		338,338		448,631	786,969
Site preparation		-		453,230	453,230
Permitting		-		1,082,322	1,082,322
Environmental study		6,053		-	6,053
Other		275,188		57,523	332,711
Foreign currency translation impact		-		170,328	170,328
<b>Balance, March 31, 2014</b>	<b>\$</b>	<b>38,483,486</b>	<b>\$</b>	<b>6,641,635</b>	<b>\$ 45,125,121</b>

During the three and nine months ended March 31, 2014, a total of \$360,643 and \$5,153,098, respectively, of exploration expenditures were incurred in Tagish Lake Gold Property and the RZY Project (three and nine months ended March 31, 2013 – \$213,698 and \$621,640, respectively).

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#### RESULTS OF OPERATIONS

For the three months ended March 31, 2014, the Company reported net income attributable to the equity holders of \$418,310 or \$0.01 per share compared to \$8,049 or \$0.00 per share in the same prior year period.

For the nine months ended March 31, 2014, the Company reported net loss attributable to the equity holders of \$460,896 or \$0.01 per share compared to loss of \$1,448,313 or \$0.02 in the same prior year period.

#### 1. Expenses

**Audit and accounting fees** for the three and nine months ended March 31, 2014 were \$1,100 and \$1,100 compared to \$15,440 and \$43,834, respectively, in the same prior year periods.

**Consulting fees** for the three months ended March 31, 2014 were \$18,000 compared to \$46,520 in the same prior year period.

For the nine months ended March 31, 2014, consulting fees were \$61,084 compared to \$108,520 in the same prior year period. In the prior year, more consultants were engaged to explore prospective projects for the Company.

**Filing and listing fees** for the three months ended March 31, 2014 were \$28,282 compared to \$30,039 in the same prior year period.

For the nine months ended March 31, 2014, filing and listing fees were \$37,691 compared to \$134,109 in the same prior year period.

The overall lower filing and listing fees in the current period is due to the initial original listing fee for transferring from TSX Venture Exchange to TSX in the prior year. In the current period, the Company is only obligated to pay the base fee and the variable fee based on market capitalization.

**Foreign exchange gain** was \$813,939 and \$868,959 for three and nine months ended March 31, 2014, respectively. For three and nine months ended March 31, 2013, foreign exchange gain was \$405,266 and a loss of \$98,306, 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.

**General exploration expenses** for the three and nine months ended March 31, 2014 were \$nil and \$35,117, respectively, compared to \$11,858 and \$121,031 in the same prior year periods. General exploration expense consist of preliminary project prospecting expenses such as drilling, assaying, and travelling as the Company evaluate potential projects.

**Investor relations expense** for the three and nine months ended March 31, 2014 was \$4,084 and \$13,765, respectively, compared to \$15,885 and \$31,028 in the same prior year period.

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**Legal and professional fees** for the three and nine months ended March 31, 2014 were \$23,200 and \$123,897, respectively, compared to \$20,517 and \$65,171 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 and nine months ended March 31, 2014 was \$184,717 and \$634,671, respectively, compared to \$122,141 and \$444,700 in the same prior year period. The increase was mainly due to the hiring of an additional senior executive.

**Office and administration expense** for the three and nine months ended March 31, 2014 was \$42,853 and \$117,952, respectively, compared to \$38,913 and \$94,938 in the same prior year periods.

**Rent expense** for the three and nine months ended March 31, 2014 was \$28,258 and \$88,273, respectively, compared to \$33,647 and \$130,674 in the same prior year periods. Rental expense is based on a Services and Cost Allocation Agreement between the Company and Silvercorp Metals Inc. As of February 1, 2013, the rental allocation has decreased from 25% to 10% as the Company required less office space.

**Travel and promotion expense** for the three and nine months ended March 31, 2014 was \$48,742 and \$95,461, respectively, compared to \$39,001 and \$54,708 in the same prior year period. The increase was due to additional expenditures incurred as a result of acquiring the RZY Project.

#### Selected Quarterly Information

	For the Quarters Ended			
	Mar, 31 2014	Dec 31, 2013	Sept 30, 2013	Jun 30, 2013
Income (loss) before other income and expenses	\$ 303,106	\$ (5,767)	\$ (908,643)	\$ 98,984
Other income (expenses)	118,251	(17,222)	4,118	35,609
Net income (loss) attributable to equity holders	418,310	11,204	(890,410)	188,591
Basic and diluted earning (loss) per share	0.01	(0.00)	(0.01)	0.00
Total assets	69,737,702	70,013,043	68,678,126	69,614,534

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

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.

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#### LIQUIDITY AND CAPITAL RESOURCES

##### 1. Working Capital

As at March 31, 2014, the Company had a working capital position of \$22,118,442 (June 30, 2013 - \$26,910,554) comprised mainly of cash and cash equivalents of \$22,829,255 (June 30, 2013 - \$11,278,705), and short term investments of \$80,500 (June 30, 2013 - \$15,848,500) offset by current liabilities of \$921,554 (June 30, 2013 - \$900,838).

##### 2. Cash Flows

**Cash used in operating activities** for the three months ended March 31, 2014 was \$337,502 (three months ended March 31, 2013 – used \$346,419), which mainly resulted from net loss, after items not affecting cash of \$271,646, compared to \$359,627 in the same prior year period. Cash used from non-cash working capital for the three months ended March 31, 2014 was \$65,856 compared to cash provided of \$13,208 in the same prior year period.

During the nine months ended March 31, 2014, cash used in operating activities was \$665,899 (nine months ended March 31, 2013 - used \$1,023,115), which mainly resulted from net loss, after items not affecting cash, of \$1,106,105, compared to \$1,134,715 in the same prior year period. Changes in non-cash working capital for the nine months ended March 31, 2014 provided \$440,206 compared to \$111,600 in the same prior year period.

**Cash provided in investing activities** for the three months ended March 31, 2014 was \$15,496,191 (three months ended March 31, 2013 – used \$17,396,465), which is mainly resulted from capital expenditures on mineral property interests of \$1,090,632, offset with net redemption of short term investment for \$16,579,500. In the same prior year period, investing activities were mainly comprised of capital expenditures on mineral property interests of \$144,991, purchase of short term investment for \$15,234,000 and acquisition of Fortress Mining Inc. for \$2,017,474.

During the nine months ended March 31, 2014, cash provided in investing activities was \$11,991,586 (nine months ended March 31, 2013 – used \$9,691,467), which is mainly resulted from capital expenditures on mineral property interests of \$4,572,219, offset with net redemption of short term investment of \$16,579,500. In the same prior year period, investing activities were comprised of capital expenditure on mineral property interest of \$429,691, purchase of short term investment for \$7,234,000 and expenditures related to acquisition of Fortress Mining Inc. for \$2,017,474.

**Cash provided by financing activities** for the three months ended March 31, 2014 were \$37,500 (three months ended March 31, 2013 – used \$108,608), which is resulted from exercise of employee stock options. In the same prior year period, the amount was due to share buyback for \$108,608.

During the nine months ended March 31, 2014, cash provided by financing activities was \$42,500 (nine months ended March 31, 2013 – used \$239,584), which is resulted from exercise of employee stock options. In the same prior year period, the amount was due to exercise of employee stock options of \$12,500, offset by share buyback of \$252,084.

**Foreign exchange effect** was positive \$252,081 and positive \$408,667 for the three months ended March 31, 2014 and 2013, respectively. Foreign exchange effect was positive \$182,363 and negative \$94,940 for

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the nine months ended March 31, 2014 and 2013, 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, 2014, the Company had working capital of \$22,118,442 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, 2014.

### 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, 2014, those financial assets are classified in their entirety based on the level of input that is significant to the fair value measurement.



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	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Cash and cash equivalents	\$ 22,829,255	\$ -	\$ -	\$ 22,829,255
Short term investments	80,500	-	-	80,500

### (b) Liquidity Risk

The Company has a history of losses and no operating revenues from its operations. Liquidity risk is the risk that the Company will not be able to meet its short term business requirements. As at March 31, 2014, the Company had a working capital position of \$22,118,442 and sufficient cash resources to meet the Company's short term financial liabilities and its planned exploration and development expenditures for the foreseeable future, for, but not limited to, the next 12 months.

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, 2014	June 30, 2013
	<b>Due within a year</b>	
Trade and other payables	\$ 715,820	\$ 760,952
Due to related parties	124,734	58,886
	<b>\$ 840,554</b>	<b>\$ 819,838</b>

### (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, 2014	June 30, 2013
United States dollars	\$ 20,336,224	\$ 23,230,653
Chinese RMB	87,633	99,529
Financial assets in foreign currency	<b>\$ 20,423,857</b>	<b>\$ 23,330,182</b>
Chinese RMB	75,261	80,371
Financial liabilities in foreign currency	<b>\$ 75,261</b>	<b>\$ 80,371</b>

As at March 31, 2014 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.

As at March 31, 2014, with other variables unchanged, a 1% strengthening (weakening) of the Chinese RMB against the CAD would have increased (decreased) net income by approximately \$100.

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### (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, 2014.

### (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, deposit and other receivables. 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, 2014, the Company has a deposit and other receivables balance of \$130,241 (June 30, 2012 - \$684,187).

## 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,	
	2014	2013	2014	2013
Silvercorp Metals Inc. (a)	\$ 79,364	\$ 69,666	\$ 226,825	\$ 315,286
R. Feng Consulting Ltd. (b)	-	-	-	36,000
Parkside Management Ltd. (c)	18,000	18,000	54,000	18,000
	\$ 97,364	\$ 87,666	\$ 280,825	\$ 369,286

Related party transactions are entered into based on normal market conditions at the amounts agreed on by the parties. As at March 31, 2014, the balances with related parties, which are unsecured, non-interest bearing, and due on demand, are as follows:

Due to related parties	March 31, 2014	June 30, 2013
Silvercorp Metals Inc. (a)	\$ 52,734	\$ 40,886
Parkside Management Ltd. (b)	72,000	18,000
	\$ 124,734	\$ 58,886

(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, 2014, the Company recorded total expenses of \$79,364 and \$226,825 (three and nine months ended March 31, 2013 - \$69,666 and \$315,286) for services rendered and expenses incurred by Silvercorp on behalf of the Company.

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(b) During the three and nine months ended March 31, 2014, the Company incurred \$nil and \$nil (three and nine months ended March 31, 2013 - \$nil 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.

(c) During the three and nine months ended March 31, 2014, the Company incurred \$18,000 and \$54,000 (three and nine months ended March 31, 2013 - \$18,000 and \$18,000) 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, 2014, the Company has a provision for certain legal matters of \$81,000 (June 30, 2013 - \$81,000). The legal provision is based on management's best estimate of the amount and timing of the potential settlement.

#### **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 the consolidated 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 consolidated 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, 2014.

Management has identified: (a) Mineral rights and properties, (b) Share-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 \$45.1 million on the balance sheet as at March 31, 2014. 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.

Exploration and evaluation costs, incurred associated with specific mineral rights and properties prior to demonstrable technical feasibility and commercial viability of extracting a mineral resource, are capitalized.

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The Company determines that a property is in the development stage when it has completed a positive economic analysis of the mineral deposit. Subsequent development costs incurred prior to the commercial production stage are capitalized and included in the carrying amount of the related property in the period incurred. Proceeds from sales during this period, if any, are offset against costs capitalized.

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.

For exploration and evaluation assets, indication of impairment includes but is not limited to expiration of the right to explore, substantive expenditures in the specific area is neither budgeted nor planned, and exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources.

- (b) Share-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 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.

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### CHANGE IN ACCOUNTING ESTIMATES

Effective July 1, 2013, the Company changed its method of depreciation on plant and equipment from the declining balance method to the straight-line method for all plant and equipment. The significant classes of plant and equipment and their estimated useful lives are as follows:

Buildings	20 Years
Machinery	5 Years
Motor vehicles	5 Years
Office equipment and furniture	5 Years
Computer software	5 Years

The change was implemented to better reflect the pattern of usage realized from plant and equipment. There were no significant changes to the useful lives or salvage values of the plant and equipment. The change in depreciation method is applied on a prospective basis as a change in estimate.

### ADOPTION OF NEW ACCOUNTING STANDARDS

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 11 – *Joint Arrangements* establishes the principle a joint arrangement is 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.

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.

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.

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.

Effective July 1, 2013, the Company adopted all of the above standard. The adoption of these standards did not have a material impact on the unaudited condensed consolidated interim financial statements.

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### FUTURE ACCOUNTING CHANGES

#### For annual periods beginning on or after July 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.

IFRIC 21 – *Levies*, an interpretation of IAS 37 was issued by the IASB in May 2013 and provides interpretation on when to recognize a liability for a levi imposed by a government and clarifies the criteria for the recognition of a liability. The Company is still in the process of assessing the impact of the application of IFRIC 21 on the consolidated financial statements.

#### For annual periods beginning on or after July 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 – 66,938,229 common shares with a recorded value of \$57.1 million.

Shares subject to escrow or pooling agreements is nil.

#### (b) Options

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

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Options		
Outstanding	Exercise Price \$	Expiry Date
1,125,000	0.65	June 13, 2015
250,000	1.44	November 1, 2015
320,000	1.60	November 29, 2015
10,000	1.65	December 21, 2015
25,000	1.42	June 15, 2016
1,475,000	0.61	September 23, 2017
815,000	0.62	April 7, 2018
675,000	0.57	September 23, 2018
4,695,000		

### 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, 2014 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.

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.

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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, 2014. Based on this evaluation, as at March 31, 2014 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, 2014.