NEW PACIFIC METALS CORP.

Management's Discussion and Analysis
For the three and six months ended December 31, 2011
(Expressed in Canadian dollars, unless otherwise stated)

DATE OF REPORT: February 9, 2012

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' ("NUX" 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 six months ended December 31, 2011 and the related notes contained therein. In addition, the following should be read in conjunction with the audited consolidated financial statements of the Company for the year ended June 30, 2011, the related MD&A, the Annual Information Form (available on SEDAR at www.sedar.com). The Company reports its financial position, results of operations and cash flow in accordance with International Financial Reporting Standards ("IFRS"). The Company's fiscal 2012 and certain fiscal 2011 comparatives included in this MD&A have been presented in accordance with IFRS. As the Company's IFRS transition date was July 1, 2010, comparative information prior to this date has not been restated. NUX's significant accounting policies are set out in Note 2 of the unaudited condensed consolidated interim financial statements.

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 from SEDAR at www.sedar.com, and from the Company's website at www.newpacificmetals.com.

BUSINESS STRAGEGY

New Pacific Metals Corp. is a Canadian-based near-term gold and silver production mining company engaged in the exploration and development of gold poly-metallic properties in Yukon, Canada. The Company's current project is the Tagish Lake Gold Property in Yukon Territory. With experienced management and sufficient technical and financial resources, the Company is well positioned to build shareholder value through discovery, exploration and resource development.

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

As of the date of this MD&A, the Company has received conditional approval for its common shares to be listed on the Toronto Stock Exchange ("TSX"), subject to the final approval. The Company´s common shares will commence trading on the TSX once final approval is received.

PROJECTS OVERVIEW

1. Tagish Lake Gold Property

In December 2010, the Company completed the acquisition of 100% of Tagish Lake Gold Property through the acquisition of Tagish Lake Gold Corp. ("TLG"). TLG is currently a wholly owned subsidiary of the Company. The Tagish Lake Gold Property is located 80 kilometres by road south of Whitehorse, Yukon, Canada, and consists of 1546 mineral claims covering approximately 270 square kilometres. Within the property, three geographically distinct projects have been identified: the Skukum Creek, Goddell, and Mt. Skukum projects.

Mineral resources conforming to National Instrument 43-101 ("NI 43-101") have been developed at the Skukum Creek and Goddell projects. The undiluted Measured & Indicated mineral resources at the Tagish Lake Gold Property are 1,435,000 tonnes grading 7.4 g/t gold and 139 g/t silver, representing 468,000 ounces of gold plus gold-equivalent silver (50:1 silver to gold ratio). Undiluted inferred mineral resources total 516,000 tonnes grading 8.0 g/t gold and 61.9 g/t silver, representing 153,000 ounces gold plus gold-equivalent silver. An historic gold-only mineral resource estimate for the Mt. Skukum Project is known from reports prior to NI 43-101, but is not included in the Company's current resource inventory.

In January 2007, the Carcross/Tagish First Nation ("CTFN") and TLG signed a Memorandum of Understanding ("MOU") which provides the framework for a more comprehensive development agreement that will contain measures for participation by the CTFN in project activities and stewardship of the land. CTFN supports mining in its traditional territory that adheres to its values, interests and principles. Opportunities for the CTFN on the Skukum property include employment, training, and service contracts.

2. Exploration Progress

The exploration field season at the Tagish Lake Gold Project commenced on May 18, 2011, after expansion of the project site camp from 25 to 50 persons was completed, and continued to October 9, 2011. Field activities comprised prospecting, surface geological mapping, soil surveying, surface drilling, underground diamond drilling, as well as supplementary sampling of historical drill cores. Other work to support the exploration program included camp upgrading, road repair and construction, underground rehabilitation, dewatering and "de-icing," water sampling, staking new claims, and satellite image processing of the entire project site.

As of this MD&A date, the summary of exploration progress by project is as follows:

(a) Skukum Creek

Skukum Creek is a mesothermal quartz-sulphide vein type gold-silver deposit hosted in Cretaceous granodiorite. The deposit is comprised of a stockwork of separate sub-vertical mineralized veins; the prominent one is called the Rainbow Zone. Historically from 1985 to 2008, a total of 348 diamond drill holes were completed with a total metreage of 44,097 core, plus a total of 4,050 metres of underground tunnel development. In the summer of 2011, underground drilling was carried out at the south end of Xcut-3 of the 1300m level, targeting an area about 150 metres long by 60 metres wide of the Rainbow Zone near the bottom of the 1225m ramp. A total of 1,709.3 metres in 14 holes was drilled from July 23 to August 19, 2011 with one hole abandoned. Assay results from the 2011 underground drilling confirmed mineralization of the Rainbow Zone that was evidenced by historical drillholes: hole 86-R8 which yielded 2.95m at 30.01 g/t gold and 603.55 g/t silver; and hole 87-UG17R which had 25.6m at 11.24 g/t gold and 291.78 g/t silver, including 8.29m at 28.19 g/t gold and 748.54 g/t silver.

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

Typically at Raca, lower gold based metal grades are seen. Four holes were historically drilled totalling 1050.34 metres in 1986 and 1997, with the best intercept of 3.61m at 2.66g/t gold and 561.37g/t silver from hole RACA97-1. Drilling in 2011 at Raca was designed to test the depth extension and strike extent of known mineralization zone for which about 3,900 metres of core drilling was planned at the beginning of this year. Drilling started on June 26, 2011 and terminated on July 31, 2011. A total of five holes totalling 1,251.45 metres was drilled with two holes completed to planned depth, and the rest abandoned due to down-hole problems such as thick overburden and fault zones in a tuffaceous andesite unit. Both of the two completed holes intersected mineralization zones at planned depth; the first hole, Raca11-01, intersected a new zone of high grade silver in the hanging wall volcanics.

(b) Goddell

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

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

The Company is very pleased with the assay results from the mineralized intervals; such results confirmed the previously determined wide gold intercepts that look promising for large "bulk-mining" sized stopes, envisioned for a future potential mining operation. The drilled section accounts only for a small strike sector of the five kilometres long mineralized Goddell shear structure. As work on Goddell re-commences in 2012, the Company will engage contractors with deep drilling ability to fully test the down-dip and along strike potentials of the entire structure with drill fences.

(c) Mt. Skukum

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

In the 1980's, drilling and underground development were completed at the Lake Vein, as well as other veins. The Company reviewed the historical exploration data and concluded that the deposit was not adequately explored. Consequently, the Company initiated a surface drilling program at the Lake Vein in the summer of 2011; 16 holes were completed totaling 2,482 metres. The aim was to confirm the high-grade nature of the mineralization, to infill drill the gap areas of historical data, and to define potential step-outs of the high grade pockets demonstrated by historical drilling. Drilling occurred between September 8, 2011 and October 1, 2011. Stockwork vein zones of quartz-calcite-adularia veins of various widths were intersected. In addition, wide zones of disseminated sulphides dominated by fine pyrite and pyrrhotite in altered volcanic tuff were documented beneath the vein zones.

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The Company is very pleased with the results from the stockwork vein zones of the first three drill holes. The Company is planning future drilling to fully explore the potential of the deposit, and to fully define and calculate these potential additional resources. The assay results of the disseminated sulphide zones and other holes are pending.

Summary of the completed exploration physicals is as set out in the table below:

	Holes	Metres
Surface drilling	37	10,778.47
Underground drilling	14	1,709.30
Sub-total	**51**	**12,487.77**

Surface mapping	1.8 square kilometres at Raca-Chieftain Hill
Surface sampling	293 rock chip samples, 25 grab samples, 180 soil samples and 2 talus samples
Supplementary core sampling	314 samples from 50 holes
Road repair and construction	32.3 kilometres of road repaired; and 2.46 kilometres new road constructed
Underground de-watering and refurbishment	460 metres
Water sampling	348 samples
Staking	571 claims
Image processing	276 square kilometres

During the three and six months ended December 31, 2011, a total of $1,141,210 and $5,548,521, respectively, of exploration expenditures were incurred at Tagish Lake Gold Property (three and six months ended December 31, 2010 - $nil and $nil, respectively). As of December 31, 2011, a total of $8,159,889 exploration expenditures have been incurred since acquisition by NUX.

For further information about the exploration activities and assay results of Tagish Lake Gold Property, please refer to the Company's news releases dated on August 2, 2011, October 5, 2011, October 25, 2011, November 8, 2011, November 14, 2011, January 18, 2012, and January 26, 2012 on the Company's website.

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3. Exploration Expenditures

The following table summarizes the exploration expenditures of the Tagish Lake Gold Property for the six months ended December 31, 2011:

Cost		Tagish Lake
Balance, June 30, 2011		30,765,038
Capitalized exploration expenditures		
Reporting and assessment		325,895
Drilling and assaying		2,351,522
Staking and mapping		91
Camp services		963,572
Site preparation		871,514
Permitting		196,906
Environmental study		92,666
Care and maintenance		382,234
Other		364,121
Balance, December 31, 2011	**$**	**36,313,559**

RESULTS OF OPERATIONS

1. Highlights

For the three months ended December 31, 2011, the Company recorded a loss of $1,036,123 or $0.015 per share, a decrease of $472,720, compared to a loss of $1,508,843 or $0.027 per share in the same period of prior year. Of the total loss reported, $1,036,123 (three months ended December 31, 2010 - $1,298,360) was from continuing operations and $nil (three months ended December 31, 2010 - $210,483) was from discontinued operations.

For the six months ended December 31, 2011, the Company incurred a loss of $151,948, or $0.002 per share, a decrease of $1,664,711, compared to a loss of $1,816,659 or 0.037 per share in the same period of prior year. Of the total loss reported, $151,948 (six months ended December, 2010 - $1,476,094) was from continuing operations and $nil (six months ended December 31, 2010 - $340,565) was from discontinued operations.

2. Expenses

For three months ended December 31, 2011, excluding foreign exchange loss, the Company incurred total expenses of $649,802**,** a decrease of $626,825 or 49% compared to $1,276,627 in the same period of prior year. For the six months ended December 31, 2011, excluding foreign exchange gain, the Company incurred total expenses of $1,328,177, a decrease of $1,253,634 or 49%, compared to $2,581,811 in the same period of prior year. An analysis of major expense items are as follows:

Audit and accounting fees for the three months ended December 31, 2011 were $54,853, a decrease of $3,117 or 5% compared to $57,970 in the same period of prior year.

For the six months ended December 31, 2011, audit and accounting fees were $80,953, a decrease of $45,917 or 36% compared to $126,870 in the same period of prior year. The higher audit and accounting fees incurred in the prior year was due to additional audit services in relations to the TLG acquisition.

Filing and listing fees for the three months ended December 31, 2011 were $13,334, a decrease of $20,548 or 61% compared to $33,882 in the same period of prior year.

For the six months ended December 31, 2011, filing and listing fees were $35,089, a decrease of $40,069 or 53% compared to $75,158 in the same period of prior year. The higher filing and listing fees incurred in the prior year was mainly related to the TLG acquisition.

Foreign exchange loss was $451,330 and gain of $1,105,655 for the three and six months ended December 31, 2011, respectively. As the Company holds a large portion of cash and cash equivalents in US dollar, the fluctuation in exchange rates between US dollar and Canadian dollar will impact the financial results of the Company.

For three and six months ended December 31, 2010, foreign exchange loss was $3,445 and $10,390 respectively.

Investor relations expense for the three months ended December 31, 2011 was $191,868, an increase of $126,773 or 195% compared to $65,095 in the same period of prior year.

For the six months ended December 31, 2011, investor relations expense was $325,168, an increase of $29,710 or 10% compared to $295,458 in the same period of prior year. Overall increase in investor relations expense is mainly due to additional conferences and promotional programs attended.

Legal and professional fees for the three months ended December 31, 2011 were $20,583, a decrease of $451,069 or 96% compared to $471,652 in the same period of prior year.

For the six months ended December 31, 2011, legal and professional fees were $21,543, a decrease of $1,020,229 or 98% compared to $1,041,772 in the same period of prior year. The higher legal and professional fees incurred in the prior year was related to the TLG acquisition.

Salaries and benefits expense for the three months ended December 31, 2011 was $161,536, a decrease of $46,417 or 22% compared to $207,953 in the same period of prior year.

For the six months ended December 31, 2011, salaries and benefits expense were $248,586, a decrease of $87,808 or 26% compared to $336,394 in the same period of prior year. The decrease was mainly due to the capitalization of geologist salaries as they exclusively worked on Tagish Lake Gold Property during the period whereas geologist salaries were expensed in the prior year.

Office and administration for the three months ended December 31, 2011 was $69,285, an increase of $42,712 or 161% compared to $26,573 in the same period of prior year.

During the six months ended December 31, 2011, office and administration was $192,612, an increase of $149,182 or 343% compared to $43,430 in the same period of prior year. The increase was mainly due to increased administrative activities to support the Company's expanded operations after the acquisition of TLG.

Rent for the three months ended December 31, 2011 was $51,491, an increase of $29,607 or 135% compared to $21,884 in the same period of prior year.

During the six months ended December 31, 2011, rent was $103,938, an increase of $63,579 or 158% compared to $40,359 in the same period of prior year. The increase in rent is due to the Company expanding office space to accommodate increased number of employees.

3. Gain on revaluation of previously owned shares upon acquisition of TLG

For the three and six months ended December 31, 2010, the Company recognized a gain of $nil and $1,120,529, respectively, on the revaluation of previously owned TLG shares based on the market value on the acquisition date. No such transaction occurred in the current year.

4. Loss from Discontinued Operations

For the three and six months ended December 31, 2010, the Company recorded losses of $210,483 and $340,565, respectively, from discontinued operations located in China. As the operations were disposed of during the fiscal year ended June 30, 2011, no such loss occurred in the three and six months ended December 31, 2011.

SUMMARY OF QUARTERLY RESULTS

	For the Quarters Ended			
	31-Dec-11	30-Sep-11	30-Jun-11	31-Mar-11
Expenses	$ (1,101,132)	$ 878,610	$ (824,848)	$ (889,857)
Other income and expenses	65,009	5,565	83,094	87,803
Income (loss) from continuing operations	(1,036,123)	884,175	(741,754)	(802,054)
Income (loss) from discontinued operations	-	-	581,406	16,239,618
Net income (loss) attributable to equity holders of the Company	(1,036,123)	884,175	(156,088)	15,441,320
Basic and diluted earning (loss) per share from continuning operations	(0.015)	0.013	(0.011)	(0.012)
Basic earnings (loss) per share from discontinued operations	-	-	0.009	0.247
Diluted earnings (loss) per share from discontinued operations	(0.015)	0.013	0.008	0.240
Total assets	70,988,314	73,146,976	71,676,694	72,695,411

	For the Quarters Ended			
	31-Dec-10	30-Sep-10	30-Jun-10[(1)]	30-Mar-10[(1)]
Expenses	$ (1,280,072)	$ (1,312,129)	$ (445,770)	$ (363,408)
Other income and expenses	(18,288)	1,134,395	6,039	17,669
Loss from continuing operations	(1,298,360)	(177,734)	(439,731)	(345,739)
(Loss) income from discontinued operations	(210,483)	(130,082)	(23,000)	(71,928)
Net loss attributable to equity holders of the Company	(1,471,291)	(306,229)	(462,731)	(417,667)
Basic and diluted loss per share from continuing operations	(0.027)	(0.005)	(0.014)	(0.011)
Basic and diluted loss per share from discontinued operations	(0.004)	(0.004)	(0.001)	(0.002)
Total assets	56,561,178	43,459,570	14,511,208	14,623,548

[1] As the Company's IFRS transition date was July 1, 2010, comparative information prior to this date has not been restated and is presented in accordance to Canadian GAAP.

Significant items from the quarterly results:

- For the quarter ended December 31, 2011, included in expenses was a foreign exchange loss of $451,330 attributed to the Company holding approximately $20 million of US dollar denominated cash equivalents and the weakening of the US dollar in the quarter.
- For the quarter ended September 30, 2011, included in expenses was a foreign exchange gain of $1,556,985 attributed to the Company holding approximately $20 million of US dollar denominated cash equivalents and the strengthening of the US dollar in the quarter.
- For the quarter ended June 30, 2011, the Company recorded income of $581,406 from its discontinued operations attributable to gain recognized on the disposition of a subsidiary.
- For the quarter ended March 31, 2011, the Company recorded income of $16,239,618 from its discontinued operations attributable to gain on the disposition of a subsidiary.

The expenses incurred by the Company are typical of junior exploration companies that have not yet established mineral reserves. In addition to the significant items noted above, the Company's fluctuations in expenditures from quarter to quarter were mainly related to exploration 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, as well as the timing to recognize gain or loss on the disposal of mineral property interest and plant and equipment.

LIQUIDITY AND CAPITAL RESOURCES

1. Working Capital

As at December 31, 2011, the Company had a working capital position of $31,506,742 (June 30, 2011 - $37,232,868) comprised of cash and cash equivalents of $22,937,538 (June 30, 2011 - $20,625,672), short term investments of $9,080,500 (June 30, 2011 - $17,023,000), trade and other receivables of $505,050 (June 30, 2011 - $1,444,810), and inventories of $nil (June 30, 2011 - $41,412), offset by current liabilities of $1,016,346 (June 30, 2011 - $1,902,026). With a strong working capital, the Company is well positioned financially to continue the development of the Tagish Lake Gold Property in the upcoming fiscal year.

2. Cash Flows

Cash used in operating activities for the three months ended December 31, 2011 was $763,909 (three months ended December 31, 2010 - used $8,257,433), mainly resulted from loss of $1,036,123 (three months ended December 31, 2010 - loss $1,508,843) including loss from discontinued operations of $nil (three months ended December 31, 2010 - loss $210,483), cash used in operating activities of discontinued operations of $nil (three months ended December 31, 2010 - used $91,399), increase of non-cash working capital to $224,688 (three months ended December 31, 2010 – decrease $7,143,774), add items not affecting cash of $47,526 (three months ended December 31, 2010 – add $276,100).

During the six months ended December 31, 2011, cash provided by operating activities was $253,228 (six months ended December 31, 2010 – used $9,676,084), mainly resulted from loss of $151,948 (six months ended December 31, 2010 – loss $1,816,659) including loss from discontinued operations of $nil (six months ended December 31, 2010 – loss $340,565), cash used in operating activities of discontinued operations of $nil (six months ended December 31, 2010 – used $327,787), increase of non-cash working capital of $174,954 (six months ended December 31, 2010 – decrease $7,205,100), add items not affecting cash of $230,222 (six months ended December 31, 2010 – deduct $667,103).

Cash provided by investing activities for the three months ended December 31, 2011 was $1,794,275 (three months ended December 31, 2010 – used $18,347,936), mainly resulted from: net redemption of short term investments of $2,977,000 (three months ended December 31, 2010 – purchase $17,000,000) offset by expenditures for mineral property interests of $1,126,096 (three months ended December 31, 2010 - $137,221), acquisition of plant and equipment of $56,629 (three months ended December 31, 2010 - $22,748), net cash used for acquisition of net assets of TLG of $nil (three months ended December 31, 2010 - $1,553,174), and cash disposed as a result of disposition of a subsidiary $nil (three months ended December 31, 2010 - $172,324).

During the six months ended December 31, 2011, cash provided by investing activities was $2,103,441 (six months ended December 31, 2010 - used $18,742,371) mainly resulted from: net redemption of short term investments of $7,942,500 (six months ended December 31, 2010 – purchase $17,095,640) offset by expenditures for mineral property interests of $5,305,886 (six months ended December 31, 2010 -

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$179,757), acquisition of plant and equipment of $533,173 (six months ended December 31, 2010 - $22,748), net cash used for acquisition of net assets of TLG of $nil (six months ended December 31, 2010 - $1,625,823), and cash disposed as a result of disposition of a subsidiary $nil (six months ended December 31, 2010 - $31,685).

Cash used in financing activities for the three months ended December 31, 2011 was $165,112 (three months ended December 31, 2010 – provided $23,122,987), mainly resulted from decrease in amounts due to related parties of $166,895 (three months ended December 31, 2010 – increase $480) and shares issued for cash of $1,783 (three months ended December 31, 2010 - $23,199,257).

For six months ended December 31, 2011, cash used by financing activities was $44,803 (six months ended December 31, 2010 – provided $23,117,562), mainly resulted from decrease in amounts due to related parties of $64,461 (six months ended December 31, 2010 – decrease $42,545) and shares issued for cash of $19,658 (six months ended December 31, 2010 - $23,236,857).

Foreign exchange effect was $nil and negative $4,174 during the three months ended December 31, 2011 and 2010, respectively, in addition with $nil and negative $11,935 during the six months ended December 31, 2011 and 2010, respectively.

3. Liquidity and Capital Resources

As at December 31, 2011, the Company had working capital of $31,506,742, mainly derived from net proceeds of $23.2 million from the private placement in December 2010 and net proceeds of $19.5 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.

The Company has no purchase commitments and contractual obligations as at December 31, 2011.

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.

1. Fair Value

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, 2011, 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	$ 22,937,538	$ -	$ -	$ 22,937,538
Short term investments	9,080,500	-	-	9,080,500

2. 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, 2011, 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, 2011	June 30, 2011	July 1, 2010
		Due within a year	
Trade and other payables	**$ 1,013,347**	$ 1,877,487	$ 131,108
Due to related parties	**2,999**	24,539	98,272
Liabilities held for sale	**-**	-	565,566
	$ 1,016,346	$ 1,902,026	$ 794,946

3. Exchange Rate 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, 2011**	June 30, 2011	July 1, 2010
United States dollar	**$ 21,136,350**	$ 19,268,762	$ 562,157
Chinese yuan	-	746,000	408,903
Total financial assets	**$ 21,136,350**	$ 20,014,762	$ 971,060
Chinese yuan	-	-	565,566
Total financial liabilities	**$** -	$ -	$ 565,566

As at December 31, 2011, 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 December 31, 2011 with other variables unchanged, a 1% strengthening (weakening) of the Chinese Yuan ("CNY") against the CAD would have no impact on the Company.

4. 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, 2011.

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5. 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, trade and other 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.

RELATED PARTY TRANSACTIONS

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

	Three months ended December 31,		Six months ended December 31,	
Transactions with related parties	**2011**	2010	**2011**	2010
Silvercorp Metals Inc. (a)	**$ 125,653**	$ 164,072	**$ 308,245**	$ 260,216
R. Feng Consulting Ltd. (b)	**18,000**	18,000	**36,000**	36,000
0799952 BC Ltd. (c)	-	31,500	-	63,000
	$ 143,653	$ 213,572	**$ 344,245**	$ 359,216

As at December 31, 2011, 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, 2011**	July 30, 2011	July 1, 2010
Silvercorp Metals Inc. (a)	**$ (17,231)**	$ 24,539	$ 79,372
R. Feng Consulting Ltd. (b)	**20,160**	-	18,900
	$ 2,929	$ 24,539	$ 98,272

(a) Silvercorp Metals Inc. ("SVM") 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, 2011, the Company recorded total expenses of $125,653 and $308,245 respectively (three and six months ended December 31, 2010 - $164,072 and $260,216 respectively) for services rendered and expenses incurred by SVM on behalf of NUX.

(b) During the three and six months ended December 31, 2011, the Company incurred $18,000 and $36,000 respectively (three and six months ended December 31, 2010 - $18,000 and $36,000 respectively) in consulting fees for consulting services rendered by R. Feng Consulting Ltd., a company controlled by a director and an officer of the Company.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management personnel for the three and six months ended December 31, 2011 and 2010 are as follows:

(Expressed in Canadian dollars, unless otherwise stated)

	Three months ended December 31,		Six months ended December 31,	
	2011	2010	**2011**	2010
Directors' fee	**$ 7,500**	$ 7,500	**$ 15,000**	$ 15,000
Salaries/consulting fees for key management personnel	**178,750**	71,250	**315,833**	115,500
Stock-based compensation	**-**	633,179	**138,103**	360,937
	$ 186,250	$ 711,929	**$ 468,936**	$ 491,437

Salaries/consulting fees for key management personnel include consulting fees disclosed in (b) above. Stock-based compensation expenses were measured at grant date fair value.

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 businesses, other than those in the ordinary course of business, approved by the board of directors as at the date of this report.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

(a) Mineral rights and properties are the most significant assets of the Company, representing $36.3 million on the balance sheet as at December 31, 2011. The Company has determined that acquisition costs, direct exploration, evaluation and development expenditures, including costs incurred during production to increase future output by providing access to additional sources of mineral resource, are capitalized where costs related to specific properties for which resources exists.

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

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

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

(c) Deferred income taxes 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

The IASB and IFRIC have issued certain new standards, interpretations, amendments and improvements to existing standards, mandatory for future accounting periods. The most significant of these are as follows, and are all effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted, unless otherwise specified:

IFRS 9 – Financial Instruments will be the new standard for financial reporting of financial instruments that is set to replace the existing IAS 39. IFRS 9 is principles-based and is aimed to be less complex than IAS 39.

IFRS 11 – Joint Arrangements provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 and SIC-13.

IFRS 12 – Disclosures of Interests in Other Entities will be the new standard for disclosure requirements for subsidiaries, joint-ventures, associates and unconsolidated structured entities. As previous disclosure requirements segregated in different standards – IAS 27, IAS 28, and IAS 31 – had overlaps in numerous areas, the new combined disclosure standard will present a uniformed requirement that is easier to understand and apply.

IFRS 10 – Consolidated Financial Statements will be the new standard replaces the consolidation guidance in IAS 27 and SIC-12, by establishing a consistent application of the concept of control as the basis for determining which entities are consolidated in the consolidated financial statements.

IFRS 13 – Fair Value Measurement will be the new standard that replaces the guidance on fair value measurement in existing IFRS. It defines and provides guidance on measuring fair value and requires disclosures about fair value measurements in a single standard.

The Company is currently evaluating the impact of the future accounting standards on the consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has adopted IFRS effective July 1, 2011 with the transition date being July 1, 2010. The unaudited condensed consolidated interim financial statements as at and for the three and six months ending December 31, 2011 have been prepared in accordance with IFRS. The significant accounting policies adopted by the Company are described in Note 2 of the accompanied unaudited condensed consolidated financial statements.

The conversion from Canadian GAAP to IFRS as the basis of preparing the Company's financial statements has resulted in changes in the Company's accounting policies, financial reporting process and systems, incremental controls relating to financial reporting, and additional financial expertise and training requirements. The conversion did not have any significant impact on the Company's key financial performance indicators, financial covenants, capital requirements or compensation plans.

1. First-time adoption exemptions applied

In preparing the unaudited condensed consolidated interim financial statements in accordance with IFRS 1, First-time Adoption of IFRS ("IFRS 1"), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below:

(i) Business combinations – the Company has elected the business combinations exemption in IFRS 1 to not apply IFRS 3, Business Combinations retrospectively to past business combinations. Accordingly, the company has not restated business combinations that took place prior to the transition date.

(ii) Cumulative translation differences – the Company has elected to set the previously accumulated cumulative translation account, which was included in accumulated other comprehensive income ("AOCI"), to zero as at the transition date, and absorbed the balance to retained earnings.

(iii) Non-controlling interests – the Company has elected to apply the requirements related to non-controlling interests in IAS 27, Consolidation and Separate Financial Statements, prospectively from the transition date. Therefore, non-controlling interests that may have a deficit balance prior to the transition date will not be restated.

(iv) Share-based payment – the Company has elected to not apply IFRS 2, Share-based Payment to equity instruments granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS.

(Expressed in Canadian dollars, unless otherwise stated)

2. Summary of IFRS conversion impact

The following is a summary of the impact of IFRS conversion on the Company. For full details on the IFRS conversion, please refer to Note 14 of the accompanied unaudited condensed consolidated interim financial statements.

Balance Sheet / Equity as at July 1, 2010:

	Canadian GAAP	Transitional Adjustments *(i)*	*(ii)*	*(iii)*	IFRS
Current Assets	$ 9,759,627	$ -	$ -	$ -	$ 9,759,627
Non-current Assets	4,751,581	(226,541)	-	-	4,525,040
Total Assets	**$ 14,511,208**	**$ (226,541)**	**$ -**	**$ -**	**$ 14,284,667**
Current Liabilities	$ 794,946	$ -	$ -	$ -	$ 794,946
Total Liabilities	794,946	-	-	-	794,946
Total Equity	13,716,262	(226,541)	-	-	13,489,721
Total Liabilities and Equity	**$ 14,511,208**	**$ (226,541)**	**$ -**	**$ -**	**$ 14,284,667**

Balance Sheet / Equity as at December 31, 2010:

	Canadian GAAP	Transitional Adjustments *(i)*	*(ii)*	*(iii)*	*(iv)*	*(v)*	IFRS
Current Assets	$ 24,753,019	$ -	$ -	$ -	$ -	$ -	$ 24,753,019
Non-current Assets	32,031,870	(71,170)	(226,541)	-	74,000	-	31,808,159
Total Assets	**$ 56,784,889**	**$ (71,170)**	**$ (226,541)**	**$ -**	**$ 74,000**	**$ -**	**$ 56,561,178**
Current Liabilities	$ 4,036,764	$ -	$ -	$ -	$ -	$ -	$ 4,036,764
Total Liabilities	4,036,764	-	-	-			4,036,764
Total equity attributable to:							
Equity holders of the Company	52,748,125	(71,170)	(226,541)	-	74,000	39,139	52,563,553
Non-controlling interest	-	-	-	-	-	(39,139)	(39,139)
Total Equity	52,748,125	(71,170)	(226,541)	-	74,000	-	52,524,414
Total Liabilities and Equity	**$ 56,784,889**	**$ (71,170)**	**$ (226,541)**	**$ -**	**$ 74,000**	**$ -**	**$ 56,561,178**

(Expressed in Canadian dollars, unless otherwise stated)

Balance Sheet / Equity as at June 30, 2011:

	Canadian GAAP	Transitional Adjustments (i)	(ii)	(iii)	(iv)	(v)	IFRS
Current Assets	$ 39,134,894	$ -	$ -	$ -	$ -	$ -	$ 39,134,894
Non-current Assets	32,478,320	-	-	(10,520)	74,000	-	32,541,800
Total Assets	**$ 71,613,214**	**$ -**	**$ -**	**$ (10,520)**	**$ 74,000**	**$ -**	**$ 71,676,694**
Current Liabilities	$ 1,902,026	$ -	$ -	$ -	$ -	$ -	$ 1,902,026
Total Liabilities	1,902,026	-	-	-			1,902,026
Total Equity	69,711,188	-	-	(10,520)	74,000	-	69,774,668
Total Liabilities and Equity	**$ 71,613,214**	**$ -**	**$ -**	**$ (10,520)**	**$ 74,000**	**$ -**	**$ 71,676,694**

Comprehensive income (loss) for the three months ended December 31, 2010:

	Canadian GAAP	Transitional Adjustments (i)	(ii)	(iii)	(iv)	(v)	IFRS
Loss from continuing operations	(945,479)	-	-	(272)	(352,609)	-	(1,298,360)
Loss from discontinued operations	(210,241)	(242)	-	-	-	-	(210,483)
Net loss for the period	$ (1,155,720)	$ (242)	$ -	$ (272)	$ (352,609)	$ -	$ (1,508,843)
Attributable to:							
Equity shareholders of the Company	$ (1,155,720)	$ (242)	$ -	$ (272)	$ (352,609)	$ 37,552	$ (1,471,291)
Non-controlling interest	-	-	-	-	-	(37,552)	(37,552)
	$ (1,155,720)	$ (242)	$ -	$ (272)	$ (352,609)	$ -	$ (1,508,843)
Other comprehensive income (loss)	27,086	(64,351)	-	-	-	-	(37,265)
Comprehensive loss	$ (1,128,634)	$ (64,593)	$ -	$ (272)	$ (352,609)	$ -	$ (1,546,108)
Attributable to:							
Equity shareholders of the Company	$ (1,128,634)	$ (63,730)	$ -	$ (272)	$ (352,609)	$ 37,552	$ (1,507,693)
Non-controlling interest	-	(863)	-	-	-	(37,552)	(38,415)
	$ (1,128,634)	$ (64,593)	$ -	$ (272)	$ (352,609)	$ -	$ (1,546,108)

Comprehensive income (loss) for the six months ended December 31, 2010:

	Canadian GAAP	Transitional Adjustments (i)	(ii)	(iii)	(iv)	(v)	IFRS
Loss from continuing operations	(1,413,494)	-	-	19,530	(82,130)	-	(1,476,094)
Loss from discontinued operations	(391,522)	50,957	-	-	-	-	(340,565)
Net loss for the period	$ (1,805,016)	$ 50,957	$ -	$ 19,530	$ (82,130)	$ -	$ (1,816,659)
Attributable to:							
Equity shareholders of the Company	$ (1,805,016)	$ 50,957	$ -	$ 19,530	$ (82,130)	$ 39,139	$ (1,777,520)
Non-controlling interest	-	-	-	-	-	(39,139)	(39,139)
	$ (1,805,016)	$ 50,957	$ -	$ 19,530	$ (82,130)	$ -	$ (1,816,659)
Other comprehensive loss	(46,862)	(122,127)	-	-	-	-	(168,989)
Comprehensive loss	$ (1,851,878)	$ (71,170)	$ -	$ 19,530	$ (82,130)	$ -	$ (1,985,648)
Attributable to:							
Equity shareholders of the Company	$ (1,851,878)	$ (69,174)	$ -	$ 19,530	$ (82,130)	$ 39,139	$ (1,944,513)
Non-controlling interest	-	(1,996)	-	-	-	(39,139)	(41,135)
	$ (1,851,878)	$ (71,170)	$ -	$ 19,530	$ (82,130)	$ -	$ (1,985,648)

(Expressed in Canadian dollars, unless otherwise stated)

Comprehensive income (loss) for the year ended June 30, 2011:

	Canadian GAAP	*Transitional Adjustments* (i)	(ii)	(iii)	(iv)	(v)	IFRS
Loss from continuing operations	$ (2,994,080)	$ -	$ -	$ 56,307	$ (82,130)	$ -	$ (3,019,903)
Income from discontinued operations	16,253,918	-	226,541	-	-	-	16,480,459
Net income for the period	$ 13,259,838	$ -	$ 226,541	$ 56,307	$ (82,130)	$ -	$ 13,460,556
Attributable to:							
Equity shareholders of the Company	$ 13,259,838	$ -	$ 226,541	$ 56,307	$ (82,130)	$ 47,157	$ 13,507,713
Non-controlling interest	-	-	-	-	-	(47,157)	(47,157)
	$ 13,259,838	$ -	$ 226,541	$ 56,307	$ (82,130)	$ -	$ 13,460,556
Other comprehensive loss	$ (46,862)	$ -	$ -	$ -	$ -	$ -	$ (46,862)
Comprehensive income	$ 13,212,976	$ -	$ 226,541	$ 56,307	$ (82,130)	$ -	$ 13,413,694
Attributable to:							
Equity shareholders of the Company	$ 13,212,976	$ -	$ 226,541	$ 56,307	$ (82,130)	$ 47,157	$ 13,460,851
Non-controlling interest	-	-	-	-	-	(47,157)	(47,157)
	$ 13,212,976	$ -	$ 226,541	$ 56,307	$ (82,130)	$ -	$ 13,413,694

Transitional adjustments are made according to the following notes:

(i) Foreign exchange impact on translation

Upon adoption of IFRS, the functional currency of the Company's discontinued Chinese subsidiaries was changed from CAD to CNY. CAD no longer serves as the functional currency for all entities in the group as it did under Canadian GAAP. Such change results in a foreign exchange difference between the two accounting standards on certain financial items. Under Canadian GAAP, these items were translated from CNY to CAD by using historical rates under Canadian GAAP. However under IFRS, they are translated from CNY to CAD directly using the exchange rate prevailing as at the period end.

July 1, 2010: Foreign exchange differences of $226,541 were adjusted to the respective non-current assets and AOCI.

December 31, 2010: Foreign exchange differences of $71,170 were adjusted to respective non-current assets, $122,127 to AOCI with an exchange loss of $242 and gain of $50,957 recognized in net income in the three and six months period, respectively.

June 30, 2011: Foreign exchange differences of $51,923 recognized in net income was offset by the same amount recognized as part of the gain from disposition of the discontinued Chinese subsidiaries. As a result, a net effect of $nil was included on the consolidated statement of income for year ended June 30, 2011.

(ii) Cumulative translation difference

The Company has elected to eliminate its cumulative translation difference for its discontinued Chinese subsidiaries that existed at the date of transition to IFRS. A total of $226,541 cumulated translation difference was reclassified from AOCI to deficit as at July 1, 2010. The same adjustment was carried forward to the subsequent periods' balance sheets up to the period of disposition.

As the $226,541 cumulated translation difference reduced the carrying amount of the related non-current assets, it resulted in an increase of the same amount for gain recognized from disposition of the discontinued Chinese subsidiaries for the year ended June 30, 2011.

(Expressed in Canadian dollars, unless otherwise stated)

(iii) Stock-based compensation

Under the Canadian GAAP, forfeitures of grants were recognized as they occur. Under IFRS, forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

July 1, 2010: Stock-based compensation was reduced by $20,190 with respective adjustments made to contributed surplus and deficit.

December 31, 2010: Stock-based compensation was increased by $272 and reduced by $19,530 with the respective adjustments made to contributed surplus and stock-based compensation expenses in the three and six months period, respectively.

June 30, 2011: Stock-based compensation was reduced by $56,307 with the respective adjustments made to contributed surplus and stock-based compensation expenses.

(iv) Acquisition of Tagish Lake Gold Corp.

During the fiscal year ended June 30, 2011, the Company acquired TLG, a Canadian publicly traded company involved in exploration and development of gold-silver mineral deposits in Yukon, Canada. This transaction was accounted for as a business combination using the purchase method under Canadian GAAP. Under IFRS, this transaction is accounted for as a business combination using the acquisition method.

Under Canadian GAAP, the consideration was determined by the fair value of the shares based on their market price over a reasonable period before and after the date the terms of the business combination are agreed to and announced. The cost of the purchase included the transaction costs of business combination.

Under IFRS, the previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and any resulting gain or loss is recognized in net income. Also, the cost of purchase shall be measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interest issued by the acquirer. All acquisition related costs are accounted for as expenses, except the costs to issue equity securities, in which case, the related costs is to reduce the carrying amount of equity securities. A comparison of total cost of purchase is as the follows:

	Canadian GAAP	IFRS
14.3 million TLG held prior to take-over bid offer	$ 595,472	$ 595,472
Revaluation of TLG shares owned prior to acquisition		1,120,528
15,613,122 New Pacific common shares issued: - Under Canadian GAAP, at $1.09 per share, equal to average closing share prices from September 13 to September 17, 2010 - Under IFRS, at $1.10 per share, equal to closing share price on September 15, 2010	17,018,303	17,174,434
Cash consideration	1,476,286	1,476,286
Replacement options	99,689	99,689
Transaction costs	1,202,659	-
Total cost of purchase	**$ 20,392,409**	**$ 20,466,409**

(Expressed in Canadian dollars, unless otherwise stated)

(v) Non-controlling interest

Canadian GAAP does not allow debit balance of non-controlling interest on the balance sheet, while IFRS requires picking up the non-controlling interests' share of changes in equity since the date of combination, even if the resulting non-controlling interest balance becomes debit.

As a result, there was a minor adjustment to total equity as at December 31, 2010. There was no adjustment to total equity as at June 30, 2011 as the related subsidiary had been disposed. This adjustment did not impact total comprehensive income for the three and six months ended December 31, 2010 and the year ended June 30, 2011.

OUTSTANDING SHARE DATA

As at the date of this report, the following securities were outstanding:

(a) Share Capital

Authorized - unlimited number of common shares without par value
Issued and outstanding - 67,346,703 common shares with a recorded value of $56,409,213
Shares subject to escrow or pooling agreements is nil.

(b) Options

The outstanding options as at the date of this report are summarized as follows:

Options outstanding	Exercise prices $	Expiry Date
214,000	1.55	July 16, 2012
40,000	1.55	January 30, 2013
525,000	0.50	January 18, 2014
1,330,000	0.65	June 13, 2015
250,000	1.44	November 1, 2015
510,000	1.60	November 29, 2015
168,750	1.65	December 21, 2015
10,000	2.04	December 28, 2015
145,000	1.42	June 15, 2016
140,000	1.33	September 14, 2016
3,332,750		

(c) Warrants

As at the date of this report, the outstanding warrants are comprised of the following:

Warrants Outstanding	Exercise Price	Expiration Date
9,000,000	2.00	June 22, 2012

RISK FACTORS

The Company is subject to many risks which are outlined in the Annual Information Form 51-102F2, which is available on SEDAR at 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

The management of the Company is responsible for establishing and maintaining appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. Management is also responsible for establishing adequate internal controls over financial reporting to provide sufficient knowledge to support the representations made in this MD&A and the unaudited condensed consolidated interim financial statements for the three and six months ended December 31, 2011.

The management of the Company has filed the Venture Issuer Basic Certificate with the Annual Filings on SEDAR at www.sedar.com.

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the venture issuer certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52 -109. In particular, the certifying officers filing certificates for venture issuers are not making any representations relating to the establishment and maintenance of:

(i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and

(ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's generally accepted accounting principles.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates(s).

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.