

# NEW PACIFIC METALS CORP.

## Management's Discussion and Analysis

For the three and nine months ended March 31, 2018 and 2017

(Expressed in Canadian dollars, unless otherwise stated)

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**DATE OF REPORT: May 17, 2018**

*Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected New Pacific Metals Corp. and its subsidiaries' ("New Pacific" or the "Company") performance and such factors that may affect its future performance. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended March 31, 2018 and the related notes contained therein. In addition, the Company reports its financial position, financial performance and cash flow in accordance with International Financial Reporting Standards ("IFRS"). The Company's significant accounting policies are set out in Note 2 of the audited consolidated financial statements for the year ended June 30, 2017.*

### FORWARD-LOOKING STATEMENTS

*Except for statements of historical fact relating to the Company, certain information contained herein constitutes forward-looking statements under applicable securities laws. 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 fluctuating equity prices, bond prices, commodity prices, calculation of resources, reserves and mineralization, foreign exchange risks, interest rate risk, foreign investment risk, loss of key personnel, conflicts of interest, dependence on management, uncertainties relating to the availability and costs of financing needed in the future, and other factors described in this MD&A. 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 under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com), and on the Company's website at [www.newpacificmetals.com](http://www.newpacificmetals.com).*

### BUSINESS STRATEGY

New Pacific along with its subsidiaries is a Canadian mining issuer engaged in exploring and developing mineral properties in Bolivia, Canada and China. The Company was previously an investment issuer engaged in investing in privately held and publicly traded corporations under the name of New Pacific Holdings Corp. The change of the Company's business and name was approved by the Company's shareholders at the Special Meeting held on June 30, 2017.

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

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The Company is a reporting issuer in British Columbia, Alberta, Manitoba, Ontario, and Quebec, and is publicly listed on the TSX Venture Exchange under the symbol "NUAG". On March 12, 2018, the Company's shares commenced trading on the OTCQX Best Market in the United States under the symbol "NUPMF".

### ALCIRA ACQUISITION

On July 20, 2017, the Company, through its wholly-owned subsidiary New Pacific Investment Corp., closed its previously announced acquisition of 100% interest in Empresa Minera Alcira S.A. ("Alcira"), a private Bolivian incorporated mining company from its three shareholders (the "Vendors") pursuant to the terms of a share purchase agreement (the "Agreement") dated March 28, 2017. Alcira has seven silver-polymetallic mineral properties or ATEs (Temporary Special Authorization) in Bolivia. The most significant property is the Silver Sand property, located in the Potosi Department, which has been subjected to some small-scale, historic mining and was drilled during the period 2012 through 2015 by Alcira. The other six are early-stage exploration projects, which have either been subject to limited small-scale mining or historical drilling.

The Company acquired Alcira for total cash consideration of \$57,070,675 (US\$45,000,000). During the nine months ended March 31, 2018, total payments of \$45,858,200 (US\$36,250,000) were paid to the Vendors. Combined with the previous payment of \$4,866,375 (US\$3,750,000) made on April 6, 2017, total payments made to the Vendors as of March 31, 2018 were \$50,724,575 (US\$40,000,000). According to the Agreement, the remaining balance of \$6,240,000 (US\$5,000,000) is to be paid to the Vendors once the Company has received certain specified permits and licenses from the authorities of Bolivia necessary for mining and milling operations, or once Alcira has commenced commercial production. This amount was accrued under contingent payment of property acquisition as at March 31, 2018.

The transaction is entered into based on normal market conditions at the amount agreed on by the parties. The transaction did not meet the criteria of a business combination since Alcira lacks the necessary inputs, process, and outputs of being a business; therefore it has been accounted for as an acquisition of assets by the Company. The purchase consideration was allocated to the assets acquired based on their fair values at the date of the acquisition net of any associated liabilities. The only material asset acquired was the mineral property interest of the Silver Sand Property.

To facilitate the funding of its acquisition of Alcira and the exploration on the Silver Sand property, the Company successfully completed three private placements during the nine months period ended March 31, 2018, raising gross proceeds of \$72,334,356 as follows:

On July 17, 2017, the Company closed a private placement to issue a total of 43,521,250 common shares at a price of \$1.01 (US\$0.80) per share for gross proceeds of \$44,099,456.

On July 28, 2017, the Company closed another private placement to issue a total of 1,250,000 common shares at a price of \$1.00 (US\$0.80) per share for gross proceeds of \$1,254,900.

On November 27, 2017, the Company closed its strategic private placement of units with Pan American Silver Corp. for 16,000,000 units and Silvercorp Metals Inc. ("Silvercorp") for 3,000,000 units, at a price of \$1.42 per unit for gross proceeds of \$26,980,000. Each unit is comprised of one common share of the Company and one half of a common share purchase warrant. Each whole warrant is exercisable into one common share for a period of 18 months at an exercise price of \$2.10 per common share.

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Total share issuance costs for the above private placements were \$1,650,035.

## **PROJECTS OVERVIEW**

### **1. Silver Sand Property**

On July 20, 2017, the Company acquired the Silver Sand Property. The Silver Sand Property is located in the Potosi Department, Bolivia. The property consists of 17 contiguous concessions totalling 3.15 square kilometres in size. The property is one of the earliest silver discoveries in the district, having been made prior to the discovery of Cerro Rico in the mid-1500's. Small-scale, historic mining is evident from scattered shafts, pits, adits, declines and dumps. The property was explored previously by intermittent surface mapping and sampling, underground sampling and surface core drilling between 2012 and 2015.

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

The Company started the preparation work for the planned exploration program after the acquisition of the Silver Sand Property. In October 2017, the Company successfully received exploration permits required by the relevant Bolivian government authorities and immediately commenced a 30,000 metre exploration drilling program on the property. For the three and nine months ended March 31, 2018, total expenditures of \$2,292,123 and \$3,646,522, respectively, were capitalized under the property. These expenditures were mainly related to the drilling program, site and camp preparation, maintaining a regional office in La Paz, and building a competent management team and workforce for the property.

### **2. Tagish Lake Gold Property**

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

On September 14, 2012, the Company filed an updated National Instrument 43-101 ("NI 43-101") report for the Skukum Creek, Goddell and Mount Skukum projects. The Company does not intend to conduct any further exploration on the Tagish Lake Gold Property and will examine strategic opportunities for the Tagish Lake Gold Property in accordance with its business strategies and objectives.

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

Since the acquisition of the Tagish Lake Gold Property in December 2010, the Company had one exploration season that commenced on May 18, 2011 and ended on October 9, 2011. The property was on care and maintenance status with a rotating crew of two men on site at all times between the end of exploration work and November 2014. Since November 2014 the camp has been sealed and unmanned. All major onsite equipment items have been removed for sale.

### **3. RZY Silver-Lead-Zinc Project**

The RZY Project, located in Qinghai, China is an early stage silver-lead-zinc exploration project, situated on a high plateau with an average elevation of 5,000 metres above sea level. The RZY project is located approximately 296 kilometres via paved and gravel roads from the capital city of Yushu, Tibetan

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Autonomous Prefecture, or 1,157 kilometres via paved highway from Qinghai Province's capital city of Xining. Regular commercial flights are available from Xining to Yushu.

### Exploration Progress

The most recent drill program at the RZY Project was completed on October 20, 2013. In 2016, the Qinghai Provincial Government issued a moratorium which temporarily suspends exploration for 26 mining projects including the Company's RZY project. RZY's exploration permit expired on November 19, 2016. The application for the renewal of the exploration permit is in the final stage and subject to the Government's approval.

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

| Cost                                        |           | Silver Sand       |           | Tagish Lake |           | RZY Project      |           | Total             |
|---------------------------------------------|-----------|-------------------|-----------|-------------|-----------|------------------|-----------|-------------------|
| Balance, July 1, 2016                       | \$        | -                 | \$        | -           | \$        | 4,415,900        | \$        | 4,415,900         |
| <u>Capitalized exploration expenditures</u> |           |                   |           |             |           |                  |           |                   |
| Reporting and assessment                    |           | 42,591            |           | -           |           | -                |           | 42,591            |
| Drilling and assaying                       |           | 392,726           |           | -           |           | -                |           | 392,726           |
| Other                                       |           | 31,655            |           | -           |           | -                |           | 31,655            |
| Foreign currency translation impact         |           | -                 |           | -           |           | (97,028)         |           | (97,028)          |
| Balance, June 30, 2016                      | \$        | 466,972           | \$        | -           | \$        | 4,318,872        | \$        | 4,785,844         |
| <u>Capitalized exploration expenditures</u> |           |                   |           |             |           |                  |           |                   |
| Reporting and assessment                    |           | 12,555            |           | -           |           | -                |           | 12,555            |
| Drilling and assaying                       |           | 2,680,269         |           | -           |           | -                |           | 2,680,269         |
| Project management and support              |           | 853,989           |           | -           |           | -                |           | 853,989           |
| Site preparation                            |           | 97,703            |           | -           |           | -                |           | 97,703            |
| Pemitting                                   |           | 2,006             |           | -           |           | -                |           | 2,006             |
| Acquisition premium                         |           | 56,728,782        |           | -           |           | -                |           | 56,728,782        |
| Foreign currency translation impact         |           | 1,915,305         |           | -           |           | 306,880          |           | 2,222,185         |
| <b>Balance, March 31, 2018</b>              | <b>\$</b> | <b>62,757,581</b> | <b>\$</b> | <b>-</b>    | <b>\$</b> | <b>4,625,752</b> | <b>\$</b> | <b>67,383,333</b> |

### INVESTMENTS OVERVIEW

#### 1. Bonds

The Company acquired bonds issued by other companies from various industries through the open market. These bonds were held to receive coupon interest payments as well as to realize potential gains. The bonds may also be disposed on demand through the open market should the Company require funds for other operational or investment needs.

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The continuity of bonds is summarized as follow:

|                                     | Amount               |
|-------------------------------------|----------------------|
| Balance, July 1, 2016               | \$ 17,201,630        |
| Interest earned                     | 982,109              |
| Gain on fair value change           | 274,240              |
| Coupon payment                      | (986,842)            |
| Disposition                         | (6,226,770)          |
| Foreign currency translation impact | 159,899              |
| Balance, June 30, 2017              | \$ 11,404,266        |
| Acquisition                         | 7,959,008            |
| Interest earned                     | 504,150              |
| Loss on fair value change           | (306,188)            |
| Coupon payment                      | (458,632)            |
| Disposition                         | (1,973,498)          |
| Foreign currency translation impact | 285,715              |
| <b>Balance, March 31, 2018</b>      | <b>\$ 17,414,821</b> |

During the three and nine months ended March 31, 2018 total (loss)/gain in the amount of (\$76,987) and \$197,962, respectively (three and nine months ended March 31, 2017 – gain of \$323,368 and \$935,088, respectively) were derived from the bond portfolio.

## 2. Equity Investments

Equity investments represent equity interests of other publicly-trading or privately-held companies that the Company has acquired through the open market or through private placements. These equity interests consist of common shares and warrants.

The equity investments are summarized as follow:

|                      | March 31, 2018      | June 30, 2017       |
|----------------------|---------------------|---------------------|
| <b>Common shares</b> |                     |                     |
| Public companies     | \$ 5,253,594        | \$ 5,818,695        |
| Private companies    | 322,350             | 428,669             |
| <b>Warrants</b>      |                     |                     |
| Public companies     | 509,170             | 593,030             |
|                      | <b>\$ 6,085,114</b> | <b>\$ 6,840,394</b> |

The continuity of equity investments is summarized as follow:

|                                | Fair value          | Accumulated mark-to-market gain included in net income |
|--------------------------------|---------------------|--------------------------------------------------------|
| Balance, July 1, 2016          | \$ 3,700,345        | \$ 2,473,528                                           |
| Acquisition                    | 4,367,120           |                                                        |
| Proceeds on disposal           | (2,947,966)         |                                                        |
| Change in fair value           | 1,720,895           | 1,720,895                                              |
| Balance, June 30, 2017         | \$ 6,840,394        | \$ 4,194,423                                           |
| Change in fair value           | (755,280)           | (755,280)                                              |
| <b>Balance, March 31, 2018</b> | <b>\$ 6,085,114</b> | <b>\$ 3,439,143</b>                                    |

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#### FINANCIAL RESULTS

**Net loss attributable to equity holders of the Company** for the three months ended March 31, 2018 was \$258,719 or \$0.00 per share (three months ended March 31, 2017 - net income of \$1,570,466 or \$0.02 per share). The Company's financial results were mainly impacted by the following: (i) loss from investments of \$35,551 compared to income of \$2,420,122 in the prior year; (ii) foreign exchange gain of \$474,432 compared to foreign exchange loss of \$153,676 in the prior year; and, (iii) operating expenses of \$748,893 compared to \$698,410 in the prior year.

For the nine months ended March 31, 2018, net loss attributable to equity holders of the Company was \$2,906,517 or \$0.02 per share compared to net income of \$2,924,118 or \$0.04 per share for the nine months ended March 31, 2017.

**Loss from investments** for the three months ended March 31, 2018 was \$35,551 (three months ended March 31, 2017 - income of \$2,420,122). Within the loss from investments, loss of \$76,987 from fair value change and interest earned on bonds was partially offset by gain of \$40,235 on the Company's equity investments.

For the nine months ended March 31, 2018, loss from investments was \$543,962 compared to income of \$3,741,354 for the nine months ended March 31, 2017.

**Operating expenses** for the three months ended March 31, 2018 were \$748,893 (three months ended March 31, 2017 - \$698,410). For the nine months ended March 31, 2018, operating expenses were \$2,487,090 (nine months ended March 31, 2017 - \$1,350,664). The increase in operating expenses was a result of the Company's increased activity. Items included in operating expenses are as follows:

- (i) **Consulting fees** for the three and nine months ended March 31, 2018 were \$nil and \$33,899, respectively (three and nine months ended March 31, 2017 - \$40,445 and \$40,445). Consulting fees incurred were related to due diligence process and potential investment evaluations.
- (ii) **Filing and listing fees** for the three and nine months ended March 31, 2018 were \$77,202 and \$295,838, respectively (three and nine months ended March 31, 2017 - \$5,125 and \$27,322, respectively). The filing fees include the base fee and variable fee based on the market capitalization paid to the TSX Venture Exchange in Canada and the OTCQX Best Market in United States. The increase of filing fees in the current period was related to the TSX Venture Exchange's approval of the Company's private placement financing and change of business along with the application and listing fees paid to OTCQX Best Market.
- (iii) **Investor relations expense** for the three and nine months ended March 31, 2018 was \$115,870 and \$349,188, respectively (three and nine months ended March 31, 2017 - \$61,928 and \$69,944, respectively). The Company attended more mining conferences and roadshows in the current period since it changed its business back to mining.

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- (iv) **Professional fees** for the three and nine months ended March 31, 2018 were \$3,995 and \$96,900, respectively (three and nine months ended March 31, 2017 - \$272,774 and \$340,612, respectively). The decrease in professional fees was a result of the completion of Alcira acquisition.
- (v) **Salaries and benefits expense** for the three and nine months ended March 31, 2018 was \$238,165 and \$718,231, respectively (three and nine months ended March 31, 2017 - \$180,730 and \$438,625, respectively). The increase in salaries in the current period was due to increased operating activities resulting in more chargeable hours for existing employees and the creation of new positions.
- (vi) **Office and administration expense** for the three and nine months ended March 31, 2018 was \$79,943 and \$299,931, respectively (three and nine months ended March 31, 2017 - \$40,070 and \$234,973, respectively). The increase in office and administration expenses was a result of the overall increase in activity levels of the Company.
- (vii) **Share-based compensation** for the three and nine months ended March 31, 2018 was \$229,861 and \$676,532, respectively (three and nine months ended March 31, 2017 - \$90,266 and \$172,422, respectively).

**Foreign exchange gain** for the three months ended March 31, 2018 was \$474,432 (three months ended March 31, 2017 - foreign exchange loss of \$153,676). The Company holds a large portion of cash and cash equivalents and bonds in US dollars while the Company's functional currency is the Canadian dollar. The fluctuation in exchange rates between the US dollar and Canadian dollar will impact the financial results of the Company. During the three months ended March 31, 2018, the US dollar appreciated by 2.8% against Canadian dollar (from 1.2545 to 1.2894) while during the year ended March 31, 2017, the US dollar depreciated by 0.8% against Canadian dollar (from 1.3427 to 1.3322).

For nine months ended March 31, 2018, foreign exchange loss was \$64,763 (nine months ended March 31, 2017 – foreign exchange gain of \$445,152).

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### Selected Quarterly Information

|                                                  | For the Quarters Ended |              |              |               |
|--------------------------------------------------|------------------------|--------------|--------------|---------------|
|                                                  | Mar 31, 2018           | Dec 31, 2017 | Sep 30, 2017 | June 30, 2017 |
| Income (loss) from Investments                   | \$ (35,551)            | \$ 68,533    | \$ (576,944) | \$ (708,806)  |
| Income (loss) before other income and expenses   | (784,444)              | (1,162,214)  | (1,084,394)  | (1,465,329)   |
| Other income (loss)                              | 522,055                | 59,832       | (469,304)    | (93,991)      |
| Net (loss) income                                | (262,389)              | (1,102,382)  | (1,553,698)  | (1,559,320)   |
| Net (loss) income attributable to equity holders | (258,719)              | (1,096,699)  | (1,551,099)  | (1,551,574)   |
| Basic and diluted (loss) earnings per share      | (0.00)                 | (0.01)       | (0.01)       | (0.02)        |
| Total assets                                     | 110,303,928            | 107,659,523  | 81,767,069   | 31,982,526    |
| Total liabilities                                | 1,250,556              | 6,637,827    | 6,720,574    | 406,837       |

  

|                                                  | For the Quarters Ended |                |              |              |
|--------------------------------------------------|------------------------|----------------|--------------|--------------|
|                                                  | Mar 31, 2017           | Dec 31, 2016   | Sep 30, 2016 | Jun 30, 2016 |
| Income (loss) from Investments                   | \$ 2,420,122           | \$ (2,361,196) | \$ 3,682,428 | \$ 1,507,480 |
| Loss before other income and expenses            | 1,721,712              | (2,760,090)    | 3,429,068    | 1,287,128    |
| Impairment of mineral property interests         | -                      | -              | -            | (3,850,343)  |
| Other income (loss)                              | (154,423)              | 528,271        | 149,309      | 117,268      |
| Net income (loss)                                | 1,567,289              | (2,231,819)    | 3,578,377    | (2,445,947)  |
| Net income (loss) attributable to equity holders | 1,570,466              | (2,228,616)    | 3,582,268    | (1,760,845)  |
| Basic and diluted earnings (loss) per share      | 0.02                   | (0.03)         | 0.05         | (0.03)       |
| Total assets                                     | 33,837,211             | 32,107,923     | 34,439,948   | 30,799,017   |
| Total liabilities                                | 799,402                | 737,447        | 805,111      | 790,340      |

### LIQUIDITY AND CAPITAL RESOURCES

#### 1. Cash Flows

**Cash used in operating activities** for the three and nine months ended March 31, 2018 was \$1,655,631 and \$2,831,941, respectively (three and nine months ended March 31, 2017 – cash used in operating activities of \$758,146 and \$727,343, respectively).

**Cash used in investing activities** for the three months ended March 31, 2018 was \$10,241,022 (three months ended March 31, 2017 – cash provided by investing activity of \$7,118,299). Cash flows from investing activities were mainly impacted by the following: (i) capital expenditure of \$2,277,051 on the Silver Sand Property and acquisition of bonds of \$7,959,008 compared to proceeds of \$4,170,333 and \$2,947,966 from disposal of bonds and equity investments in the prior year period.

For the nine months ended March 31, 2018, cash used in investing activities was \$55,766,793 (nine months ended March 31, 2017 – cash provided in investing activity of \$3,461,616). Major spending in the current period was the \$45,858,200 payment related to the Alcira acquisition, \$3,622,286 of capital expenditures on the Silver Sand property and \$7,959,008 on acquisition of bonds.

**Cash provided by financing activities** for the three and nine months ended March 31, 2018 was \$nil and \$71,403,671, respectively (three and nine months ended March 31, 2017 – \$nil). Cash provided by financing activities in the current period was from the following: (i) \$70,684,321 raised through the three private placement financings (net of share issuance costs); and, (ii) \$719,350 proceeds from stock option exercises.



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### 2. Liquidity and Capital Resources

As at March 31, 2018, the Company had working capital of \$35,212,192 (June 30, 2017 – 19,844,283), comprised of cash and cash equivalents of \$18,465,640 (June 30, 2017 - \$3,810,360), bonds of \$17,414,821 (June 30, 2017 – \$11,404,266) and other current assets of \$582,287 (June 30, 2017 - \$5,036,494) offset by current liabilities of \$1,250,556 (June 30, 2017 - \$406,837). Management believes that the Company has sufficient funds to support its normal exploration and operating requirement on an ongoing basis.

The Company does not have unlimited resources and its future capital requirements will depend on many factors, including, among others, cash flow from interest, dividends, and realized gains on investments. To the extent that its existing resources and the funds generated by future income are insufficient to fund the Company's operations, the Company may need to raise additional funds through public or private debt or equity financing. If additional funds are raised through the issuance of equity securities, the percentage ownership of current shareholders will be reduced and such equity securities may have rights, preferences or privileges senior to those of the holders of the Company's common stock. No assurance can be given that additional financing will be available or that, if available, can be obtained on terms favourable to the Company and its shareholders. If adequate funds are not available, the Company may be required to delay, limit or eliminate some or all of its proposed operations. The Company believes it has sufficient capital to meet its cash needs for the next 12 months, including the costs of compliance with continuing reporting requirements.

### FINANCIAL INSTRUMENTS

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

#### *(a) Fair Value*

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

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

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

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

The following table sets forth the Company's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy as at March 31, 2018 and June 30, 2017 that are not otherwise disclosed. As required by IFRS 7, financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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| Recurring measurements       | Fair value as at March 31, 2018 |         |         |               |
|------------------------------|---------------------------------|---------|---------|---------------|
|                              | Level 1                         | Level 2 | Level 3 | Total         |
| <b>Financial Assets</b>      |                                 |         |         |               |
| Cash and cash equivalents    | \$ 18,465,640                   | \$ -    | \$ -    | \$ 18,465,640 |
| Bonds                        | 17,414,821                      | -       | -       | 17,414,821    |
| Common shares <sup>(1)</sup> | 5,253,594                       | -       | 322,350 | 5,575,944     |
| Warrants                     | -                               | 509,170 | -       | 509,170       |

<sup>(1)</sup> Common shares in private companies are Level 3 financial instruments

| Recurring measurements       | Fair value as at June 30, 2017 |         |         |              |
|------------------------------|--------------------------------|---------|---------|--------------|
|                              | Level 1                        | Level 2 | Level 3 | Total        |
| <b>Financial Assets</b>      |                                |         |         |              |
| Cash and cash equivalents    | \$ 3,810,360                   | \$ -    | \$ -    | \$ 3,810,360 |
| Bonds                        | 11,404,266                     | -       | -       | 11,404,266   |
| Common shares <sup>(1)</sup> | 5,818,745                      | -       | 428,669 | 6,247,414    |
| Warrants                     | -                              | 592,980 | -       | 592,980      |

<sup>(1)</sup> Common shares in private companies are Level 3 financial instruments

Fair value of other financial instruments excluded from the table above approximates their carrying amount as of March 31, 2018 and June 30, 2017, respectively.

There were no transfers into or out of Level 3 during the period.

### (b) Liquidity Risk

The Company has a history of losses and no operating revenues from its operations. Liquidity risk is the risk that the Company will not be able to meet its short term business requirements. As at March 31, 2018, the Company had a working capital position of \$35,212,192 and sufficient cash resources to meet the Company's short-term financial liabilities and its planned exploration expenditures on the Silver Sand property for, but not limited to, the next 12 months.

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

|                          | March 31, 2018    | June 30, 2017 |
|--------------------------|-------------------|---------------|
|                          | Due within a year |               |
| Trade and other payables | \$ 1,235,627      | \$ 355,909    |
| Due to a related party   | 14,929            | 50,928        |
|                          | \$ 1,250,556      | \$ 406,837    |

## NEW PACIFIC METALS CORP.

### Management's Discussion and Analysis

For the three and nine months ended March 31, 2018 and 2017

(Expressed in Canadian dollars, unless otherwise stated)

#### (c) Foreign Exchange Risk

The Company is exposed to foreign exchange risk when it undertakes transactions and holds assets and liabilities denominated in foreign currencies other than its functional currencies. The Company currently does not engage in foreign exchange currency hedging. The Company's exposure to foreign exchange risk is summarized as follows:

| The amounts are expressed in CAD equivalents | March 31, 2018 |            | June 30, 2017 |            |
|----------------------------------------------|----------------|------------|---------------|------------|
| United States dollars                        | \$             | 19,103,506 | \$            | 15,666,583 |
| Bolivianos                                   |                | 579,951    |               | 41,826     |
| Chinese RMB                                  |                | 173,149    |               | 149,171    |
| Financial assets in foreign currency         | \$             | 19,856,606 | \$            | 15,857,580 |
|                                              |                |            |               |            |
| United States dollars                        | \$             | 6,240,000  | \$            | -          |
| Bolivianos                                   |                | 1,011,882  |               | 3,545      |
| Chinese RMB                                  |                | 85,811     |               | 79,160     |
| Financial liabilities in foreign currency    | \$             | 7,337,693  | \$            | 82,705     |

As at March 31, 2018, with other variables unchanged, a 1% strengthening (weakening) of the U.S. dollar against the CAD would have increased (decreased) net income by approximately \$129,000.

As at March 31, 2018, with other variables unchanged, a 1% strengthening (weakening) of the Bolivianos against the CAD would have increased (decreased) net income by approximately \$4,400.

As at March 31, 2018, with other variables unchanged, a 1% strengthening (weakening) of the Chinese RMB against the CAD would have increased (decreased) net income by approximately \$1,000.

#### (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 and cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. The Company also holds a portion of cash and cash equivalents in bank accounts that earn variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of March 31, 2018. The Company also owns bonds that earn coupon payments at fixed rates to maturity. Fluctuation in market interest rates usually will have an impact on bond's fair value. An increase in market interest rates will generally reduce bond's fair value while a decrease in market interest rates will generally increase it. The Company monitors market interest rate fluctuations closely and adjusts the investment portfolio accordingly.

#### (e) Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk primarily associated with cash and cash equivalents, bonds, and receivables. The carrying amount of financial assets included on the statement of financial position represents the maximum credit exposure.

# NEW PACIFIC METALS CORP.

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The Company has deposits of cash equivalents that meet minimum requirements for quality and liquidity as stipulated by the Board. Management believes the risk of loss to be remote, as majority of its cash and cash equivalents are held with major financial institutions. Bonds by nature are exposed to more credit risk than cash. The Company manages its risk associated with bonds by only investing in large globally recognized corporations from diversified industries. As at March 31, 2018, the Company has a receivables balance of \$538,349 (June 30, 2017 - \$149,568).

### (f) Equity Price Risk

The Company holds certain marketable securities that will fluctuate in value as a result of trading on global financial markets. As the Company's marketable securities holding are mainly in mining companies, the value will also fluctuate based on commodity prices. Based upon the Company's portfolio at March 31, 2018, a 10% increase (decrease) in the market price of the securities held, ignoring any foreign exchange effects would have resulted in an increase (decrease) to net income of approximately \$610,000.

## RELATED PARTY TRANSACTIONS

Related party transactions are made on terms agreed upon by the related parties. The balances with related parties are unsecured, non-interest bearing, and due on demand. Related party transactions not disclosed elsewhere in the condensed consolidated interim financial statements are as follows:

| Due to related parties | March 31, 2018 | June 30, 2017 |
|------------------------|----------------|---------------|
| Silvercorp Metals Inc. | \$ 14,929      | \$ 50,928     |

Silvercorp has two common directors and one officer with the Company and shares office space and provides various general and administrative services to the Company. During the three and nine months ended March 31, 2018, the Company recorded total expenses of \$51,042 and \$290,657, respectively (three and nine months ended March 31, 2017 - \$112,674 and \$239,822, respectively) for services rendered and expenses incurred by Silvercorp on behalf of the Company.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## PROPOSED TRANSACTIONS

There are no proposed acquisitions or disposals of assets or business, other than those in the ordinary course of business, approved by the Board as at the date of this MD&A.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported on the consolidated financial statements. These critical accounting estimates represent management estimates that are uncertain and any changes in these estimates could materially impact the Company's consolidated financial statements. Management continuously reviews its estimates and assumptions using the most current information available. The Company's critical accounting policies and estimates are described in Note 2 of the audited consolidated financial statements for the year ended June 30, 2017.

# NEW PACIFIC METALS CORP.

## Management's Discussion and Analysis

For the three and nine months ended March 31, 2018 and 2017

(Expressed in Canadian dollars, unless otherwise stated)

Management has identified: (a) impairment of mineral property interests and (b) share-based payments as the critical estimates for the following discussion:

### (a) Impairment of mineral property interests

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, reserves, and in-situ value of the property. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs. Fair value or value in use is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

### (b) Share-based payments

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

## 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 – 132,009,479 common shares with a recorded value of \$123.9 million.

Shares subject to escrow or pooling agreements is nil.

### (b) Options

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

| Options     |                   |                    |
|-------------|-------------------|--------------------|
| Outstanding | Exercise Price \$ | Expiry Date        |
| 1,745,000   | 0.55              | October 31, 2021   |
| 410,000     | 0.57              | September 23, 2018 |
| 1,890,000   | 1.15              | July 31, 2022      |
| 200,000     | 1.57              | December 7, 2022   |
| 4,245,000   | \$0.70            |                    |

## **NEW PACIFIC METALS CORP.**

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

**For the three and nine months ended March 31, 2018 and 2017**

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

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#### **RISK FACTORS**

The Company is subject to many risks which are outlined in its Annual Information Form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). In addition, please refer to the section entitled "*Financial Instruments*" in this MD&A for the analysis of financial risk factors.