

# **NEW PACIFIC METALS CORP.**

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

**For the three months ended September 30, 2015 and 2014**

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

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### **DATE OF REPORT: November 13, 2015**

*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 months ended September 30, 2015 and the related notes contained therein. In addition, 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 interim consolidated financial statements for the three months ended September 30, 2015 as well as Note 2 of the audited consolidated financial statements for the year ended June 30, 2015.*

### **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. The Company's current projects are the RZY Silver-Lead-Zinc Project in Qinghai, China and the Tagish Lake Gold Property in Yukon, Canada.

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 6.15 g/t gold and 122 g/t silver, representing 390,972 ounces of gold and gold-equivalent silver (50:1 silver to gold ratio). In addition, undiluted Inferred mineral resources total 1,160,500 tonnes grading 6.09 g/t gold and 54 g/t silver, representing 267,308 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 care and maintenance status.

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. Due to the flooding in summer 2014 that closed the public bridge access to the Tagish Lake Gold Property, and the prolonged inactivity as a result of the Yukon government's inaction on resolution of the exploration permit's security deposit, management has elected to cease operations at the Tagish Lake Gold property. Management will revisit this issue once the Yukon government replaces the bridge and addresses the permit security deposit issue. During the three months ended September 30, 2015, there were no strategic or operational changes for the TLG project.

#### 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

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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.

#### ***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 296 kilometres via paved and gravel roads from the capital city of Yushu Tibetan Autonomous Prefecture, or 1157 kilometres via paved highway from Qinghai Province's capital city of Xining. Regular commercial flights are available from Xining to Yushu.

Work completed by Qinghai Geological Survey Institute prior to the acquisition by NUX identified multiple, parallel, roughly east - west striking and steeply north dipping silver-lead-zinc mineralized veins. These veins intrude an altered shear zone with a strike length of 6.8 kilometres, trending along the base of steeply rising ground to the south. Width of the main mineralized zone at surface is 25 to 100 metres. Mineralization is hosted in lower Permian aged clastic sediments. Historical surface work included trenching, pitting, geological mapping and geophysical surveying. The geochemical profile generated by analysis of soil samples indicated the silver-lead-zinc mineralization was in situ. Soil geochemistry also indicated there could be another mineralized zone to the north in a flat area about 300m from the main zone (Zone 1). Historical assay results of trench and pit sampling and limited drilling supported the soil geochemical results.

In 2012, seven trenches were completed by RZY's previous owner and assay results 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 depth potential of the mineralization exposed by surface workings, over 890 metres of drilling in five holes was completed in 2012. Assay results from drill core samples indicated the mineralization 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 believed there was enough evidence to justify continued exploration at the RZY Project in 2013.

#### ***Exploration Progress***

The 2013 drill program at the RZY Project was successfully completed on October 20, 2013. The program was designed to test the strike length, down dip extent and width of the silver-lead-zinc mineralized structure identified by previous work (Zone 1); to confirm the assay results of historical trenching and drilling by previous owners and; to test a soil geochemical anomaly located 300 metres to the north of the main structure and striking parallel to it (Zone 2). Four drill rigs completed 20 holes for a total of 5,481 metres of drilling (including 86 metres in one abandoned hole) of these, 16 holes were completed in Zone 1 and 4 were completed in Zone 2. Section lines, perpendicular to the strike of the Zone 1 and Zone 2 hosting structures were laid out on 50m spacings east (even numbers) and west (odd numbers) of a central line zero (0). Holes were drilled through the previously identified structure (Zone 1) at 200 metre intervals along a 2,000 metre strike length to the east and west of the zero line. Along section holes were also drilled on sections 35, 0 and 16 using a roughly 100 metre drill spacing to characterize the dip of the mineralization and it's continuity at depth. The soil geochemical anomaly, Zone 2, located 400 metres to the north and striking parallel to the Zone 1 structure was also drilled. Of the 4 holes completed there, 3 were laid out at 100 metre spacing along strike centered on section line 11 and one was collared across

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strike, 100 metres to the north of the trend on section 11 to explore the width and depth of the Zone 2 mineralization. Mineralized veins of various widths were intercepted by the drill holes. Mineralization in Zones 1 and 2 is characterized by steeply north dipping veins and veinlets hosting massive and disseminated sulfides of galena-sphalerite-pyrite hosted in altered sandstone and dacitic dykes within and near shears developed in Permian marine turbiditic clastic sediments.

Assay results from the 2013 drill program (see the Company's news release dated November 18, 2013 and January 14, 2014) indicated that drilling intersected significant silver-lead-zinc-antimony-copper-tin mineralization in two mineralized 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 by surface trenches and drilling to depth. The new zone is located about 300 metres to the north of, and parallel to, the main zone.

In 2013 a soil sampling program was undertaken over a target zone 8 km to the west of the drilled areas of Zone 1 and Zone 2, called the West RZY area. The 4.2km long by 2.2 km wide soil grid was centered on an anomalous reconnaissance soil sample (AS22-4). Soil sampling returned coincident Ag, Pb, Zn anomalies in the 1000 ppb to 5000 ppb range as well as coincident Au anomalies in two discreet areas approximately 1 km apart along the north east strike of the long grid dimension. A continuous Mo anomaly in the 40ppb range extends for 3 km parallel to the southern margin of the same grid. Follow up trenching and drilling of these anomalies has not yet been completed.

The 2013 drilling program covered only a two kilometre long section of the entire 6.8 kilometre long structural trend of Zone 1, aiming to test the potential size and nature of the silver-lead-zinc mineralized structure and to confirm the assay results of historical trenching and drilling. Based on the successful drill results of 2013 the Company believes that the RZY Project may have the potential to host significant silver dominated polymetallic resources. The Company plans to commence resource definition drilling at Zones 1 and 2, and, in addition, plans to continue with regional exploration to identify further mineralized zones at other prospects on the property, including detailed follow up of the West RZY soil sampling grid, during the next field campaign.

A programme for 2014 including geological mapping and sampling and 2,000 metres of drilling was planned to be completed by the end of September. However, the local government advised the Company that further exploration at the RZY Project could only be completed once adequate community involvement had been sought and discussions completed with the interested and affected parties. Efforts to comply with this requirement and to resolve the issues identified by the local community have been made in 2015 and the company expects to resume the planned drilling upon successful conclusions of these discussions.

Randy Cullen, P.Geo., a consulting geologist to 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.

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### Exploration Expenditures

The following table summarizes the exploration expenditures of the Company for the three months ended September 30, 2015:

Cost		Tagish Lake		RZY Project		Total
Balance, June 30, 2015	\$	-	\$	8,253,673	\$	8,253,673
<u>Capitalized exploration expenditures</u>						
Camp services		-		17,858		17,858
Foreign currency translation impact		-		389,977		389,977
<b>Balance, September 30, 2015</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>8,661,508</b>	<b>\$</b>	<b>8,661,508</b>

During the three months ended September 30, 2015, excluding foreign exchange impact, a total of \$17,858 of camp maintenance expenditures were incurred in RZY Project.

### FINANCIAL RESULTS

The Company has no significant source of income as the Company is still in the process of exploring and developing its mining properties. For the three months ended September 30, 2015, the Company reported net income attributable to the equity holders of \$1,390,072 or \$0.02 per share compared to income of \$604,551 or \$0.01 per share in the same prior year period. Changes in net income are mainly due to changes in operating expense and favorable fluctuations in foreign exchange rates as the Company holds a significant portion of its cash and cash equivalents in US dollars. A summary of significant items are as follows:

**Audit and accounting fees** for the three months ended September 30, 2015 were \$nil compared to \$4,000 in the prior year period.

**Consulting fees** for the three months ended September 30, 2015 were \$2,090 compared to \$26,300 in the same prior year period. The decrease in consulting fee in the current year is due to reduced number of consultants.

**Filing and listing fees** for the three months ended September 30, 2015 were \$17,964 compared to \$9,558 in the same prior year period. The filing fees include the base fee and variable fee based on the market capitalization paid to TSX. The fees increased in the current period due to the timing difference of annual financial statements filing payment.

**Foreign exchange gain** for the three months ended September 30, 2015 was \$1,576,158 compared to \$925,105 in the same prior year period. 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.

**Investor relations expense** for the three month ended September 30, 2015 was \$764 compared to \$2,455 in the same prior year period.

**Legal and professional fees** for the three months ended September 30, 2015 were \$933 compared to \$19,117 in the same prior year period. The prior period's larger amount was due to external consultations made in connection with legal matters in the normal course of business.

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**Salaries and benefits expense** for the three months ended September 30, 2015 were \$113,065 compared to \$135,296 in the same prior year period. The decrease was due to the reduced number of employees working for the mine projects.

**Office and administration expense** for the three months ended September 30, 2015 was \$63,309 compared to \$35,291 in the prior year period.

**Rent expense** for the three months ended September 30, 2015 was \$26,033 compared to \$19,095 in the same prior year period. Rental expense is based on a Service and Cost Allocation Agreement between the Company and Silvercorp Metals Inc.

**Travel and promotion expense** for the three months ended September 30, 2015 was \$14,222 compared to \$37,491 in the same prior year period. The decrease in travel and promotion expense results from the general costs saving initiatives.

#### Selected Quarterly Information

	For the Quarters Ended			
	Sept 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014
Income before other income and expenses	\$ 1,281,837	\$ (722,978)	\$ 1,533,767	\$ 292,121
Other income (expenses)	109,863	(93,134)	49,886	56,732
Net income (loss)	1,391,700	(816,112)	1,583,653	348,853
Net income (loss) attributable to equity holders	1,390,072	(809,301)	1,588,543	355,455
Basic and diluted earning (loss) per share	0.02	(0.01)	0.02	0.01
Total assets	34,068,509	32,183,694	32,689,577	30,370,012

  

	For the Quarters Ended			
	Sept 30, 2014	Jun, 30 2014	Mar, 31 2014	Dec 31, 2013
Income (loss) before other income and expenses	\$ 560,040	\$ (1,132,211)	\$ 303,106	\$ (5,767)
Other income (expenses)	32,570	(39,914,439)	118,251	(17,222)
Net income (loss)	592,610	(41,046,650)	421,357	(22,989)
Net income (loss) attributable to equity holders	604,551	(41,034,752)	418,310	11,204
Basic and diluted earning (loss) per share	0.01	(0.61)	0.01	0.00
Total assets	29,733,106	28,739,160	69,737,702	70,013,043

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 fluctuates along with the changes of interest rates and the balances of cash and cash equivalents and short term investments.

#### LIQUIDITY AND CAPITAL RESOURCES

##### 1. Cash Flows

**Cash used in operating activities** for the three months ended September 30, 2015 was \$162,035 (three months ended September 30, 2014 – used \$458,879), which mainly resulted from net income, after items not affecting cash of \$149,772 compared to \$277,312, in the same prior year period. Changes in non-cash

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working capital for the three months ended September 30, 2015 has used \$12,263 in cash compared to \$181,567 cash used in the same prior year period.

**Cash used in investing activities** for the three months ended September 30, 2015 was \$962,446 (three months ended September 30, 2014 – used \$124,057), which mainly resulted from capital expenditures on mineral property interests of \$17,858 and purchase of other investment of \$384,813 and short term investments of \$581,030. In the prior year, investing activities were mainly comprised of capital expenditures on mineral property interests of 124,057.

**Foreign exchange effect** was positive \$ 1,620,374 and positive \$984,646 for the three months ended September 30, 2015 and 2014, respectively. Foreign exchange effect is mainly due to the period end translation of US and Chinese denominated funds that the Company holds.

## 2. Liquidity and Capital Resources

As at September 30, 2015, the Company had working capital of \$23,431,277 (June 30, 2015 - \$22,364,687), comprised mainly of cash and cash equivalents of \$15,347,721 (June 30, 2015 - \$14,851,828) and short term investments of \$9,408,026 (June 30, 2015 -\$8,826,997) offset by current liabilities of \$1,480,034 (June 30, 2015 - \$1,443,398). Management believes that the Company has sufficient funds for planned capital expenditures, and 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.

## 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

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recurring basis by level within the fair value hierarchy. As at September 30, 2015, 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	\$ 15,347,721	\$ -	\$ -	\$ 15,347,721
Short term investments	9,408,026	-	-	9,408,026
Other investments	380,800	-	-	380,800

#### (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 September 30, 2015, the Company had a working capital position of \$23,431,277 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:

	September 30, 2015	June 30, 2015
	Due within a year	
Trade and other payables	\$ 1,357,177	\$ 1,292,765
Due to related parties	41,857	69,633
	\$ 1,399,034	\$ 1,362,398

#### (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	September 30, 2015	June 30, 2015
United States dollars	\$ 21,170,023	\$ 21,885,664
Chinese RMB	153,672	1,046,913
Financial assets in foreign currency	\$ 21,323,695	\$ 22,932,577
Chinese RMB	\$ 615,600	\$ 587,844
Financial liabilities in foreign currency	\$ 615,600	\$ 587,844

As at September 30, 2015, with other variables unchanged, a 1% strengthening (weakening) of the U.S. Dollar against the CAD would have increased (decreased) net income by approximately \$212,000.

As at September 30, 2015, with other variables unchanged, a 1% strengthening (weakening) of the



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Chinese RMB against the CAD would have increased (decreased) net income by approximately \$4,600.

### (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 interest rates do not have significant impact on the fair values of the financial instruments as of September 30, 2015.

### (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, trade 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 September 30, 2015, the Company has a deposit and other receivables balance of \$155,564 (June 30, 2015 - \$129,260).

## RELATED PARTY TRANSACTIONS

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

Transactions with related parties	Three month ended September 30,	
	2015	2014
Silvercorp Metals Inc. (a)	\$ 99,791	\$ 51,380
	\$ 99,791	\$ 51,380

Related party transactions are entered into based on normal market conditions at the amounts agreed on by the parties. As at September 30, 2015, the balances with related parties, which are unsecured, non-interest bearing, and due on demand, are as follows:

Due to related parties	September 30, 2015	June 30, 2015
Silvercorp Metals Inc. (a)	\$ 41,857	\$ 69,633
	\$ 41,857	\$ 69,633

(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 months ended September 30, 2015, the Company recorded total expenses of \$99,791 (three months ended September 30, 2014 - \$51,380) for services rendered and expenses incurred by Silvercorp on behalf of the Company.

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### **PROVISIONS**

The Company is involved in legal action associated with the normal course of operations. As at September 30, 2015, the Company has a provision for certain legal matters of \$81,000 (September 30, 2014 - \$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 consolidated financial statements for the three months ended September 30, 2015.

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 \$8.7 million on the balance sheet as at September 30, 2015. 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.

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,

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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.

### **FUTURE ACCOUNTING CHANGES**

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 and subsequently measured at amortized cost except for financial liabilities classified as at FVTPL, financial guarantees and certain other exceptions. The IASB issued amendments to IFRS 9 which deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after January 1, 2018. 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.

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IFRS 15 – *Revenue from contracts with customers*, the standard on revenue from contracts with customers was issued on May 28, 2014 and is effective for annual reporting periods beginning on or after January 1, 2018 for public entities with early adoption permitted. Entities have the option of using either a full retrospective or modified retrospective approach to adopt the guidance. The Company is assessing the impact of this standard.

### 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:

Options Outstanding	Exercise Price \$	Expiry Date
320,000	1.60	November 29, 2015
1,205,000	0.61	September 23, 2017
815,000	0.62	April 7, 2018
510,000	0.57	September 23, 2018
2,850,000	0.72	

### 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 September 30, 2015

## **NEW PACIFIC METALS CORP.**

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

**For the three months ended September 30, 2015 and 2014**

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

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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.

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 September 30, 2015. Based on this evaluation, as at September 30, 2015, 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 months ended September 30, 2015.