

NEW PACIFIC METALS CORP.

Management's Discussion and Analysis

For the three and six months ended December 31, 2018 and 2017

(Expressed in Canadian dollars, unless otherwise stated)

DATE OF REPORT: February 20, 2019

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, 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, 2018.

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 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. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, 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. Such forward-looking statements are made as of the date of this MD&A and, other than as required by applicable securities laws, the Company assumes no obligation to update or revise such forward-looking statements to reflect new events or circumstances.

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

BUSINESS STRATEGY

The Company is a Canadian mining issuer engaged in exploring and developing mineral properties in Bolivia, Canada and China. The Company is in the stage 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.

The Company is publicly listed on the TSX Venture Exchange ("TSX-V") under the symbol "NUAG" and on the OTCQX Best Market in the United States under the symbol "NUPMF". The head office, registered address and records office of the Company are located at 200 Granville Street, Suite 1378, Vancouver,

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British Columbia, Canada, V6C 1S4.

ALCIRA ACQUISITION

On July 20, 2017, the Company, through its wholly-owned subsidiary New Pacific Investment Corp., completed 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 (Special Temporary Authorizations) in Bolivia. The most significant property is the Silver Sand Property, located in the Potosí 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). As of June 30, 2018, total payments of \$50,724,575 (US\$40,000,000) were paid to the Vendors. According to the Agreement, the remaining balance of \$6,240,000 (US\$5,000,000) is to be paid to the Vendors once Alcira has received certain specified permits and licenses from the Bolivian authorities necessary for mining and milling operations, or once Alcira has commenced commercial production.

The transaction was 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 year ended June 30, 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.

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

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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 Potosí 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 its exploration drilling program on the property. By mid-December 2018, a total of 55,010 metres in 195 HQ size diamond core drill holes had been completed. On January 22 and February 20, 2019, through two separate news releases, the Company released the results of 195 drill holes that had assay results received and analyzed, of which 190 holes intercepted silver mineralization. For details of the drill program, please follow the links at <https://newpacificmetals.com/news-and-media/2019/1/22/new-pacific-reports-first-results-from-2018-drill-program-at-silver-sand-bolivia> and <https://newpacificmetals.com/news-and-media/2019/2/20/new-pacific-reports-remaining-drill-results-from-2018-drill-program-at-silver-sand-bolivia>. For the three and six months ended December 31, 2018, total expenditures of \$3,413,976 and \$6,593,939, respectively (three and six months ended December 31, 2017 - \$966,651 and \$1,354,399, 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.

As part of the Silver Sand Property's expansion plan, on January 11, 2019, the Company announced that through its wholly-owned subsidiary Alcira, it had entered into a Mining Production Contract (the "MPC") with Corporación Minera de Bolivia ("COMIBOL") granting the Company the right to carry out exploration, mining, and production activities in the area of up to 56.9098 square kilometres adjoining the Silver Sand Property. In addition, in July 2018, the Company entered into agreements with private owners to acquire their 100% interest in certain mineral concessions located adjacent to the Silver Sand Property. For the six months ended December 31, 2018, the Company acquired total mineral concessions valued at \$2,631,200 (US\$2,000,000) by cash payments of \$1,315,600 (US\$1,000,000) and issuance of 832,000 of its common shares.

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 on conducting

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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 were removed and sold.

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 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 suspended exploration for 26 mining projects in the area 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, 2017 | \$ 466,972 | \$ - | \$ 4,318,872 | \$ 4,785,844 |
| <u>Capitalized exploration expenditures</u> | | | | |
| Reporting and assessment | 12,555 | - | - | 12,555 |
| Drilling and assaying | 4,273,287 | - | - | 4,273,287 |
| Project management and support | 1,647,487 | - | - | 1,647,487 |
| Site preparation and camp service | 558,177 | - | - | 558,177 |
| Geological surveys | 58,336 | - | - | 58,336 |
| Pemitting | 3,459 | - | - | 3,459 |
| Acquisition premium | 50,526,164 | - | - | 50,526,164 |
| Foreign currency translation impact | 2,828,219 | - | 169,236 | 2,997,455 |
| Balance, June 30, 2018 | \$ 60,374,656 | \$ - | \$ 4,488,108 | \$ 64,862,764 |
| <u>Capitalized exploration expenditures</u> | | | | |
| Drilling and assaying | 4,815,841 | - | - | 4,815,841 |
| Project management and support | 1,421,998 | - | - | 1,421,998 |
| Site preparation and camp service | 356,100 | - | - | 356,100 |
| Acquisition of mineral concessions | 2,631,200 | - | - | 2,631,200 |
| Foreign currency translation impact | 2,343,934 | - | (13,538) | 2,330,396 |
| Balance, December 31, 2018 | \$ 71,943,729 | \$ - | \$ 4,474,570 | \$ 76,418,299 |

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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.

The continuity of bonds is summarized as follow:

| | Amount |
|-------------------------------------|----------------------|
| Balance, July 1, 2017 | \$ 11,404,266 |
| Acquisition | 9,895,490 |
| Interest earned | 760,195 |
| Loss on fair value change | (1,232,627) |
| Coupon payment | (726,721) |
| Disposition | (3,268,298) |
| Foreign currency translation impact | 1,281,721 |
| Balance, June 30, 2018 | \$ 18,114,026 |
| Interest earned | 521,967 |
| Loss on fair value change | (166,805) |
| Coupon payment | (566,219) |
| Disposition | (4,134,616) |
| Foreign currency translation impact | 530,594 |
| Balance, December 31, 2018 | \$ 14,298,947 |

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:

| | December 31, 2018 | June 30, 2018 |
|----------------------|--------------------------|----------------------|
| Common shares | | |
| Public companies | \$ 4,530,822 | \$ 5,028,397 |
| Private companies | 341,050 | 329,200 |
| Warrants | | |
| Public companies | 379,410 | 401,030 |
| | \$ 5,251,282 | \$ 5,758,627 |

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The continuity of equity investments is summarized as follow:

| | Fair value | Accumulated mark-to-market gain included in net income |
|-----------------------------------|---------------------|--------------------------------------------------------|
| Balance, July 1, 2017 | \$ 6,840,394 | \$ 4,194,423 |
| Change in fair value | (1,081,767) | (1,081,767) |
| Balance, June 30, 2018 | \$ 5,758,627 | \$ 3,112,656 |
| Proceeds on disposal | (292,913) | - |
| Change in fair value | (214,432) | (214,432) |
| Balance, December 31, 2018 | \$ 5,251,282 | \$ 2,898,224 |

FINANCIAL RESULTS

Net income attributable to equity holders of the Company for the three months ended December 31, 2018 was \$473,838 or \$0.00 per share (three months ended December 31, 2017 - net loss of \$1,096,699 or \$0.01 per share). The Company's financial results were mainly impacted by the following: (i) income from investments of \$65,926 compared to income of \$68,533 in the prior year quarter, (ii) operating expenses of \$592,796 compared to \$1,162,214 in the prior year quarter, and, (iii) foreign exchange gain of \$1,065,279 compared to gain of \$59,635 in the prior year quarter.

For the six months ended December 31, 2018, net loss attributable to equity holders of the Company was \$278,745 or \$0.00 per share compared to net loss of \$2,647,798 or \$0.02 per share for the six months ended December 31, 2017.

Income from investments for the three months ended December 31, 2018 was \$65,926 (three months ended December 31, 2017 – income of \$68,533). Within the income from investments, \$150,525 was gain on the Company's equity investments and \$125,677 was loss from fair value change on bonds offset by interest earned.

For the six months ended December 31, 2018, income from investments was \$183,123 compared to loss of \$508,411 for the six months ended December 31, 2017.

Operating expenses for the three and six months ended December 31, 2018 were \$592,796 and \$1,006,872, respectively (three and six months ended December 31, 2017 - \$1,162,214 and \$2,246,608, respectively). Items included in operating expenses were as follows:

- (i) **Consulting fees** for the three and six months ended December 31, 2018 were \$nil and \$nil, respectively (three and six months ended December 31, 2017 - \$30,974 and \$33,899, respectively).
- (ii) **Filing and listing fees** for the three and six months ended December 31, 2018 were \$82,179 and \$85,114, respectively (three and six months ended December 31, 2017 - \$179,228 and \$218,636, respectively). A large portion of the prior year periods' filing fees were related to the TSX Venture Exchange's approval of the Company's private placement financing and change of business. There was no such activity in the current periods.

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- (iii) **Investor relations expense** for the three and six months ended December 31, 2018 were \$95,770 and \$136,319, respectively (three and six months ended December 31, 2017 - \$197,537 and \$233,318, respectively).

- (iv) **Professional fees** for the three and six months ended December 31, 2018 were \$17,350 and \$71,654, respectively (three and six months ended December 31, 2017 - \$40,192 and \$92,905, respectively). Prior year periods' professional fees were higher due to additional legal and accounting services related to the Alcira acquisition.

- (v) **Salaries and benefits expense** for the three and six months ended December 31, 2018 were \$277,600 and \$459,664, respectively (three and six months ended December 31, 2017 - \$274,860 and \$480,066, respectively).

- (vi) **Office and administration expenses** for the three and six months ended December 31, 2018 were \$29,511 and \$105,361, respectively (three and six months ended December 31, 2017 - \$121,191 and \$219,988, respectively). Prior year periods' office and administrative expenses were higher due to services and expenses related to the Alcira acquisition.

- (vii) **Share-based compensation** for the three and six months ended December 31, 2018 was \$153,801 and \$325,831, respectively (three and six months ended December 31, 2017 - \$380,876 and \$446,671, respectively).

Foreign exchange gain for the three months ended December 31, 2018 was \$1,065,279 (three months ended December 31, 2017 - \$59,635). The Company holds a large portion of cash and cash equivalents and bonds in US dollars while the Company's functional currency is Canadian dollar. The fluctuation in exchange rates between the US dollar and the Canadian dollar will impact the financial results of the Company. During the three months ended December 31, 2018, the US dollar appreciated by 5.4% against the Canadian dollar (from 1.2945 to 1.3642) while in the prior year period the US dollar appreciated by 0.5% against Canadian dollar (from 1.2480 to 1.2545).

For the six months ended December 31, 2018, foreign exchange gain was \$720,437 (six months ended December 31, 2017 – foreign exchange loss of \$409,669).

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Selected Quarterly Information

| | For the Quarters Ended | | | |
|--------------------------------------------------|------------------------|---------------|---------------|---------------|
| | Dec. 31, 2018 | Sep. 30, 2018 | Jun. 30, 2018 | Mar. 31, 2018 |
| Income (loss) from Investments | \$ 65,926 | \$ 117,197 | \$ (995,797) | \$ (35,551) |
| Income (loss) before other income and expenses | (592,796) | (414,076) | (1,612,419) | (784,444) |
| Other income (loss) | 1,070,731 | (343,461) | 408,703 | 522,055 |
| Net (loss) income | 477,935 | (757,537) | (1,203,716) | (262,389) |
| Net (loss) income attributable to equity holders | 473,838 | (752,583) | (1,199,933) | (258,719) |
| Basic and diluted (loss) earnings per share | 0.00 | (0.01) | (0.01) | (0.00) |
| Total assets | 109,287,409 | 104,344,191 | 104,682,200 | 110,303,928 |
| Total liabilities | 2,663,248 | 2,034,176 | 1,851,767 | 7,490,556 |

| | For the Quarters Ended | | | |
|--------------------------------------------------|------------------------|---------------|---------------|---------------|
| | Dec. 31, 2017 | Sep. 30, 2017 | Jun. 30, 2017 | Mar. 31, 2017 |
| Income (loss) from Investments | \$ 68,533 | \$ (576,944) | \$ (708,806) | \$ 2,420,122 |
| Income (loss) before other income and expenses | (1,162,214) | (1,084,394) | (1,465,329) | 1,721,712 |
| Other income (loss) | 59,832 | (469,304) | (93,991) | (154,423) |
| Net income (loss) | (1,102,382) | (1,553,698) | (1,559,320) | 1,567,289 |
| Net income (loss) attributable to equity holders | (1,096,699) | (1,551,099) | (1,551,574) | 1,570,466 |
| Basic and diluted earnings (loss) per share | (0.01) | (0.01) | (0.02) | 0.02 |
| Total assets | 107,659,523 | 81,767,069 | 31,982,526 | 33,837,211 |
| Total liabilities | 6,637,827 | 6,720,574 | 406,837 | 799,402 |

LIQUIDITY AND CAPITAL RESOURCES

1. Cash Flows

Cash provided by (used in) operating activities for the three and six months ended December 31, 2018 was \$142,992 and \$(882,421), respectively (three and six months ended December 31, 2017 – cash used in operating activities of \$1,073,451 and \$1,507,248, respectively).

Cash used in investing activities for the three months ended December 31, 2018 was \$293,150 (three months ended December 31, 2017 – \$970,442). Cash flows from investing activities were mainly impacted by the following: (i) capital expenditures for mineral properties and plant and equipment of \$3,411,057 on the Silver Sand Property compared to \$958,722 in the prior year period; and (ii) proceeds of \$3,474,771 from the disposal and coupon payments of bonds and equity investments compared to proceeds of \$205,322 in the prior year period.

For the six months ended December 31, 2018, cash used in investing activities was \$2,983,261 (six months ended December 31, 2017 - \$45,194,833). Major spending in the prior year period was the \$45,858,200 payment related to the Alcira acquisition.

Cash provided by financing activities for the three and six months ended December 31, 2018 was \$nil and \$148,201, respectively (three and six months ended December 31, 2017 – \$26,045,797 and \$71,403,671, respectively). Cash flows from financing activities were mainly impacted by the following: (i) \$148,201 was proceeds from stock option exercises compared to proceeds of \$719,350 in the prior year; and (ii) \$70,684,321 was raised through the three private placement financings (net of share issuance costs) in the prior year.

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Liquidity and Capital Resources

As at December 31, 2018, the Company had working capital of \$23,310,010 (June 30, 2018 – \$31,120,796), comprised of cash and cash equivalents of \$10,964,327 (June 30, 2018 - \$14,604,113), bonds of \$14,298,947 (June 30, 2018 - \$18,114,026) and other current assets of \$446,864 (June 30, 2018 - \$254,424) offset by current liabilities of \$2,400,128 (June 30, 2018 - \$1,851,767). 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 board of directors of the Company (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 December 31, 2018 and June 30, 2018 that are

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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.

| Recurring measurements | Fair value as at December 31, 2018 | | | |
|------------------------------|------------------------------------|---------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets | | | | |
| Cash and cash equivalents | \$ 10,964,327 | \$ - | \$ - | \$ 10,964,327 |
| Bonds | 14,298,947 | - | - | 14,298,947 |
| Common shares ⁽¹⁾ | 4,579,717 | - | 341,050 | 4,920,767 |
| Warrants | - | 330,515 | - | 330,515 |

⁽¹⁾ Common shares in private companies are Level 3 financial instruments

| Recurring measurements | Fair value as at June 30, 2018 | | | |
|------------------------------|--------------------------------|---------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets | | | | |
| Cash and cash equivalents | \$ 14,604,113 | \$ - | \$ - | \$ 14,604,113 |
| Bonds | 18,114,026 | - | - | 18,114,026 |
| Common shares ⁽¹⁾ | 5,028,397 | - | 329,200 | 5,357,597 |
| Warrants | - | 401,030 | - | 401,030 |

⁽¹⁾ 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 December 31, 2018 and June 30, 2018, 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 December 31, 2018, the Company had a working capital position of \$23,310,010 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:

| | December 31, 2018 | | | June 30, 2018 | |
|------------------------------------------|-------------------|------------|--------------|---------------|--|
| | Due within a year | 2 years | Total | Total | |
| Trade and other payables | \$ 1,951,663 | \$ - | \$ 1,951,663 | \$ 1,827,350 | |
| Due to a related party | 53,785 | - | 53,785 | 24,417 | |
| Payable for mineral property acquisition | 394,680 | 263,120 | 657,800 | - | |
| | \$ 2,400,128 | \$ 263,120 | \$ 2,663,248 | \$ 1,851,767 | |

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(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 | December 31, 2018 | | June 30, 2018 | |
|----------------------------------------------|-------------------|------------|---------------|------------|
| United States dollars | \$ | 22,329,180 | \$ | 21,339,583 |
| Bolivianos | | 95,886 | | 935,163 |
| Chinese RMB | | 257,253 | | 211,474 |
| Financial assets in foreign currency | \$ | 22,682,319 | \$ | 22,486,220 |
| United States dollars | \$ | 1,736,960 | \$ | - |
| Bolivianos | | 2,746 | | 1,493,607 |
| Chinese RMB | | 4,280 | | 84,939 |
| Financial liabilities in foreign currency | \$ | 1,743,986 | \$ | 1,578,546 |

As at December 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 \$206,000.

As at December 31, 2018, with other variables unchanged, a 1% strengthening (weakening) of the Bolivianos against the CAD would have increased (decreased) net income by approximately \$900.

As at December 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 \$2,500

(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 December 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.

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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 December 31, 2018, the Company had a receivables balance of \$274,292 (June 30, 2018 - \$181,884).

(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 holdings are mainly in mining companies, the value will also fluctuate based on commodity prices. Based upon the Company's portfolio as at December 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 \$525,000.

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 | December 31, 2018 | June 30, 2018 |
|------------------------|-------------------|---------------|
| Silvercorp Metals Inc. | \$ 53,785 | \$ 24,417 |

Silvercorp has two common directors and two 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, 2018, the Company recorded total expenses of \$66,840 and \$128,259, respectively (three and six months ended December 31, 2017 - \$70,509 and \$239,615, 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

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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, 2018.

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.

FUTURE ACCOUNTING CHANGES

IFRS 16 – *Leases* ("IFRS 16") was issued by the IASB and will replace *Leases* ("IAS 17") and *determining whether an arrangement contains a lease* ("IFRIC 4"). IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a non-lease component on the basis of whether the customer controls the specific asset. For those contracts that are or contain a lease, IFRS 16 introduces significant changes to the accounting for contracts that are or contain a lease, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company anticipates that the application of IFRS 16 will result in an increase in the recognition of right of use assets and lease liabilities related to leases with terms greater than 12 months on the Consolidated Statements of Financial Position on April 1, 2019. IFRS 16 will further result in increased depreciation and amortization on these rights of use assets and increased interest on these additional lease liabilities. These lease payments will be recorded as financing outflows on the Consolidated Statements of Cash Flows. The Company expects to identify and collect data relating to existing lease agreements during Fiscal 2019.

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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 – 132,872,812 common shares with a recorded value of \$124.9 million.

Shares subject to escrow or pooling agreements – nil.

(b) Options

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

| Options | | |
|-------------|-------------------|------------------|
| Outstanding | Exercise Price \$ | Expiry Date |
| 1,735,000 | 0.55 | October 31, 2021 |
| 1,886,667 | 1.15 | July 31, 2022 |
| 200,000 | 1.57 | December 7, 2022 |
| 3,821,667 | \$0.84 | |

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.