NEW PACIFIC METALS CORP.

Management's Discussion and Analysis
For the three and six months ended December 31, 2012
(Expressed in Canadian dollars, unless otherwise stated)

DATE OF REPORT: February 13, 2013

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

FORWARD LOOKING STATEMENTS

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

Additional information relating to the Company can be obtained from SEDAR at www.sedar.com, and from the Company's website at www.newpacificmetals.com.

BUSINESS STRATEGY

New Pacific Metals Corp.'s current project is the Tagish Lake Gold Property in Yukon. With a strong balance sheet, no debt, and experienced management, the Company is well position to build shareholder value through discovery and resource development in Canada and China.

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

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 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 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.

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

Exploration Progress

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

On February 23, 2012, TLG received a five year permit known as a "Mining Land Use Approval," under the *Quartz Mining Act*, Yukon, Canada, subject to the negotiation of security reflective of the Company's planned activities. 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 Company and government regulatory authorities in the Yukon are working together to finalize the determination and account of security for reclamation. The Company is hopeful that a final resolution will be effected by early 2013 so that the Company can recommence exploration activities. Until that time, the Tagish Lake Gold Property will continue to be under care and maintenance. While this matter is progressing, the Company has also retained external financial advisors in Canada to examine strategic alternatives to Tagish Lake.

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

(a) Skukum Creek

Skukum Creek is a mesothermal quartz-sulphide vein type gold-silver deposit hosted in Cretaceous granodiorite. The deposit consists of several separate subparallel sub-vertical mineralized veins, of which the prominent one is called the Rainbow Zone. Historically from 1985 to 2008, a total of 348 diamond drill holes were completed with a total metreage of 44,097 core, plus a total of 4,050 metres of underground tunnel development. In the summer of 2011, underground drilling was carried out at the south end of Xcut-3 of the 1,300m level, targeting an area about 150 metres long by 60 metres wide of the Rainbow Zone near the bottom of the 1,225m level ramp. A total of 1,709.3 metres in 14 holes was drilled from July 23 to August 19, 2011 with one hole abandoned. Assay results from the 2011 underground drilling confirmed mineralization of the Rainbow Zone that was evidenced by historical drillholes: hole 86-R8 which yielded 2.95m at 30.01 g/t gold and 603.55 g/t silver; and hole 87-UG17R which had 25.6m at 11.24 g/t gold and 291.78 g/t silver, including 8.29m at 28.19 g/t gold and 748.54 g/t silver.

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

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

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

(b) Goddell

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

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

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"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. Such results confirmed the previously determined wide gold intercepts that look promising for large "bulk-mining" sized stopes, envisioned for a future potential mining operation. The drilled section accounts only for a small strike sector of the five kilometres long mineralized Goddell shear structure.

(c) Mt. Skukum

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

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

(d) Summary of exploration work

Exploration activities in 2011 are summarized in the table below.

	Holes	Metres
Surface drilling	37	10,778.47
Underground drilling	14	1,709.30
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

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For more 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, January 26, 2012, February 27, 2012, September 14, 2012 and September 17, 2012, all of which can be obtained from SEDAR at www.sedar.com and from the Company's website at www.newpacificmetals.com.

Exploration Expenditures

The following table summarizes the exploration expenditures of the Tagish Lake Gold Property for the six months ended December 31, 2012:

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

During the three and six months ended December 31, 2012, a total of $186,590 and $407,942, respectively, of expenditures was incurred at the Tagish Lake Gold Property (three and six months ended December 31, 2011 - $758,976 and $5,166,287, respectively). As of December 31, 2012, a total of $9,333,837 exploration expenditures have been incurred since acquisition of the project.

2. RZY Silver-Lead-Zinc Project

In December 2012, the Company signed a binding letter of agreement (the "Agreement") with Silvercorp Metals Inc. ("Silvercorp") to acquire majority interest in its wholly owned subsidiary, Fortress Mining Inc. ("FMI"). Pursuant to the terms of the Agreement, the Company will pay US$3.5 million to acquire an 80% interest of FMI. FMI currently owns 82% interest in Qinghai Found Mining Co. Ltd. ("QFM"), which owns 67% interest in the RZY project, an early stage silver-lead-zinc exploration project. The Company has an option to acquire the remaining 20% of FMI within two years for US$5 million after the Company has spent US$15.9 million in exploration and development expenditures on the RZY project As this is a related party transaction, the agreement is pending approval from the Toronto Stock Exchange.

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

Known mineralization is silver-lead-zinc veins controlled by altered structure zones developed in the lower Permian marine clastic sediments. Two silver-lead-zinc mineralized zones, MI-1 and MI-2 hosted in an altered structure zone with a strike extent of 6.5 kilometres and width of 25 to 100 metres have been identified by historical surface work conducted by Qinghai Geological Survey Institute including trenching, pitting, geology mapping and geophysics surveying. The geochemical profile indicated that the silver-lead-zinc mineralization is likely in situ, not floats of dispersion from sources in the surrounding mountainous area. The soil geochemical anomaly also indicated there could be another mineralized zone to the north in a flat area about one kilometre from the mountains.

For more information regarding the RZY transaction, please refer to the Company's news release dated on December 21, 2012, which can be obtained from SEDAR at www.sedar.com and from the Company's website at www.newpacificmetals.com.

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

RESULTS OF OPERATIONS

For the three months ended December 31, 2012, the Company incurred a loss of $297,069 or $0.004 per share, compared to loss of $1,036,123 or $0.02 per share in the same prior year period.

For the six months ended December 31, 2012, the Company incurred a loss of $1,456,362 or $0.02 per share, compared to loss of $151,948 or $0.002 per share in the same prior year period.

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

1. Expenses

Audit and accounting fees for the three months ended December 31, 2012 were $24,600 compared to $54,853 in the same prior year period. For the six months ended December 31, 2012, audit and accounting fees were $28,394 compared to $80,953 in the same prior year period.

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

Consulting fees for the three months ended December 31, 2012 were $7,990 compared to $18,000 in the same prior year period. During the period, the Company capitalized $11,550 of consulting fees to mineral property interests, as a consultant solely worked on the TLG Project.

For the six months ended December 31, 2012, consulting fees were $62,000 compared to $36,000 in the same prior year period. The overall higher consulting fees incurred in the current year is due to the Company having two consultants working as compared to only one in the prior year.

Filing and listing fees for the three months ended December 31, 2012 were $50,998 compared to $13,334 in the same prior year period. For six months ended December 31, 2012, filing and listing fees were $104,070 compared to $35,089 in the same prior year period.

The higher filing and listing fees incurred in the current year were mainly related to the Company listing on the TSX as compared to the TSX Venture Exchange in the prior year.

Foreign exchange gain was $233,210 and a loss of $503,572 for three months and six months ended December 31, 2012, respectively. For the three months and six months ended December 31, 2011, foreign exchange loss was $451,330 and a gain of $1,105,655, respectively.

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

General explorations expense for the three and six months ended December 31, 2012 was $109,173 and $109,173, respectively, compared to $nil and $nil in the same prior year periods. General explorations expense consist of preliminary project prospecting expenses such as drilling, assaying, and travelling as the Company explored other strategic alternatives. No such expenses were incurred in the prior year as the Company was only developing the TLG project.

Investor relations expense for the three months ended December 31, 2012 was $11,512 compared to $191,868 in the same prior year period. For six months ended December 31, 2012, investor relations expense was $15,143 compared to $325,168 in the same prior year period.

The decrease is mainly due to the Company reducing such activities during the current fiscal periods.

Legal and professional fees for the three months ended December 31, 2012 were $30,912 compared to $20,583 in the same prior year period. For six months ended December 31, 2012, legal and professional fees was $44,654 compared to $21,543 in the same prior year period.

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

Salaries and benefits expense for the three months ended December 31, 2012 was $155,999 compared to $161,536 in the same prior year period. For six months ended December 31, 2012, salaries and benefit expense was $322,559 compared to $248,586 in the same prior year period.

The overall increase was mainly due to geologist salaries no longer being capitalized as the Tagish Lake Gold Property remained in care and maintenance during the period. As such, geologist salaries were expensed in the current period, whereas they were capitalized in the prior year.

Office and administration expense for the three months ended December 31, 2012 was $27,819 compared to $69,285 in the same prior year period. For the six months ended December 31, 2012, office and administration expense was $56,025 compared to $192,612 in the same prior year period.

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

Rent expense for the three months ended December 31, 2012 was $37,860 compared to $51,491 in the same prior year period. For six months ended December 31, 2012, rent expense was $97,027 compared to $103,938 in the same prior year period.

Travel and promotion expense for the three months ended December 31, 2012 was $4,253 compared to $22,387 in the same prior year period. For six months ended December 31, 2012, travel and promotion expense was $15,707 compared to $55,127 in the same prior year period.

(Expressed in Canadian dollars, unless otherwise stated)

The decrease is to the reduced corporate promotional activities in the current period.

SUMMARY OF QUARTERLY RESULTS

	For the Quarters Ended			
	Dec 31, 2012	Sept 30, 2012	Jun 30, 2012	Mar 31, 2012
Income (expenses)	**$ (342,534)**	$ (1,193,457)	$ 14,583	$ (956,174)
Other income (expenses)	**45,465**	34,164	(183,961)	34,004
Net income (loss) attributable to equity holders of the Company	**(297,069)**	(1,159,293)	(169,378)	(922,170)
Basic and diluted earning (loss) per share	**(0.00)**	(0.02)	(0.00)	(0.01)
Total assets	**68,487,638**	68,874,277	69,950,306	70,051,077

	For the Quarters Ended			
	Dec 31, 2011	Sept 30, 2011	Jun 30, 2011	Mar 31, 2011
Income (expenses)	$ (1,101,132)	$ 878,610	$ (824,848)	$ (889,857)
Other income (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	16,239,619
Net income (loss) attributable to equity holders of the Company	(1,036,123)	884,175	(203,246)	15,441,323
Basic and diluted earning (loss) per share from continuning operations	(0.02)	0.01	(0.01)	(0.01)
Basic earnings (loss) per share from discontinued operations	-	-	0.01	0.25
Diluted earnings (loss) per share from discontinued operations	-	-	0.01	0.24
Total assets	70,988,314	73,146,976	71,676,694	72,695,411

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

LIQUIDITY AND CAPITAL RESOURCES

1. Working Capital

As at December 31, 2012, the Company had a working capital position of $28,293,011 (June 30, 2012 - $29,997,684) comprised mainly of cash and cash equivalents of $28,921,659 (June 30, 2012 - $22,527,940), and short term investments of $80,500 (June 30, 2012 - $8,080,500) offset by current liabilities of $825,407 (June 30, 2012 - $874,781).

2. Cash Flows

Cash used in operating activities for the three months ended December 31, 2012 was $428,613 (three months ended December 31, 2011 – used $312,579), which mainly resulted from net loss, after items not affecting cash, of $415,616, compared to $537,267 in the same prior year period. Changes in non-cash working capital for the three months ended December 31, 2012 were used $12,997 compared to $224,688 provided in the same prior year period.

During the six months ended December 31, 2012, cash used in operating activities was $661,930 (six months ended December 31, 2011 - used $852,427), which mainly resulted from net loss, after items not affecting cash, of $775,088, compared to $1,027,381 in the same prior year period. Changes in non-cash working capital for the six months ended December 31, 2012 provided $113,158 compared to $174,954 in the same prior year period.

Cash used by investing activities for the three months ended December 31, 2012 was $159,956 (three months ended December 31, 2011 – provided $1,794,275), which mainly resulted from capital expenditures on mineral property interests and equipment of $159,956. In the same prior year period, capital expenditures on mineral property interest and equipment of $1,182,725 offset by net redemption of short term investment of $2,977,000.

During the six months ended December 31, 2012, cash used by investing activities was $7,704,998 (six months ended December 31, 2011 – provided $2,103,441), which mainly resulted from capital expenditures on mineral property interests and equipment of $295,002 offset by net redemption of short term investment of $8,000,000. In the same prior year period, capital expenditures on mineral property interest and equipment of $5,839,059 offset by net redemption of short term investment of $7,942,500.

Cash used in financing activities for the three months ended December 31, 2012 was $102,761 (three months ended December, 2011 - used $165,112), which mainly resulted from cash paid for share buyback of $68,264 and movement in the due to related parties account of $46,997. In the same prior year period, the amount was mainly a result of movement in the due to related parties account.

During the six months ended December 31, 2012, cash used in financing activities was $145,742 (six months ended December, 2011 - used $44,803), which mainly resulted from cash paid for share buyback of $143,476. In the same prior year period, the amount was a result of movement in the due to related parties account of $64,461.

Foreign exchange effect was positive $233,175 and negative $451,330 for the three months ended December 31, 2012 and 2011, respectively. The foreign exchange effect was negative $503,607 and positive $1,105,655 for the six months ended December 31, 2012 and 2011, respectively. Foreign exchange effect is mainly due to the period end translation of US denominated funds that the Company holds.

3. Liquidity and Capital Resources

As at December 31, 2012, the Company had working capital of $28,293,011 which mainly was derived from net proceeds of $23.2 million from the private placement in December 2010 and net proceeds of $19.2 million from the disposition of its Chinese subsidiary in March 2011. Management believes that the Company has sufficient funds for planned capital expenditures, as well as to discharge liabilities as they come due.

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

In December 2012, the Company has signed a binding letter of agreement with Silvercorp to acquire 80% interest in its wholly owned subsidiary, Fortress Mining Inc. for US$3.5 million. The company has no other commitment or obligation as at December 31, 2012.

(Expressed in Canadian dollars, unless otherwise stated)

FINANCIAL INSTRUMENTS

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

(a) Fair Value

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

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

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

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

The following table sets forth the Company's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at December 31, 2012, those financial assets are classified in their entirety based on the level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash and cash equivalents	$ 28,921,659	$ -	$ -	$ 28,921,659
Short term investments	80,500	-	-	80,500

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its short term business requirements. The Company has in place planning and budgeting processes to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion plans. As of December 31, 2012, the Company has sufficient funds to meet its short-term financial liabilities.

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

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

(c) Currency Risk

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

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

The amounts are expressed in CAD equivalents		**December 31, 2012**		June 30, 2012
United States dollars	**$**	**20,715,012**	$	21,209,196
Total financial assets	**$**	**20,715,012**	$	21,209,196

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

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents and short term investments primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. The Company also holds a portion of cash and cash equivalents in bank accounts that earn variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of December 31, 2012.

(e) Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meets its contractual obligations. The Company is exposed to credit risk primarily associated with cash and cash equivalents, short term investments, accounts receivable. The carrying amount of financial assets included on the balance sheet represents the maximum credit exposure.
The Company has deposits of cash equivalents that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote, as majority of its cash and cash equivalents, short term investments are with major financial institutions in Canada. As at December 31, 2012, the Company has an accounts receivable balance of $116,259 (June 30, 2012 - $264,025).

RELATED PARTY TRANSACTIONS

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

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

(Expressed in Canadian dollars, unless otherwise stated)

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

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

(a) Silvercorp has two common directors and officers with the Company and shares office space and provides various general and administrative services to the Company. During the three and six months ended December 31, 2012, the Company recorded total expenses of $104,321 and $245,621 respectively (three and six months ended December 31, 2011 - $125,653 and $308,245 respectively) for services rendered and expenses incurred by Silvercorp on behalf of the Company.

(b) During the three and six months ended December 31, 2012, the Company incurred $18,000 and $36,000 respectively (three and six months ended December 31, 2011 - $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.

PROVISIONS

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

OFF-BALANCE SHEET ARRANGEMENTS

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

PROPOSED TRANSACTIONS

In exception to the pending acquisition of the RZY Project, as noted above and in the Company's news release dated December 21, 2012, 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 MD&A.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported on the consolidated financial statements. These critical accounting estimates represent management estimates that are uncertain and any changes in these estimates could materially impact the Company's financial statements. Management continuously reviews its estimates and assumptions using the most current information available. The Company's critical accounting policies and estimates are described in Note 2 of the accompanied unaudited condensed consolidated financial statements for the three months ended December 31, 2012.

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

(a) Mineral rights and properties are the most significant assets of the Company, representing $37.5 million on the balance sheet as at December 31, 2012. 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 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

Accounting standards effective January 1, 2013:

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

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

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

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

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

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

IFRS 13 – *Fair Value Measurement* defines fair value and sets out a single framework for measuring fair value which is application to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires valuation technique used should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability. The Company does not anticipate the application of this standard to have a significant impact on the consolidated financial statements.

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

Accounting standards effective January 1, 2014:

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

Accounting standards effective January 1, 2015:

IFRS 9 – *Financial Instruments* is intended to replace IAS 39 – *Financial Instruments: Recognition and*

(Expressed in Canadian dollars, unless otherwise stated)

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

OUTSTANDING SHARE DATA

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

(a) Share Capital

Authorized - unlimited number of common shares without par value
Issued and outstanding - 67,091,917 common shares with a recorded value of $57,349,543
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 prices $	Expiry Date
475,000	0.50	January 18, 2014
1,205,000	0.65	June 13, 2015
250,000	1.44	November 1, 2015
320,000	1.60	November 29, 2015
160,000	1.65	December 21, 2015
10,000	2.04	December 28, 2015
25,000	1.42	June 15, 2016
1,795,000	0.61	September 23, 2017
4,240,000		

RISK FACTORS

The Company is subject to many risks which are outlined in its Annual Information Form, which is available on SEDAR at www.sedar.com. 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 December 31, 2012 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 December 31, 2012. Based on this evaluation, as at December 31, 2012, the Company believes that its internal controls over financial reporting were designed and operating effectively to provide reasonable, but not absolute, assurance that the objectives of the control system are met.

The Company continues to review and assess its internal controls over financial reporting. There were no significant changes made to internal controls over financial reporting during the three and six months ended December 31, 2012.