



**SILVERCORP METALS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Three and Six Months Ended September 30, 2017**

**(Expressed in thousands of US dollars, except per share figures or otherwise stated)**

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# SILVERCORP METALS INC.

## Management's Discussion and Analysis

For the Three and Six Months Ended September 30, 2017

(Expressed in thousands of U.S. dollars, unless otherwise stated)

*Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected Silvercorp Metals Inc. and its subsidiaries' ("Silvercorp" 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 financial statements for the three and six months ended September 30, 2017 and the related notes contained therein. In addition, the following should be read in conjunction with the audited consolidated financial statements of the Company for the year ended March 31, 2017, the related MD&A, the Annual Information Form (available on SEDAR at [www.sedar.com](http://www.sedar.com)), and the annual report on Form 40-F. The Company reports its financial position, results of operations and cash flow in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Silvercorp's significant accounting policies are set out in Note 2 of the unaudited condensed consolidated financial statements for the three and six months ended September 30, 2017, as well as Note 2 to the audited consolidated financial statements for the year ended March 31, 2017. This MD&A refers to various non-IFRS measures, such as total and cash cost per ounce of silver, net of by-product credits, all-in & all-in sustaining cost per ounce of silver, net of by-product credits, cash flow from operations per share, and production costs per tonne. Non-IFRS measures do not have standardized meanings under IFRS. Accordingly, non-IFRS measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. To facilitate a better understanding of these measures as calculated by the Company, we have provided detailed descriptions and reconciliations, in section 10 of this MD&A. Figures may not add due to rounding.*

This MD&A is prepared as of November 7, 2017 and expressed in thousands of U.S. dollars, except share, per share, unit cost, and production data, unless otherwise stated.

### 1. Core Business and Strategy

Silvercorp Metals Inc. is engaged in the acquisition, exploration, development and mining of high-grade silver-related mineral properties in China. Silvercorp is the primary silver producer in China through the operation of several silver-lead-zinc mines at the Ying Mining District in Henan Province, China and its GC silver-lead-zinc mine in Guangdong Province, China. The Company's shares are traded on Toronto Stock Exchange and commencing May 15, 2017, on NYSE American Stock Exchange.

### 2. Second Quarter of Fiscal Year 2018 Highlights

- Net income attributable to equity shareholders of \$11.1 million, or \$0.07 per share, compared to net income attributable to equity shareholders of \$12.4 million, or \$0.07 per share in the prior year quarter;
- Gross margin of 54% compared with 56% in the prior year quarter;
- Sales of \$47.5 million, up 3% compared to \$46.3 million in the prior year quarter;
- Silver, lead, and zinc metals sold amounted to approximately 1.6 million ounces silver, 16.9 million pounds lead, and 5.6 million pounds zinc, compared to 1.8 million ounces silver, 19.9 million pounds lead, and 5.9 million pounds zinc in the prior year quarter;
- Head grades were 294 grams per tonne ("g/t") for silver, 4.3% for lead, and 0.8% for zinc at the Ying Mining District, compared to 302 g/t for silver, 4.9% for lead and 1.1% for zinc in the prior year quarter;
- Total and cash mining costs per tonne ore<sup>1</sup> of \$70.58 and \$52.77, respectively, compared to \$64.67 and \$43.09 in the prior year quarter;
- Cash cost per ounce of silver<sup>1</sup>, net of by-product credits, of negative \$5.16, compared to negative \$3.05 in the prior year quarter;
- All-in sustaining cost per ounce of silver<sup>1</sup>, net of by-product credits, of \$2.26, compared to \$3.15 in the prior year quarter; and,
- Increased ownership in New Pacific Metals Corp. ("NUAG") from 16.1% to 31.8% for \$20.0 million; and,
- Ended the quarter with \$98.6 million in cash and cash equivalents and short-term investments, an increase of \$2.2 million or 2% compared to \$96.5 million as at March 31, 2017.

<sup>1</sup> Non IFRS measure, please refer to section 10 for reconciliation

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**(Expressed in thousands of U.S. dollars, unless otherwise stated)**

**3. Operating Performance**

The following table summarizes consolidated and each mining district's operational information for the three months ended September 30, 2017:

	Three months ended September 30, 2017		
	Ying Mining District <sup>1</sup>	GC <sup>2</sup>	Total
<b>Production Data</b>			
<b>Mine Data</b>			
Ore Mined (tonne)	173,294	65,812	239,106
Ore Milled (tonne)	173,946	63,648	237,594
+ Mining cost per tonne of ore mined (\$)	81.20	42.62	70.58
Cash mining cost per tonne of ore mined (\$)	59.67	34.60	52.77
Non cash mining cost per tonne of ore mined (\$)	21.53	8.02	17.81
+ Unit shipping costs(\$)	3.68	-	2.70
+ Milling cost per tonne of ore milled (\$)	10.45	17.90	12.44
Cash milling cost per tonne of ore milled (\$)	8.50	14.63	10.14
Non cash milling cost per tonne of ore milled (\$)	1.95	3.27	2.30
+ Average Production Cost			
Silver (\$ per ounce)	5.83	6.16	6.02
Gold (\$ per ounce)	439	-	465
Lead (\$ per pound)	0.43	0.61	0.46
Zinc (\$ per pound)	0.46	0.61	0.47
+ Total production cost per ounce of Silver, net of by-product credits (\$)	(1.78)	(8.57)	(2.43)
+ Total cash cost per ounce of Silver, net of by-product credits (\$)	(4.27)	(13.56)	(5.16)
+ All-in sustaining cost per ounce of Silver, net of by-product credits (\$)	1.08	(3.77)	2.26
+ All-in cost per ounce of Silver, net of by-product credits (\$)	1.31	(3.77)	2.50
<b>Recovery Rates</b>			
Silver (%)	95.6	74.4	93.2
Lead (%)	96.2	82.8	94.8
Zinc (%)	50.7	81.6	67.9
<b>Head Grades</b>			
Silver (gram/tonne)	294	102	243
Lead (%)	4.3	1.4	3.5
Zinc (%)	0.8	2.8	1.3
<b>Concentrate in stock</b>			
Lead concentrate (tonne)	4,070	32	4,102
Zinc concentrate (tonne)	230	82	312
<b>Sales Data</b>			
<b>Metal Sales</b>			
Silver (in thousands of ounces)	1,472	155	1,627
Gold (in thousands of ounces)	0.8	-	0.8
Lead (in thousands of pounds)	15,279	1,656	16,935
Zinc (in thousands of pounds)	2,269	3,311	5,580
<b>Metal Sales</b>			
Silver (in thousands of \$)	20,928	1,668	22,596
Gold (in thousands of \$)	857	-	857
Lead (in thousands of \$)	16,036	1,769	17,805
Zinc (in thousands of \$)	2,528	3,558	6,086
Other (in thousands of \$)	187	10	197
	<b>40,536</b>	<b>7,005</b>	<b>47,541</b>
<b>Average Selling Price, Net of Value Added Tax and Smelter Charges</b>			
Silver (\$ per ounce)	14.22	10.76	13.89
Gold (\$ per ounce)	1,071	-	1,071
Lead (\$ per pound)	1.05	1.07	1.05
Zinc (\$ per pound)	1.11	1.07	1.09

1 Ying Mining District includes mines: SGX, TLP, HPG, LM, BCG and HZG.

2 GC Silver recovery rate consists of 54.2% from lead concentrates and 20.2% from zinc concentrates.

2 GC Silver sold in zinc concentrates is subjected to higher smelter and refining charges which lower the net silver selling price.

+ Non-IFRS measures, see section 10 for reconciliation

# SILVERCORP METALS INC.

## Management's Discussion and Analysis

For the Three and Six Months Ended September 30, 2017

(Expressed in thousands of U.S. dollars, unless otherwise stated)

The following table summarizes consolidated and each mining district's operational information for the three months ended September 30, 2016:

	Three months ended September 30, 2016		
	Ying Mining District <sup>1</sup>	GC <sup>2</sup>	Total
<b>Production Data</b>			
<b>Mine Data</b>			
Ore Mined (tonne)	179,194	74,692	253,886
Ore Milled (tonne)	180,154	76,100	256,254
+ Mining cost per tonne of ore mined (\$)	76.30	36.78	64.67
Cash mining cost per tonne of ore mined (\$)	49.13	28.61	43.09
Non cash mining cost per tonne of ore mined (\$)	27.17	8.17	21.58
+ Unit shipping costs(\$)	3.81	-	2.68
+ Milling cost per tonne of ore milled (\$)	10.86	15.57	12.26
Cash milling cost per tonne of ore milled (\$)	8.85	12.94	10.07
Non cash milling cost per tonne of ore milled (\$)	2.01	2.63	2.19
+ Average Production Cost			
Silver (\$ per ounce)	5.96	6.95	6.27
Gold (\$ per ounce)	424	-	458
Lead (\$ per pound)	0.28	0.42	0.30
Zinc (\$ per pound)	0.28	0.43	0.29
Other (\$ per pound)	-	-	-
+ Total production cost per ounce of Silver, net of by-product credits (\$)	0.33	(1.97)	0.10
+ Total cash cost per ounce of Silver, net of by-product credits (\$)	(2.68)	(6.39)	(3.05)
+ All-in sustaining cost per ounce of Silver, net of by-product credits (\$)	2.33	(1.50)	3.15
+ All-in cost per ounce of Silver, net of by-product credits (\$)	2.82	(1.26)	3.62
<b>Recovery Rates</b>			
Silver (%)	95.5	76.2	93.2
Lead (%)	96.3	86.6	95.1
Zinc (%)	42.9	86.4	65.8
<b>Head Grades</b>			
Silver (gram/tonne)	302	96	241
Lead (%)	4.9	1.6	3.9
Zinc (%)	1.1	2.8	1.6
<b>Concentrate in stock</b>			
Lead concentrate (tonne)	3,880	101	3,981
Zinc concentrate (tonne)	280	127	407
<b>Sales Data</b>			
<b>Metal Sales</b>			
Silver (in thousands of ounces)	1,630	183	1,813
Gold (in thousands of ounces)	1.0	-	1.0
Lead (in thousands of pounds)	17,768	2,163	19,931
Zinc (in thousands of pounds)	1,785	4,106	5,891
Other (in thousands of pound)	-	365	365
<b>Metal Sales</b>			
Silver (in thousands of \$)	24,923	2,051	26,974
Gold (in thousands of \$)	1,087	-	1,087
Lead (in thousands of \$)	12,684	1,459	14,143
Zinc (in thousands of \$)	1,260	2,833	4,093
Other (in thousands of \$)	-	1	1
	39,954	6,344	46,298
<b>Average Selling Price, Net of Value Added Tax and Smelter Charges</b>			
Silver (\$ per ounce)	15.29	11.21	14.88
Gold (\$ per ounce)	1,087	-	1,087
Lead (\$ per pound)	0.71	0.67	0.71
Zinc (\$ per pound)	0.71	0.69	0.69

<sup>1</sup> Ying Mining District includes mines: SGX, TLP, HPG, LM, BCG and HZG.

<sup>2</sup> GC Silver recovery rate consists of 55.9% from lead concentrates and 20.3% from zinc concentrates.

<sup>3</sup> GC Silver sold in zinc concentrates is subjected to higher smelter and refining charges which lower the net silver selling price.

+ Non-IFRS measures, see section 10 for reconciliation

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## Management's Discussion and Analysis

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The following table summarizes consolidated and each mining district's operational information for the six months ended September 30, 2017:

	Six months ended September 30, 2017		
	Ying Mining District <sup>1</sup>	GC <sup>2</sup>	Consolidated
<b>Production Data</b>			
<b>Mine Data</b>			
Ore Mined (tonne)	333,701	130,677	464,378
Ore Milled (tonne)	338,904	129,592	468,496
+ Mining cost per tonne of ore mined (\$)	79.03	44.78	69.39
Cash mining cost per tonne of ore mined (\$)	57.32	36.88	51.57
Non cash mining cost per tonne of ore mined (\$)	21.71	7.90	17.82
+ Unit shipping costs(\$)	3.86	-	2.78
+ Milling cost per tonne of ore milled (\$)	10.28	18.14	12.45
Cash milling cost per tonne of ore milled (\$)	8.29	14.95	10.13
Non cash milling cost per tonne of ore milled (\$)	1.99	3.19	2.32
+ Average Production Cost			
Silver (\$ per ounce)	5.78	6.63	6.12
Gold (\$ per ounce)	441	-	480
Lead (\$ per pound)	0.39	0.59	0.43
Zinc (\$ per pound)	0.45	0.62	0.46
Other (\$ per pound)	0.38	0.01	0.02
+ Total production cost per ounce of Silver, net of by-product credits (\$)	(1.18)	(5.69)	(1.68)
+ Total cash cost per ounce of Silver, net of by-product credits (\$)	(3.79)	(10.39)	(4.51)
+ All-in sustaining cost per ounce of Silver, net of by-product credits (\$)	2.30	(3.06)	3.44
+ All-in cost per ounce of Silver, net of by-product credits (\$)	2.56	(1.42)	3.86
<b>Recovery Rates</b>			
Silver (%)	95.7	77.8	93.6
Lead (%)	96.3	86.0	95.1
Zinc (%)	48.4	81.2	67.0
<b>Head Grades</b>			
Silver (gram/tonne)	299	100	244
Lead (%)	4.4	1.5	3.6
Zinc (%)	0.8	2.7	1.3
<b>Concentrate in stock</b>			
Lead concentrate (tonne)	4,070	32	4,102
Zinc concentrate (tonne)	230	82	312
<b>Sales Data</b>			
<b>Metal Sales</b>			
Silver (in thousands of ounces)	2,796	344	3,140
Gold (in thousands of ounces)	1.7	-	1.7
Lead (in thousands of pounds)	29,044	3,803	32,847
Zinc (in thousands of pounds)	3,024	7,555	10,579
Other (in thousands of pounds)	430	12,136	12,566
<b>Metal Sales</b>			
Silver (in thousands of \$)	39,132	3,647	42,779
Gold (in thousands of \$)	1,816	-	1,816
Lead (in thousands of \$)	27,683	3,570	31,253
Zinc (in thousands of \$)	3,267	7,500	10,767
Other (in thousands of \$)	395	228	623
	<b>72,293</b>	<b>14,945</b>	<b>87,238</b>
<b>Average Selling Price, Net of Value Added Tax and Smelter Charges</b>			
Silver (\$ per ounce)	14.00	10.60	13.62
Gold (\$ per ounce)	1,068	-	1,068
Lead (\$ per pound)	0.95	0.94	0.95
Zinc (\$ per pound)	1.08	0.99	1.02

1 Ying Mining District includes mines: SGX, TLP, HPG, LM, BCG and HZG.

2 GC Silver recovery rate consists of 57.4% from lead concentrates and 20.5% from zinc concentrates.

2 GC Silver sold in zinc concentrates is subjected to higher smelter and refining charges which lowers the net silver selling price.

+ Non-IFRS measures, see section 10 for reconciliation

# SILVERCORP METALS INC.

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For the Three and Six Months Ended September 30, 2017

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The following table summarizes consolidated and each mining district's operational information for the six months ended September 30, 2016:

	Six months ended September 30, 2016		
	Ying Mining District <sup>1</sup>	GC <sup>2</sup>	Total
<b>Production Data</b>			
<b>Mine Data</b>			
Ore Mined (tonne)	352,702	139,041	491,743
Ore Milled (tonne)	347,901	139,687	487,588
+ Mining cost per tonne of ore mined (\$)	77.44	39.15	66.61
Cash mining cost per tonne of ore mined (\$)	50.70	30.87	45.09
Non cash mining cost per tonne of ore mined (\$)	26.74	8.28	21.52
+ Unit shipping costs(\$)	3.84	-	2.75
+ Milling cost per tonne of ore milled (\$)	11.53	17.05	13.11
Cash milling cost per tonne of ore milled (\$)	9.44	14.15	10.79
Non cash milling cost per tonne of ore milled (\$)	2.09	2.90	2.32
+ Average Production Cost			
Silver (\$ per ounce)	6.29	7.51	6.63
Gold (\$ per ounce)	457	-	493
Lead (\$ per pound)	0.30	0.45	0.32
Zinc (\$ per pound)	0.28	0.45	0.30
Other (\$ per pound)	-	0.01	0.01
+ Total production cost per ounce of Silver, net of by-product credits (\$)	1.49	0.68	1.41
+ Total cash cost per ounce of Silver, net of by-product credits (\$)	(1.44)	(3.94)	(1.68)
+ All-in sustaining cost per ounce of Silver, net of by-product credits (\$)	3.99	1.32	5.01
+ All-in cost per ounce of Silver, net of by-product credits (\$)	4.97	1.60	5.93
<b>Recovery Rates</b>			
Silver (%)	95.6	76.5	93.4
Lead (%)	96.3	86.7	95.2
Zinc (%)	45.5	86.1	66.6
<b>Head Grades</b>			
Silver (gram/tonne)	305	97	245
Lead (%)	4.7	1.5	3.8
Zinc (%)	1.1	2.9	1.6
<b>Concentrate in stock</b>			
Lead concentrate (tonne)	3,880	101	3,981
Zinc concentrate (tonne)	280	127	407
<b>Sales Data</b>			
<b>Metal Sales</b>			
Silver (in thousands of ounces)	3,120	332	3,452
Gold (in thousands of ounces)	1.9	-	1.9
Lead (in thousands of pounds)	32,629	4,023	36,652
Zinc (in thousands of pounds)	3,605	7,513	11,118
Other (in thousands of pound)	-	8,551	8,551
<b>Metal Sales</b>			
Silver (in thousands of \$)	44,289	3,522	47,811
Gold (in thousands of \$)	1,959	-	1,959
Lead (in thousands of \$)	22,065	2,571	24,636
Zinc (in thousands of \$)	2,313	4,739	7,052
Other (in thousands of \$)	-	111	111
	70,626	10,943	81,569
<b>Average Selling Price, Net of Value Added Tax and Smelter Charges</b>			
Silver (\$ per ounce)	14.20	10.61	13.85
Gold (\$ per ounce)	1,031	-	1,031
Lead (\$ per pound)	0.68	0.64	0.67
Zinc (\$ per pound)	0.64	0.63	0.63

<sup>1</sup> Ying Mining District includes mines: SGX, TLP, HPG, LM, BCG and HZG.

<sup>2</sup> GC Silver recovery rate consists of 55.8% from lead concentrates and 20.7% from zinc concentrates.

<sup>2</sup> GC Silver sold in zinc concentrates is subjected to higher smelter and refining charges which lower the net silver selling price.

+ Non-IFRS measures, see section 10 for reconciliation

## SILVERCORP METALS INC.

### Management's Discussion and Analysis

For the Three and Six Months Ended September 30, 2017

(Expressed in thousands of U.S. dollars, unless otherwise stated)

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#### (a) Mine and Milling Production

For the three months ended September 30, 2017 ("Q2 Fiscal 2018"), the Company's production was affected by power downtime due to power grid upgrading works, government inspections and explosive supply limitation brought in as a public safety measure by local governments in advance of the 19<sup>th</sup> National Congress of the Communist Party of China ("CPC"), and the typhoon conditions in South China. On a consolidated basis, the Company mined 239,106 tonnes of ore in Q2 Fiscal 2018, a decrease of 6% or 14,780 tonnes compared to 253,886 tonnes in the three months ended September 30, 2016 ("Q2 Fiscal 2017"). Ore mined at the Ying Mining District decreased by 3% or 5,900 tonnes, and ore mined at the GC Mine decreased by 12% or 8,880 tonnes. Ore milled were 237,594 tonnes, compared to 256,254 tonnes of ore milled in Q2 Fiscal 2017.

For the six months ended September 30, 2017, on a consolidated basis, the Company mined 464,378 tonnes of ore, a decrease of 6% compared to 491,743 tonnes mined in the same prior year period. Ore mined at the Ying Mining District decreased by 5% or 19,001 tonnes to 333,701 tonnes from 352,702 tonnes, and ore mined at the GC Mine decreased by 6% or 8,364 tonnes to 130,677 tonnes from 139,041 tonnes in the same prior year period. In the same comparative period, ore milled decreased 4% to 468,496 tonnes compared to 487,588 tonnes.

#### (b) Metal Sales

In Q2 Fiscal 2018, the Company sold approximately 1.6 million ounces of silver, 800 ounces of gold, 16.9 million pounds of lead, and 5.6 million pounds of zinc, compared to 1.8 million ounces of silver, 1,000 ounces of gold, 19.9 million pounds of lead, and 5.9 million pounds of zinc, respectively, in Q2 Fiscal 2017. The decrease of metals sold was mainly due to less production and lower head grade achieved at the Ying Mining District.

For the six months ended September 30, 2017, the Company sold approximately 3.1 million ounces of silver, 1,700 ounces of gold, 32.8 million pounds of lead, and 10.6 million pounds of zinc, compared to 3.5 million ounces of silver, 2,000 ounces of gold, 36.7 million of lead, and 11.1 million pounds of zinc sold in the same prior year period.

#### (c) Mining and Milling Costs

In Q2 Fiscal 2018, the consolidated total mining costs and cash mining costs were \$70.58 and \$52.77 per tonne, compared to \$64.67 and \$43.09 per tonne, respectively, in Q2 Fiscal 2017. The increase in cash mining costs were mainly due to i) \$0.6 million increase in raw material costs mainly arising from the increasing prices in copper and steel related materials, such as cable, rail and ground support products, ii) \$1.0 million increase in mining preparation costs resulting from more underground drilling and tunnelling expensed in the current quarter, and iii) lower production output resulting in higher per tonne overhead costs allocation. On a consolidated basis, in Q2 Fiscal 2018, approximately 35,345 meters ("m") or \$0.8 million of underground diamond drilling (Fiscal Q2 2017 – 24,433 m or \$0.6 million) and 10,330 m or \$3.0 million of preparation tunnelling (Fiscal Q2 2017 – 9,183 m or \$2.3 million) were completed and expensed as mining preparation costs.

The consolidated total milling costs and cash milling costs in Q2 Fiscal 2018 were \$12.44 and \$10.14 per tonne, comparable to \$12.26 and \$10.07 per tonne, respectively, in Q2 Fiscal 2017.

Correspondingly, the consolidated cash production costs per tonne of ore processed in Q2 Fiscal 2018 increased by 17% to \$65.61 from \$55.84 in the prior year quarter.

For the six months ended September 30, 2017, the consolidated total mining and cash mining costs were \$69.39 and \$51.57 per tonne, an increase of 4% and 14%, compared to \$66.61 and \$45.09 per tonne in the same prior year period. The consolidated total milling cost and cash milling cost were \$12.45 and \$10.13, a decrease of 5% and 6%, respectively, compared to \$13.11 and \$10.79 per tonne in the same prior year period.



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Correspondingly, the consolidated cash production costs per tonne of ore processed for the six months ended September 30, 2017 was \$64.48, an increase of 10%, compared to \$58.63 in the same prior year period.

#### **(d) Total and Cash Costs per Ounce of Silver, Net of By-Product Credits**

In Q2 Fiscal 2018, the consolidated total production costs and cash costs per ounce of silver, net of by-product credits, were negative \$2.43 and negative \$5.16 compared to \$0.10 and negative \$3.05 respectively, in the prior year quarter. The overall decrease in cash cost per ounce of silver, net of by-product credits, is mainly due to a 27% increase in by-product credits, mainly arising from 48% and 58% increase in lead and zinc net realized selling prices, offset by 15% and 5% decrease in lead and zinc metals sold. Sales from lead and zinc accounted for 50% of the total sales and amounted to \$23.9 million, an increase of \$5.7 million, compared to \$18.2 million in the prior year quarter.

For the six months ended September 30, 2017, the consolidated total production costs and cash costs per ounce of silver, net of by-product credits, were negative \$1.68 and negative \$4.51 compared to \$1.41 and negative \$1.68 respectively, in the same prior year period. The overall decrease in cash cost per ounce of silver, net of by-product credits, is mainly due to a 24% increase in by-product credits, mainly arising from 42% and 62% increase in lead and zinc net realized selling prices, offset by 10% and 5% decrease in lead and zinc metals sold. Sales from lead and zinc accounted for 48% of the total sales and amounted to \$42.0 million, an increase of \$10.3 million, compared to \$31.7 million in the prior year quarter.

#### **(e) All-in Sustaining Costs per Ounce of Silver, Net of By-Product Credits**

In Q2 Fiscal 2018, the consolidated all-in sustaining costs per ounce of silver, net of by-product credits, is \$2.26 compared to \$3.15 in Q2 Fiscal 2017. The decrease was mainly due to an increase of \$5.7 million in by-product credits offset by a \$0.6 million increase in sustaining capital expenditures and the increase of per tonne cash production costs as discussed above.

For the six months ended September 30, 2017, the consolidated all-in sustaining costs per ounce of silver, net of by-product credits is \$3.44 compared to \$5.01 in the same prior year period. The decrease was mainly due to an increase of \$10.7 million in by-product credits offset by a \$1.1 million increase in sustaining capital expenditures and the increase of per tonne cash production costs as discussed above.

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## Management's Discussion and Analysis

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### (f) Operation Review

#### (i) Ying Mining District

The Ying Mining District consists of several mines, including SGX, HPG, TLP, LM, PCG, and HZG mines, and is the Company's primary source of production. The operational results at the Ying Mining District for the past five quarters are summarized in the table below:

Operational results - Ying Mining District	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Six months ended September 30,	
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	2017	2016
Ore Mined (tonne)	173,294	160,408	112,755	171,303	179,194	333,701	352,702
Ore Milled (tonne)	173,946	164,959	108,051	182,259	180,154	338,904	347,901
<b>Head Grades</b>							
Silver (gram/tonne)	294	304	298	303	302	299	305
Lead (%)	4.3	4.6	4.8	4.8	4.9	4.4	4.7
Zinc (%)	0.8	0.8	0.8	0.8	1.1	0.8	1.1
<b>Recoveries</b>							
Silver (%)	95.6	95.8	96.6	95.1	95.5	95.7	95.6
Lead (%)	96.2	96.3	95.6	96.7	96.3	96.3	96.3
Zinc (%)	50.7	45.8	46.2	47.5	42.9	48.4	45.5
<b>Metal Sales</b>							
Silver (in thousands of ounce)	1,472	1,324	1,255	1,555	1,630	2,796	3,120
Gold (in thousands of ounce)	0.8	0.9	0.7	0.7	1.0	1.7	1.9
Lead (in thousands of pound)	15,279	13,765	13,520	17,269	17,768	29,044	32,629
Zinc (in thousands of pound)	2,269	755	1,033	1,210	1,785	3,024	3,605
Cash mining cost (\$ per tonne)	59.67	54.78	49.99	55.21	49.13	57.32	50.70
Total mining cost (\$ per tonne)	81.20	76.67	53.50	80.53	76.30	79.03	77.44
Cash milling cost (\$ per tonne)	8.50	8.07	10.43	9.09	8.85	8.29	9.44
Total milling cost (\$ per tonne)	10.45	10.10	13.60	11.03	10.86	10.28	11.53
Cash production cost (\$ per tonne)	71.85	66.93	64.34	68.22	61.79	69.47	63.98
Cash cost per ounce of silver (\$)	(4.27)	(2.97)	(3.73)	(4.60)	(2.68)	(3.79)	(1.44)
All-in sustaining cost per ounce of silver (\$)	1.08	3.66	0.74	1.34	2.33	2.30	3.99

In Q2 Fiscal 2018, the total ore mined at the Ying Mining District was 173,294 tonnes, a decrease of 3% or 5,900 tonnes, compared to 179,194 tonnes mined in the prior year quarter. Approximately 2,900 tonnes of ore production was affected by several days of power downtime due to power grid upgrades by State Grid Corporation, and approximately 3,000 tonnes production was affected by government inspections and explosive supply limitation brought in as a safety measures by the local government in advance of the 19<sup>th</sup> CPC National Congress. As a further public safety measure during the 19<sup>th</sup> CPC National Congress in October 2017, mining activities at the Ying Mining District were temporary suspended for five days as requested by the local government, which has impacted ore production by approximately 10,000 tonnes in the third quarter of Fiscal 2018.

Correspondingly, ore milled in Q2 Fiscal 2018 decreased by 3% to 173,946 tonnes from 180,154 tonnes in the prior year quarter.

Head grades were 294 grams per ton ("g/t") for silver, 4.3% for lead, and 0.8% for zinc, compared to 302 g/t for silver, 4.9% for lead and 1.1% for zinc in the prior year quarter. The decrease of head grades is mainly due to the average geological grades of ore mined in the current quarter being lower than the prior year quarter.

In Q2 Fiscal 2018, the Ying Mining District sold approximately 1.5 million ounces silver, 15.3 million pounds lead, and 2.3 million pounds zinc, compared to 1.6 million ounces silver, 17.8 million pounds lead, and 1.8 million pounds of zinc in the prior year quarter. The decrease of metals sold at the Ying Mining District was mainly due to a 3% decrease of ore milled and lower head grades achieved in the current quarter.

Total and cash mining costs per tonne at the Ying Mining District in Q2 Fiscal 2018 were \$81.20 and \$59.67 per tonne, respectively, compared to \$76.30 and \$49.13 per tonne in the prior year quarter. The increase in cash mining costs were mainly due to i) \$0.6 million increase in raw material costs mainly arising from the increasing prices in copper and steel related material, ii) \$0.7 million increase in mining preparation costs resulting from more underground drilling and tunnelling expensed in the current quarter, and iii) lower production output resulting in higher per tonne overhead costs allocation. Total

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and cash milling costs per tonne at the Ying Mining District in Q2 Fiscal 2018 were \$10.45 and \$8.50, a decrease of 4%, compared to \$10.86 and \$8.85 in Q2 Fiscal 2017.

Correspondingly, cash production cost per tonne of ore processed in Q2 Fiscal 2018 at the Ying Mining District was \$71.85, an increase of 16% compared to \$61.79 in the prior year quarter due to the increase in per tonne cash mining offset by the decrease in per tonne milling costs as discussed above.

Cash cost per ounce of silver, net of by-product credits, in Q2 Fiscal 2018 at the Ying Mining District, was negative \$4.27 compared to negative \$2.68 in the prior year quarter. The improvement was mainly due to a \$4.2 million or 28% increase in by-product credits offset by the 16% increase in the per tonne cash production costs.

All in sustaining costs per ounce of silver, net of by-product credits, in Q2 Fiscal 2018 at the Ying Mining District was \$1.08 compared to \$2.33 in the prior year quarter. The improvement was mainly due to lower cash costs per ounce of silver as discussed above.

For the six months ended September 30, 2017, a total of 333,701 tonnes of ore were mined and 338,904 tonnes milled at the Ying Mining District, down by 5% and 3%, compared to 352,702 tonnes mined and 347,901 tonnes milled in the same prior year period. Average head grades were 299 g/t for silver, 4.4% for lead, and 0.8% for zinc compared to 305 g/t for silver, 4.7% for lead, and 1.1% for zinc, respectively, in the same prior year period.

During the same time periods, the Ying Mining District sold approximately 2.8 million ounces of silver, 1,700 ounces of gold, 29.0 million pounds of lead, and 3.0 million pounds of zinc, compared to 3.1 million ounces of silver, 1,900 ounces of gold, 32.6 million pounds of lead, and 3.6 million pounds of zinc in prior year period.

For the six months ended September 30, 2017, the cash mining costs at the Ying Mining District was \$57.32 per tonne, an increase of 13% compared to \$50.70 in the same prior year period. The cash milling cost was \$8.29 per tonne, a decrease of 12% compared to \$9.44 in the same prior year period.

Cash cost per ounce of silver and all in sustaining costs per ounce of silver, net of by-product credits, at the Ying Mining District, for the six months ended September 30, 2017, were negative \$3.79 and \$2.30 respectively, compared to negative \$1.44 and \$3.99 in the same prior year period.

In Q2 Fiscal 2018, approximately 29,834 m or \$0.6 million of underground diamond drilling (Fiscal Q2 2017 – 22,188 m or \$0.5 million) and 6,390 m or \$1.9 million of preparation tunnelling (Fiscal Q2 2017 – 5,333 m or \$1.4 million) were completed and expensed as mining preparation costs at the Ying Mining District. In addition, approximately 16,958 m or \$5.2 million of horizontal tunnel, raises and declines (Q2 Fiscal 2017 – 14,804 m or \$4.8 million) were completed and capitalized.

For the six months ended September 30, 2017, approximately 60,898 m or \$1.3 million of underground diamond drilling (same prior year period – 35,038 m or \$0.9 million) and 11,727 or \$3.3 million of preparation tunnelling (same prior year period – 10,169 m or \$2.8 million) were completed and expensed as mining preparation costs at the Ying Mining District. In addition, approximately 35,848 m or \$10.2 million of horizontal tunnel, raises, and declines (same prior year period – 32,677 m or \$9.7 million) were completed and capitalized.

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#### (ii) GC Mine

The operational results at the GC Mine for the past five quarters are summarized in the table below:

Operational results - GC Mine	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Six months ended September 30,	
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	2017	2016
Ore Mined (tonne)	65,812	64,865	40,224	81,481	74,692	130,677	139,041
Ore Milled (tonne)	63,648	65,944	39,929	81,080	76,100	129,592	139,687
<b>Head Grades</b>							
Silver (gram/tonne)	102	98	91	89	96	100	97
Lead (%)	1.4	1.6	1.3	1.4	1.6	1.5	1.5
Zinc (%)	2.8	2.7	2.6	2.8	2.8	2.7	2.9
<b>Recovery Rates</b>							
Silver (%)	74.4	81.2	72.8	75.4	76.2	77.8	76.5
Lead (%)	82.8	88.8	82.4	85.5	86.6	86.0	86.7
Zinc (%)	81.6	80.9	74.8	86.5	86.4	81.2	86.1
<b>Metal Sales</b>							
Silver (in thousands of ounce)	155	189	53	179	183	344	332
Lead (in thousands of pound)	1,656	2,147	818	2,214	2,163	3,803	4,023
Zinc (in thousands of pound)	3,311	4,244	455	4,478	4,106	7,555	7,513
Cash mining cost (\$ per tonne)	34.60	39.20	37.91	31.34	28.61	36.88	30.87
Total mining cost (\$ per tonne)	42.62	46.99	45.37	38.90	36.78	44.78	39.15
Cash milling cost (\$ per tonne)	14.63	16.73	20.06	13.09	12.94	14.95	14.15
Total milling cost (\$ per tonne)	17.90	19.85	24.99	15.50	15.57	18.14	17.05
Cash production cost (\$ per tonne)	49.23	55.93	57.97	44.43	41.55	51.83	45.02
Cash cost per ounce of silver (\$)	(13.56)	(7.80)	(1.72)	(13.11)	(6.39)	(10.39)	(3.94)
All-in sustaining cost per ounce of silver (\$)	(3.77)	(2.48)	14.55	(6.12)	(1.49)	(3.06)	1.32

In Q2 Fiscal 2018, the total ore mined at the GC Mine was 65,812 tonnes, a decrease of 8,880 tonnes or 12%, compared to 74,692 tonnes mined in Q2 Fiscal 2017, while ore milled decreased by 16% to 63,648 tonnes from 76,100 tonnes in the prior year quarter. The decrease was mainly due to the interruption arising from the typhoon that impacted South China during the quarter and the regulatory mine inspection during the normal process to renew the safety production permit at the GC Mine. Head grades were 102 g/t for silver, 1.4% for lead, and 2.8% for zinc compared to 96 g/t for silver, 1.6% for lead, and 2.8% for zinc in the prior year quarter.

In Q2 Fiscal 2018, the GC Mine sold 155 thousand ounces of silver, 1.7 million pounds of lead, 3.3 million pounds of zinc, compared to 183 thousand ounces of silver, 2.2 million pounds of lead, and 4.1 million pounds of zinc sold in the prior year quarter. The decrease of metal sold at the GC Mine was mainly due to less ore processed in the current quarter.

Total and cash mining costs per tonne at the GC Mine in Q2 Fiscal 2018 were \$42.62 and \$34.60 per tonne, compared to \$36.78 and \$28.61 per tonne in Q2 Fiscal 2017. The increase in cash mining costs was mainly due to a \$0.3 million increase in mining preparation costs resulting from more underground drilling and tunnelling expensed in the current quarter and less production output resulting in higher per tonne overhead costs allocation.

Total and cash milling costs per tonne at the GC Mine in Q2 Fiscal 2018 were \$17.90 and \$14.63, compared to \$15.57 and \$12.94, respectively, in Q2 Fiscal 2017. The increase in milling costs was mainly due to higher per tonne overhead costs allocation resulting from less ore processed.

Correspondingly, the cash production costs per tonne of ore processed in Q2 Fiscal 2018 at the GC Mine increased to \$49.23 from \$41.55 in the prior year quarter.

Cash costs per ounce of silver, net of by-product credits, at the GC Mine, was negative \$13.56 compared to negative \$6.39 in the prior year quarter. The decrease was mainly due to a \$1.1 million or 24% increase in by-product credits resulting from a 60% and 55% increase in net realized lead and zinc selling prices offset by less lead and zinc metals sold at the GC Mine.

All in sustaining costs per ounce of silver, net of by-product credits, in Q2 Fiscal 2018 at the GC Mine was negative \$3.77 compared to negative \$1.50 in the prior year quarter. The improvement was mainly due to lower cash costs per ounce of silver as discussed above.

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For the six months ended September 30, 2017, a total of 130,677 tonnes of ore were mined and 129,592 tonnes were milled at the GC Mine compared to 139,041 tonnes mined and 139,687 tonnes milled in the same prior year period. Average head grades were 100 g/t for silver, 1.5% for lead, and 2.7% for zinc compared to 97 g/t for silver, 1.5% for lead, and 2.9% for zinc, respectively, in the same prior year period.

During the same time periods, the GC Mine sold approximately 344 thousand ounces of silver, 3.8 million pounds of lead, and 7.6 million pounds of zinc, compared to 332 thousand ounces of silver, 4.0 million pounds of lead, and 7.5 million pounds of zinc in the same prior year period.

For the six months ended September 30, 2017, the cash mining costs at the GC Mine was \$36.88 per tonne, an increase of 19% compared to \$30.87 per tonne in the same prior year period. The increase in cash mining costs was mainly due to a \$0.7 million increase in mining preparation as more underground drilling and tunnelling was expensed in the current period and higher per tonne overhead costs allocation resulting from less production output. The cash milling costs was \$14.95 per tonne, an increase of 6% compared to \$14.15 in the same prior year period.

Cash costs per ounce of silver and all in sustaining costs per ounce of silver, net of by-product credits, at the GC Mine, for the six months ended September 30, 2016, were negative \$10.39 and negative \$3.06 respectively, compared to negative \$3.94 and \$1.32 in the same prior year period.

In Q2 Fiscal 2018, approximately 5,511 m or \$0.2 million of underground diamond drilling (Q2 Fiscal 2017 – 2,245 m or \$0.2 million) and 3,940 m or \$1.1 million of tunnelling (Q2 Fiscal 2017 – 3,850 m or \$1.0 million) were completed and expensed as mining preparation costs at the GC Mine. In addition, approximately 105 m or \$0.1 million of horizontal tunnel, raises and declines (Q2 Fiscal 2017 – 606 m or \$0.2 million) were completed and capitalized.

For the six months ended September 30, 2017, approximately 10,483 m or \$0.5 million of underground diamond drilling (same prior year period – 5,554 m or \$0.4 million) and 9,232 m or \$2.4 million of tunnelling (same prior year period – 7,336 m or \$1.9 million) were completed and expensed as mining preparation costs at the GC Mine. In addition, approximately 263 m or \$0.2 million of horizontal tunnel, raise, and declines (same prior year period – 1,188 m or \$0.4 million) were completed and capitalized.

#### (iii) *BYP Mine*

The BYP mine was placed on care and maintenance in August 2014 in consideration of the required capital upgrades to sustain its ongoing production and the current market environment. The Company continues to review alternatives for this project.

#### (iv) *XHP Project*

Activities at the XHP project, a development stage project, were suspended in Fiscal 2014. In light of the recent increase of lead and zinc metal prices, the Company has resumed activities at the XHP project to review and evaluate alternatives for this project.

#### **4. Investment in New Pacific Metals Corp. ("NUAG")**

New Pacific Metals Corp. ("NUAG") is a Canadian public company listed on the TSX Venture Exchange (symbol: NUAG). NUAG is a related party of the Company by way of two common directors and officers, and the Company accounts for its investment in NUAG using the equity method as it is able to exercise significant influence over the financial and operating policies of NUAG.

During the six months ended September 30, 2017, the Company participated in NUAG's private placement and subscribed 25 million common shares of NUAG for \$20.0 million and acquired additional 24,400 common shares from the public market for \$25.

As at September 30, 2017, the Company owned 35,830,700 common shares (March 31, 2017 – 10,806,300) of NUAG, representing an ownership interest of 31.8% (March 31, 2017 – 16.1%).

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The summary of the investment in NUAG common shares and its market value as at the respective balance sheet dates are as follows:

	Number of shares	Amount	Value of NUAG's common shares per quoted market price
Balance, April 1, 2016	10,806,300	\$ 3,133	\$ 2,333
Share of net income		282	
Share of other comprehensive loss		(12)	
Impairment recovery		5,278	
Foreign exchange impact		(164)	
Balance, March 31, 2017	10,806,300	8,517	8,517
Participate in Private placement	25,000,000	20,000	
Purchase from open market	24,400	25	
Share of net loss		(369)	
Share of other comprehensive loss		(13)	
Foreign exchange impact		1,364	
<b>Balance September 30, 2017</b>	<b>35,830,700</b>	<b>\$ 29,524</b>	<b>\$ 38,759</b>

Subsequent to September 30, 2017, the Company purchased an additional 444,800 shares of NUAG from public market for a total of \$478.

NUAG acquired a 100% interest in the Silver Sand Property, an early-stage exploration projects in the Potosi Department of Bolivia, in July 2017 and commenced a 30,000 meters exploration drilling program in October 2017.

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### 5. Second Quarter Fiscal 2018 Financial Results

#### (a) Summary of Quarterly Results

The tables below set out selected quarterly results for the past eight quarters:

	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016*
Sales	\$ 47,541	\$ 39,697	\$ 34,064	\$ 47,838
Gross Profit	25,606	20,005	20,304	25,019
Expenses and foreign exchange	(6,274)	(7,026)	(5,083)	(3,197)
Impairment recovery (charges)	-	-	5,278	-
Gain on disposal of mineral rights and properties	-	4,320	-	-
Other Items	533	236	981	169
Net (loss) income	14,602	13,514	16,334	16,638
Net (loss) income, attributable to the shareholders of the Company	11,145	10,937	13,507	13,115
Basic (loss) earnings per share	0.07	0.07	0.08	0.08
Diluted (loss) earnings per share	0.07	0.06	0.08	0.08
Cash dividend declared	-	1,679	-	1,585
Cash dividend declared per share (CAD)	-	0.01	-	0.01
	Sep 30, 2016*	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015
Sales	\$ 46,298	\$ 35,271	\$ 19,426	\$ 29,081
Gross Profit	25,759	15,744	6,193	9,538
Expenses and foreign exchange	(4,643)	(6,203)	(7,189)	(3,981)
Impairment recovery (charges)	-	(181)	-	-
Other Items	827	(40)	(219)	(189)
Net Income (Loss)	16,006	6,520	(727)	3,916
Net income (Loss), attributable to the shareholders of the Company	12,378	4,674	(1,520)	3,326
Basic earnings (loss) per share	0.07	0.03	(0.01)	0.02
Diluted earnings (loss) per share	0.07	0.03	(0.01)	0.02
Cash dividend declared	-	-	-	-
Cash dividend declared per share (CAD)	-	-	-	-

\*Mineral resources tax has been excluded from expenses but included as part of cost of sales

Financial results including sales, gross profit, net income, basic earnings per share, and diluted earnings per share are heavily influenced by changes in commodity prices, particularly, the silver and lead price.

#### (b) Financial Results – Q2 Fiscal 2018

**Net income attributable to equity shareholders of the Company** in Q2 Fiscal 2018 was \$11.1 million, or \$0.07 per share, compared to \$12.4 million, or \$0.07 per share in Q2 Fiscal 2017.

The Company's financial results in Q2 Fiscal 2018 were mainly impacted by the following: i) an increase of 48% and 58% in the realized selling prices for lead and zinc, compared to the prior year quarter, ii) a 7% decrease in the realized selling price for silver, iii) less metals sold; iv) higher per tonne production costs, and iv) a \$1.1 million foreign exchange loss recorded in the current quarter.

Net income attributable to the shareholders of the Company for six months ended September 30, 2017 was \$22.1 million, or \$0.13 per share compared to \$17.1 million, or \$0.10 per share in the same period prior year.

**Sales** in Q2 Fiscal 2018 were \$47.5 million, up 3% compared to \$46.3 million in the same quarter last year. Silver and gold sales represented \$22.6 million and \$0.9 million, respectively, while base metals represented \$24.1 million of total sales, compared to silver, gold and base metals sales of \$27.0 million, \$1.1 million, and \$18.2 million, respectively, in the prior year quarter.

For six months ended September 30, 2017, sales were \$87.2 million, up 7% from \$81.6 million in the same prior year period. Silver and gold sales were \$42.8 million and \$1.8 million, respectively, while

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base metals represented \$42.6 million of total sales, compared to silver, gold, and base metals sales of \$47.8, \$2.0 million and \$31.8 million, respectively, in the same prior year period.

Fluctuation in sales revenue is mainly dependent on metal sales and the realized metal price. The net realized selling price is calculated using Shanghai Metal Exchange ("SME") price, less smelter charges, recovery, and value added tax ("VAT") at a rate of 17% (VAT is not applied to gold sales). The following table is a reconciliation of the Company's net realized selling prices in Q2 Fiscal 2018, including a comparison with London Metal Exchange ("LME") prices:

	Silver (in US\$/ounce)		Gold (in US\$/ounce)		Lead (in US\$/pound)		Zinc (in US\$/pound)	
	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017
Net realized selling prices	\$ 13.89	\$ 14.88	\$ 1,071	\$ 1,087	\$ 1.05	\$ 0.71	\$ 1.09	\$ 0.69
Add back: Value added taxes	2.36	2.53	-	-	0.18	0.12	0.19	0.12
Add back: Smelter charges and recovery	0.17	2.46	217	\$ 251	0.06	0.11	0.40	0.37
SME	\$ 16.42	\$ 19.87	\$ 1,290	\$ 1,338	\$ 1.29	\$ 0.94	\$ 1.68	\$ 1.18
LME	\$ 16.84	\$ 19.63	\$ 1,278	\$ 1,335	\$ 1.06	\$ 0.85	\$ 1.34	\$ 1.02

**Cost of sales** in Q2 Fiscal 2018 was \$21.9 million compared to \$20.5 million in Q2 Fiscal 2017. The cost of sales included \$16.2 million (Q2 Fiscal 2017 - \$13.8 million) cash production costs, \$1.3 million mineral resources tax (Q2 Fiscal 2017 - \$1.0 million), and \$4.4 million (Q2 Fiscal 2017 - \$5.7 million) depreciation and amortization charges. The increase of cash production costs was mainly due to higher per tonne cash production costs recorded in current quarter while the increase of mineral resources tax was due to higher sales achieved in Q2 Fiscal 2018.

For the six months ended September 30, 2017, cost of sales was \$41.6 million compared to \$40.1 million in the same prior year period. The cost of sales included \$30.3 million cash production costs, \$2.4 million mineral resources taxes and \$8.9 million depreciation and amortization compared to \$27.9 million production costs, \$1.4 million mineral resources taxes and \$10.7 million depreciation and amortization respectively, in the same prior year period.

**Gross profit margin** in Q2 Fiscal 2018 was 54%, compared to 56% in Q2 Fiscal 2017. Ying Mining District's gross margin was 56% compared to a 61% gross profit margin in the prior year quarter. GC Mine's profit margin was 40% compared to a 38% gross profit margin in the prior year quarter.

For the six months ended September 30, 2017, gross profit margin was 52% compare to 51% in the same prior year period. Ying Mining District's gross margin was 56% compared to a 55% gross profit margin in the same prior year period. GC Mine's profit margin was 34% compared to a 28% gross profit margin in the same prior year period.

**General and administrative expenses** in Q2 Fiscal 2018 and the six months ended September 30, 2017 were \$4.5 million and \$9.0 million (Q2 Fiscal 2018 - \$4.1 million, six months ended September 30, 2016 - \$8.5 million). Items included in general and administrative expenses are as follows:

- (i) **Amortization expenses** of \$0.3 million and \$0.6 million (Q2 Fiscal 2017 - \$0.3 million, six months ended September 30, 2016 - \$0.7 million);
- (ii) **Office and administrative expenses** of \$1.7 million and \$3.0 million (Q2 Fiscal 2017 - \$1.3 million, six months ended September 30, 2016 - \$2.7 million);
- (iii) **Salaries and benefits** of \$1.9 million and \$4.1 million (Q2 Fiscal 2017 - \$1.9 million, six months ended September 30, 2016 - \$3.5 million);
- (iv) **Stock based compensation expense** of \$0.3 million and \$0.7 million (Q2 Fiscal 2017 - \$0.2 million, six months ended September 30, 2016 - \$0.4 million); and
- (v) **Professional fees** of \$0.2 million and \$0.6 million (Q2 Fiscal 2017 - \$0.5 million, six months ended September 30, 2016 - \$1.2 million).



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**Government fees and other taxes** in Q2 Fiscal 2018 and six months ended September 30, 2017 were \$0.7 million and \$1.5 million (Q2 Fiscal 2017 - \$0.7 million, six months ended September 30, 2016 – \$2.4 million). Government fees include environmental protection fee and mineral resources compensation fee. Other taxes were composed of surtax on value-added tax, land usage levy, stamp duty and other miscellaneous levies, duties and taxes imposed by the state and local Chinese government.

**Foreign exchange loss** in Q2 Fiscal 2018 and six months ended September 30, 2017 were \$1.1 million and \$2.7 million (Q2 Fiscal 2017 - \$0.2 million gain, six months ended September 30, 2016 – \$0.1 million gain). The foreign exchange gain or loss is mainly driven by the fluctuation of the RMB and US dollar against the functional currency of the entities.

**Loss on disposal of plant and equipment** in Q2 Fiscal 2018 and six months ended September 30, 2017 were \$6 and \$0.2 million (Q2 Fiscal 2017 - \$0.2 million gain, six months ended September 30, 2016 – \$65). The loss was related to the disposal of obsolete equipment.

**Gain on disposal of mineral rights and properties** in Q2 Fiscal 2018 was \$nil (Q2 Fiscal 2017 - \$nil). For the six months ended September 30, 2017, the Company recorded a gain of \$4.3 million on the disposal of mineral rights and properties (six months ended September 30, 2016 - \$nil). On April 5, 2017, the Company entered into a royalty purchase and sale agreement (the "Agreement") with Maverix Metals Inc. ("Maverix"), a publicly traded (TSX-V: MMX) Canadian precious metals royalty and streaming company, to sell its 2.5% net smelter return ("NSR") on the Silvertip Mine for consideration of up to 6,600,000 of Maverix's common shares payable as follows:

- 3,800,000 common shares of Maverix on closing of the transaction; and
- 2,800,000 common shares of Maverix when the Silvertip Mine achieves (i) commercial production, and (ii) a cumulative throughput of 400,000 tonnes of ore through the processing plant.

On April 19, 2017, the transaction was closed and the Company received a total of 3,800,000 Maverix common shares valued at \$4,319 (CAD\$5.8 million) and recognized a gain of \$4,319 on the disposal of the NSR.

**Share of loss in an associate** in Q2 Fiscal 2018 and six months ended September 30, 2017 were \$0.1 million and \$0.4 million (Q2 Fiscal 2017 – gain of \$0.3 million, six months ended September 30, 2016 – gain of \$0.3 million), representing the Company's equity pickup in NUAG.

**Finance income** in Q2 Fiscal 2018 and six months ended September 30, 2017 were \$0.7 million and \$1.2 million (Q2 Fiscal 2017 - \$0.6 million, six months ended September 30, 2016 – \$1.0 million). The Company invests in high yield short-term investments as well as long term corporate bonds.

**Finance costs** in Q2 Fiscal 2018 and six months ended September 30, 2017 were \$0.1 million and \$0.2 million (Q2 Fiscal 2017 - \$0.3 million, six months ended September 30, 2016 – \$0.5 million). The finance costs in the current period were related to the unwinding of discount of environmental rehabilitation provision.

**Income tax expenses** in Q2 Fiscal 2018 were \$5.3 million compared to \$5.9 million in Q2 Fiscal 2017. The income tax expense recorded in Q2 Fiscal 2017 included current income tax expense of \$4.5 million (Q2 Fiscal 2016 – \$4.9 million) and deferred income tax expense of \$0.7 million (Q2 Fiscal 2016 – \$1.0 million).

For the six months ended September 30, 2017, income tax expense were \$9.3 million (same prior year period – \$8.7 million), which included current income tax expense of \$7.7 million (same prior year period – \$5.6 million) and deferred income tax expenses of \$1.5 million (same prior year period – \$3.1 million).

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#### 6. Liquidity and Capital Resources

**Cash and cash equivalents and short-term investments** as at September 30, 2017 were \$98.6 million, an increase of \$2.2 million or 2%, compared to \$96.5 million cash and cash equivalents and short-term investment as at March 31, 2017.

**Working capital** as at September 30, 2017 was \$77.6 million, an increase of \$6.9 million or 10%, compared to \$70.7 million working capital as at March 31, 2017.

**Cash flows provided by operating activities** in Q2 Fiscal 2018 were \$20.7 million, compared to \$27.0 million in the prior year quarter. Before changes in non-cash operating working capital, cash flows provided by operating activities in Q2 Fiscal 2018 were \$21.7 million, a decrease of \$3.2 million or 13%, compared to \$24.9 million in the prior year quarter.

For the six months ended September 30, 2017, cash flows provided by operating activities were \$37.6 million, compared to \$47.2 million in the same prior year period. Before changes in non-cash operating working capital, cash flows provided by operating activities for the six months ended September 30, 2017 were \$36.4 million, a decrease of \$4.1 million compared to \$40.5 million in the same prior year period.

**Cash flows used in investing activities** in Q2 Fiscal 2018 were \$54.6 million (Q2 Fiscal 2017 - \$8.4 million), comprising mainly of payment of \$5.0 million for capital mineral exploration and development expenditures (Q2 Fiscal 2017 - \$5.7 million), \$1.5 million for acquisition of plant and equipment (Q2 Fiscal 2017 - \$0.7 million), \$28.1 million for net purchases of short-term investments (Q2 Fiscal 2017 - \$2.0 million) to earn higher interest income, and \$20.0 million for the investment in NUAG (Q2 Fiscal 2017 - \$nil).

For the six months ended September 30, 2017, cash flows used in investing activities were \$65.5 million, comprising mainly of cash used in capital expenditures of \$13.7 million, net purchase of short-term investments of \$31.8 million, and the investment in NUAG of \$20.0 million. For the six months ended September 2016, cash flows used in investing activities were \$20.1 million comprising mainly of cash used in capital expenditures of \$13.8 million and net purchase of short-term investments of \$6.0 million.

**Cash flows provided by financing activities** in Q2 Fiscal 2018 were \$0.2 million arising from the issuance of common shares of the Company from stock options exercised. In Q2 Fiscal 2017, cash flow used in financing activities were \$1.4 million, comprising mainly of \$1.5 million cash distributed to non-controlling shareholders offset by \$0.1 million cash from the issuance of common shares of the Company arising from exercised stock options.

For six months ended September 30, 2017, cash flow used in financing activities were \$6.4 million, comprising mainly of \$4.9 million distributions to non-control interest, \$1.7 million cash dividend to the equity shareholders of the Company offset by \$0.2 million from the issuance of common shares of the Company arising from exercised stock options. In the same prior year period, cash used in financing activities were \$1.2 million, comprising mainly of \$1.5 million cash distributed to non-controlling shareholders offset by \$0.3 million cash from the issuance of the common shares of the Company arising from exercised stock options.

**Contractual commitments and contingencies** not disclosed elsewhere in this Management's Discussion and Analysis are as follows:

	Total	Less than 1 year	1-5 years	After 5 years
Operating leases	\$ 3,772	\$ 566	\$ 3,206	-
Commitments	\$ 6,418	\$ -	\$ -	\$ 6,418

As of September 30, 2017, the Company has two office rental agreements totaling \$3,772 for the next five years and commitments of \$6,418 related to the GC property. During the three and six months ended September 30, 2017, the Company incurred rental expenses of \$167 and \$325, respectively (three and six months ended September 30, 2016 - \$148 and \$300, respectively), which were included

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in office and administrative expenses on the consolidated statement of income.

Although the Company has taken steps to verify title to properties in which it has an interest, these procedures do not guarantee the Company's title. Property title may be subject to, among other things, unregistered prior agreements or transfers and may be affected by undetected defects.

Due to the size, complexity and nature of the Company's operations, the Company is subject to various claims, legal and tax matters arising in the ordinary course of business. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably to the Company. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated.

In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. Major legal proceedings against the Company are summarized as follows:

- On August 19, 2014, an action was commenced against the Company in the Supreme Court of British Columbia seeking an unspecified amount of damages for a claim of false imprisonment and defamation (the "Huang Action"). The Company believes that there is no merit to the allegations and intends to pursue a vigorous defence.
- During the year ended March 31, 2016, an action was initiated by Luoyang Mining Group Co., Ltd. ("Luoyang Mining") against Henan Found seeking payment of \$1.6 million (RMB10.0 million) plus interest related to the acquisition agreements Henan Found entered into in August 2012 to acquire the XHP Mine. The \$1.6 million has been included into the accounts payable and accrued liabilities on the condensed consolidated interim of financial position of the Company. Henan Found did not make the final payment as certain commercial conditions were not fulfilled by Luoyang Mining. In April 2016, Henan Found filed a counter claim in Luoyang People's Court against Luoyang Mining to have the original acquisition agreements nullified and is seeking repayment of the amount paid to date of \$9.7 million (RMB62.8 million) plus compensation of direct loss of \$2.5 million (RMB16.5 million) arising from the XHP mine. A trial was heard in March 2017 but a court decision has not yet been made. The carrying value of XHP mine was impaired to \$nil in fiscal year 2015.
- During the year ended March 31, 2016, SX Gold, a 100% owned subsidiary of Henan Found, commenced a legal action against Luoyang HA Mining Co. Ltd. ("HA Mining") to seek payment of \$4.0 million (RMB26.0 million) plus interest related to a share transfer agreement that SX Gold entered into with HA Mining in September 2013. Pursuant to the agreement, SX Gold was to transfer all shares it held in Songxian Zhongxin Mining Co. Ltd. to HA Mining for \$11.8 million (RMB76.0 million). SX Gold fulfilled its responsibilities and the title of the shares was transferred to HA Mining, who paid \$7.8 million (RMB50.0 million). The remaining \$4.0 million (RMB26.0 million) was not paid. In April 2016, HA Mining filed a counter claim for \$2.2 million (RMB14.0 million). On June 17, 2016, the court issued an order in favor of SX Gold. The Luoyang Intermediate People's Court, Henan, China issued a court order demanding HA Mining to pay \$3.4 million (RMB22.75 million) to SX Gold. On July 1, 2016, HA Mining filed an appeal to the Henan High People's Court, China. A trial was heard in April 2017 and on June 16, 2017, the Henan High People's Court, China dismissed HA Mining's appeal and upheld the rulings made by the Luoyan Intermediate People's Court, Henan, China. On August 4, 2017, HA Mining submitted an application to the Supreme People's Court of China to rehear the case. As of September 30, 2017, no decision has been made by the Supreme People's Court of China. The outstanding receivable amount of \$4.0 million (RMB26.0 million) was written off in prior years.

#### **Available sources of funding**

The Company does not have unlimited resources and its future capital requirements will depend on

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many factors, including, among others, cash flow from operations. 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.

#### 7. Financial Instruments and Related Risks

The Company manages its exposure to financial risks, including liquidity risk, foreign exchange risk, interest rate risk, credit risk and equity price 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 the inputs used in making the measurements as defined in IFRS 13, Fair Value Measurement ("IFRS 13").

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 tables set forth the Company's financial assets and liabilities that are measured at fair value level on a recurring basis within the fair value hierarchy at September 30, 2017 and March 31, 2017 that are not otherwise disclosed. As required by IFRS 13, assets and liabilities 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 September 30, 2017			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Cash and cash equivalents	\$ 41,369	\$ -	\$ -	\$ 41,369
Investments in publicly traded companies	6,489	-	-	6,489

Recurring measurements	Fair value as at March 31, 2017			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Cash and cash equivalents	\$ 73,003	\$ -	\$ -	\$ 73,003
Investments in publicly traded companies	1,207	-	-	1,207

Fair value of the other financial instruments excluded from the table above approximates their carrying amount as of September 30, 2017 and March 31, 2017, respectively, due to the short-term nature of these instruments.

There were no transfers into or out of level 3 during the three months ended September 30, 2017 and

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2016.

#### (a) 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 a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion plans.

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

	September 30, 2017			March 31, 2017	
	Within a year	2-3 years	4-5 years	Total	Total
Accounts payable and accrued liabilities	\$ 24,705	\$ -	\$ -	\$ 24,705	\$ 30,374

#### (b) Foreign exchange risk

The Company reports its financial statements in US dollars. The functional currency of the head office, Canadian subsidiaries and all intermediate holding companies is CAD and the functional currency of all Chinese subsidiaries is RMB. The Company is exposed to foreign exchange risk when the Company undertakes transactions and holds assets and liabilities in currencies other than its functional currencies.

The Company currently does not engage in foreign exchange currency hedging. The Company's exposure to currency risk affect net income is summarized as follow:

	September 30, 2017		March 31, 2017	
Financial assets denominated in U.S. Dollars	\$	26,202	\$	29,093
Financial assets denominated in Chinese RMB	\$	1	\$	7,115

As at September 30, 2017, with other variables unchanged, a 10% strengthening (weakening) of the CAD against the USD would have decreased (increased) net income by approximately \$2.6 million.

#### (c) Interest rate risk

The Company is exposed to interest rate risk on its cash equivalents and short-term investments. As at September 30, 2017, all of its interest-bearing cash equivalents and short-term investments earn interest at market rates that are fixed to maturity or at variable interest rate with terms of less than one year. The Company monitors its exposure to changes in interest rates on cash equivalents and short-term investments. Due to the short-term nature of the financial instruments, fluctuations in interest rates would not have a significant impact on the Company's after-tax net income.

#### (d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk primarily associated to accounts receivable, due from related parties, cash and cash equivalents and short-term investments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

The Company undertakes credit evaluations on counterparties as necessary, requests deposits from customers prior to delivery, and has monitoring processes intended to mitigate credit risks. The Company has trade receivables from time to time from its major customers primarily in China engaged in the mining and milling of base and polymetallic metals. The historical level of customer default is zero and aging of trade receivables are no more than 180 days, and, as a result, the credit risk associated with trade receivables from customers as at September 30, 2017 is considered to be immaterial. There were no amounts in receivables which were past due at September 30, 2017 (at March 31, 2017 - \$nil) for which no provision is recognized.

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#### (e) Equity price risk

The Company holds certain marketable securities that will fluctuate in value as a result of trading on Canadian 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 September 30, 2017, a 10% increase (decrease) in the market price of the securities held, ignoring any foreign currency effects would have resulted in an increase (decrease) to comprehensive income of approximately \$0.65 million.

#### 8. Off-Balance Sheet Arrangements

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

#### 9. Transactions with Related Parties

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 consolidated financial statements are as follows:

##### (a) Transactions with NUAG

<u>Due from a related party</u>	<u>September 30, 2017</u>	<u>March 31, 2017</u>
NUAG	\$ 59	\$ 92

According to a services and administrative costs reallocation agreement between the Company and NUAG, the Company recovers costs for services rendered to NUAG and expenses incurred on behalf of NUAG. During the three and six months ended September 30, 2017, the Company recovered \$140 and \$250, respectively (three and six months ended September 30, 2016 - \$55 and \$93, respectively) from NUAG for services rendered and expenses incurred on behalf of NUAG. The costs recovered from NUAG were recorded as a direct reduction of general and administrative expenses on the condensed consolidated interim statements of income.

##### (b) Transactions with key management personnel

The Company has identified its directors and senior officers as its key management personnel as they have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The compensation costs for key management personnel, including the grant date fair value for options granted to key management personnel and fees paid or payable to company controlled by key management personnel, were as follows:

	<u>Three Month ended September 30,</u>		<u>Six Month ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Salaries and bonuses	\$ 1,128	\$ 370	\$ 1,532	\$ 737
Share-based compensation	-	134	-	134
	\$ 1,128	\$ 504	\$ 1,532	\$ 871

#### 10. Alternative Performance (Non-IFRS) Measures

The following alternative performance measures are used by the Company to manage and evaluate operating performance of the Company's mines and are widely reported in the silver mining industry as benchmarks for performance, but do not have standardized meaning. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. To facilitate a better understanding of these measures, the following tables provides the reconciliation of these measures to the financial statements for the three and six months ended September 30, 2017 and 2016:

##### (a) Cash and Total Costs per Ounce

Cash and total costs per ounce of silver are used by the Company to manage and evaluate operating

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performance at each of the Company's operating mining units, and are widely reported in the mining industry as benchmarks for performance. The Company believes these measures provide investors and analysts with useful information about the Company's underlying cash costs of operations and the impact of by-product credits on the Company's cost structure, operating profitability and ability to generate cash flows. Cash and total costs on a by-product basis are calculated by deducting revenue from the sales of by-product metals from the Company's cash and total cost of sales.

The following table provides a reconciliation of cash and total costs per ounce of silver, net of by-product credits.

Three months ended September 30, 2017				
		Ying Mining		
		District	GC	Total
Cost of sales		\$ 17,716	\$ 4,219	\$ 21,935
Less: mineral resources tax		(1,107)	(210)	(1,317)
Total production costs expensed into cost of sales	A	16,609	4,009	20,618
Less: Amortization and depletion		(3,667)	(774)	(4,441)
Total cash production cost expensed into cost of sales	B	12,942	3,235	16,177
By-product sales				
Gold		(857)	-	(857)
Lead		(16,036)	(1,769)	(17,805)
Zinc		(2,528)	(3,558)	(6,086)
Other		187	(10)	177
Total by-product sales	C	(19,234)	(5,337)	(24,571)
Silver ounces sold ('000s)	D	1,472	155	1,627
Total production cost per ounce of silver, net of by-product credits	(A+C)/D	\$ (1.78)	\$ (8.57)	\$ (2.43)
Total cash cost per ounce of silver, net of by-product credits	(B+C)/D	\$ (4.27)	\$ (13.56)	\$ (5.16)
Total production cost per ounce of silver, before by-product credits	A/D	\$ 11.28	\$ 25.86	\$ 12.67
Total cash cost per ounce of silver, before by-product credits	B/D	\$ 8.79	\$ 20.87	\$ 9.94

### By-product credits per ounce of silver

Gold		\$ (0.58)	\$ -	\$ (0.53)
Lead		(10.89)	(11.41)	(10.94)
Zinc		(1.72)	(22.95)	(3.74)
Other		0.13	(0.06)	0.11
Total by-product credits per ounce of silver		\$ (13.06)	\$ (34.42)	\$ (15.10)

Three months ended September 30, 2016				
		Ying Mining		
		District	GC	Total
Cost of sales		\$ 16,420	\$ 4,119	\$ 20,539
Less: mineral resources tax		(843)	(187)	(1,030)
Total production costs expensed into cost of sales	A	15,577	3,932	19,509
Amortization and depletion		(4,911)	(809)	(5,720)
Total cash cost	B	10,666	3,123	13,789
By-product sales				
Gold		(1,087)	-	(1,087)
Lead		(12,684)	(1,459)	(14,143)
Zinc		(1,260)	(2,833)	(4,093)
Other		-	(1)	(1)
Total by-product sales	C	(15,031)	(4,293)	(19,324)
Silver ounces sold ('000s)	D	1,630	183	1,813
Total production cost per ounce of silver, net of by-product credits	(A+C)/D	\$ 0.33	\$ (1.97)	\$ 0.10
Total cash cost per ounce of silver, net of by-product credits	(B+C)/D	\$ (2.68)	\$ (6.39)	\$ (3.05)
Total production cost per ounce of silver, before by-product credit:	A/D	\$ 9.56	\$ 21.49	\$ 10.76
Total cash cost per ounce of silver, before by-product credits	B/D	\$ 6.54	\$ 17.07	\$ 7.61

### By-product credits per ounce of silver

Gold		\$ (0.67)	\$ -	\$ (0.60)
Lead		(7.78)	(7.97)	(7.80)
Zinc		(0.77)	(15.48)	(2.26)
Other		-	(0.01)	(0.00)
Total by-product credits per ounce of silver		\$ (9.22)	\$ (23.46)	\$ (10.66)

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Six months ended September 30, 2017				
	Ying Mining			
	District	GC	Total	
Cost of sales	\$ 31,838	\$ 9,789	\$ 41,627	
Less: mineral resources tax	(1,980)	(448)	(2,428)	
Total production costs expensed into cost of sales	<b>A</b> 29,858	9,341	39,199	
Less: Amortization and depletion	(7,295)	(1,618)	(8,913)	
Total cash production cost expensed into cost of sales	<b>B</b> 22,563	7,723	30,286	
By-product sales				
Gold	(1,816)	-	(1,816)	
Lead	(27,683)	(3,570)	(31,253)	
Zinc	(3,267)	(7,500)	(10,767)	
Other	(395.00)	(228)	(623)	
Total by-product sales	<b>C</b> (33,161)	(11,298)	(44,459)	
Silver ounces sold ('000s)	<b>D</b> 2,796	344	3,140	
Total production cost per ounce of silver, net of by-product credits	<b>(A+C)/D</b> \$ (1.18)	\$ (5.69)	\$ (1.68)	
Total cash cost per ounce of silver, net of by-product credits	<b>(B+C)/D</b> \$ (3.79)	\$ (10.39)	\$ (4.51)	
<hr/>				
Total production cost per ounce of silver, before by-product credits	<b>A/D</b> \$ 10.68	\$ 27.15	\$ 12.48	
Total cash cost per ounce of silver, before by-product credits	<b>B/D</b> \$ 8.07	\$ 22.45	\$ 9.65	
<hr/>				
By-product credits per ounce of silver				
Gold	\$ (0.65)	\$ -	\$ (0.58)	
Lead	(9.90)	(10.38)	(9.95)	
Zinc	(1.17)	(21.80)	(3.43)	
Other	(0.14)	(0.66)	(0.20)	
Total by-product credits per ounce of silver	\$ (11.86)	\$ (32.84)	\$ (14.16)	

Six months ended September 30, 2016				
	Ying Mining			
	District	GC	Total	
Cost of sales	\$ 32,134	\$ 7,932	\$ 40,066	
Less: mineral resources tax	(1,157)	(284)	(1,441)	
Total production costs expensed into cost of sales	<b>A</b> 30,977	7,648	38,625	
Amortization and depletion	(9,147)	(1,536)	(10,683)	
Total cash cost	<b>B</b> 21,830	6,112	27,942	
By-product sales				
Gold	(1,959)	-	(1,959)	
Lead	(22,065)	(2,571)	(24,636)	
Zinc	(2,313)	(4,739)	(7,052)	
Other	-	(111)	(111)	
Total by-product sales	<b>C</b> (26,337)	(7,421)	(33,758)	
Silver ounces sold ('000s)	<b>D</b> 3,120	332	3,452	
Total production cost per ounce of silver, net of by-product credits	<b>(A+C)/D</b> \$ 1.49	\$ 0.68	\$ 1.41	
Total cash cost per ounce of silver, net of by-product credits	<b>(B+C)/D</b> \$ (1.44)	\$ (3.94)	\$ (1.68)	
<hr/>				
Total production cost per ounce of silver, before by-product credit:	<b>A/D</b> \$ 9.93	\$ 23.04	\$ 11.19	
Total cash cost per ounce of silver, before by-product credits	<b>B/D</b> \$ 7.00	\$ 18.41	\$ 8.09	
<hr/>				
By-product credits per ounce of silver				
Gold	\$ (0.63)	\$ -	\$ (0.57)	
Lead	(7.07)	(7.74)	(7.14)	
Zinc	(0.74)	(14.27)	(2.04)	
Other	-	(0.33)	(0.03)	
Total by-product credits per ounce of silver	\$ (8.44)	\$ (22.34)	\$ (9.78)	

### (b) All-in & All-in Sustaining Costs per Ounce of Silver

All-in sustaining costs ("AISC") per ounce and all-in costs ("AIC") per ounce of silver are non-IFRS measures calculated based on guidance developed by the World Gold Council in an effort to provide a



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comparable standard within the precious metal industry. The measures do not have standardized meaning and should not be considered in isolation or as a substitute for measures of performance prepared in accordance to IFRS. These measures are used by the Company to manage and evaluate operating performance at each of the Company's mining units and consolidated group, and are widely reported in the silver mining industry as a benchmark for performance.

AISC is an extension of the "cash costs" metric and provides a comprehensive measure of the Company's operating performance and ability to generate cash flows. AISC is based on the Company's cash production costs, net of by-product sales, and further include corporate general and administrative expense, government fee and other taxes, reclamation cost accretion, and sustaining capital expenditures. The Company believes that this measure represents the total sustainable costs of producing silver from current operations.

AIC further extends the AISC metric by including non-sustaining expenditures, mainly investment capital expenditures, which are deemed expansionary in nature that result in an increase in asset life, expanded mineral resources and reserves, or higher capacity and productivity.

The following tables provide a detailed reconciliation of these measures for the periods presented:

Three month ended September 30, 2017	Ying Mining		Developing			Total
	District	BYP	GC	Projects	Corporate	
Cost of sales (as reported)	\$ 17,715	\$ -	\$ 4,220	\$ -	\$ -	\$ 21,935
Depreciation, amortization and depletion	(3,667)	-	(774)	-	-	(4,441)
By-products credits	(19,608)	-	(5,337)	-	-	(24,945)
Total cash costs, net of by-product credits	(5,560)	-	(1,891)	-	-	(7,451)
General & administrative	1,293	364	467	220	2,129	4,473
Amorization included in general & administrative	(100)	(80)	(63)	-	(57)	(300)
Government fees and other taxes	588	5	94	2	1	690
Reclamation accretion	92	8	8	4	-	112
Sustaining capital	5,280	1	801	-	72	6,154
All-in sustaining costs, net of by-product credits	A \$ 1,593	\$ 298	\$ (584)	\$ 226	\$ 2,145	\$ 3,678
Investment capital	339	-	-	49	-	388
All-in costs, net of by-product credits	B \$ 1,932	\$ 298	\$ (584)	\$ 275	\$ 2,145	\$ 4,066
Ounces of silver sold	C 1,472	-	155	-	-	1,627
All-in sustaining costs per ounce of silver, net of by-product credits	A/C \$ 1.08	\$ -	\$ (3.77)	\$ -	\$ -	\$ 2.26
All-in costs per ounce of silver, net of by-product credits	B/C \$ 1.31	\$ -	\$ (3.77)	\$ -	\$ -	\$ 2.50

Three months ended September 30, 2016	Ying Mining		Developing			Total
	District	BYP	GC	Projects	Corporate	
Cost of sales (as reported)	\$ 16,420	\$ -	\$ 4,119	\$ -	\$ -	\$ 20,539
Depreciation, amortization and depletion	(4,911)	-	(809)	-	-	(5,720)
By-products credits	(15,031)	-	(4,293)	-	-	(19,324)
Total cash costs, net of by-product credits	(3,522)	-	(983)	-	-	(4,505)
General & administrative	1,335	201	480	48	2,063	4,127
Amorization included in general & administrative	(118)	(95)	(54)	-	(42)	(309)
Government fees and other taxes	642	-	75	-	14	731
Reclamation accretion	87	7	6	3	-	103
Sustaining capital	5,381	-	204	-	2	5,587
All-in sustaining costs, net of by-product credits	A \$ 3,805	\$ 113	\$ (272)	\$ 51	\$ 2,037	\$ 5,734
Investment capital	785	-	43	-	-	828
All-in costs, net of by-product credits	B \$ 4,590	\$ 113	\$ (229)	\$ 51	\$ 2,037	\$ 6,562
Ounces of silver sold	C 1,630	-	183	-	-	1,813
All-in sustaining costs per ounce of silver, net of by-product credits	A/C \$ 2.33	\$ -	\$ (1.50)	\$ -	\$ -	\$ 3.15
All-in costs per ounce of silver, net of by-product credits	B/C \$ 2.82	\$ -	\$ (1.26)	\$ -	\$ -	\$ 3.62

# SILVERCORP METALS INC.

## Management's Discussion and Analysis

For the Three and Six Months Ended September 30, 2017

(Expressed in thousands of U.S. dollars, unless otherwise stated)

Six months ended September 30, 2017	Ying Mining			Developing		Total
	District	BYP	GC	Projects	Corporate	
Cost of sales (as reported)	\$ 31,838	\$ -	\$ 9,789	\$ -	\$ -	\$ 41,627
Depreciation, amortization and depletion	(7,295)	-	(1,618)	-	-	(8,913)
By-products credits	(33,161)	-	(11,298)	-	-	(44,459)
Total cash costs, net of by-product credits	(8,618)	-	(3,127)	-	-	(11,745)
General & administrative	2,625	527	996	288	4,607	9,043
Amorization included in general & administrative	(197)	(163)	(115)	-	(105)	(580)
Government fees and other taxes	1,283	5	226	2	15	1,531
Reclamation accretion	181	16	15	5	-	217
Sustaining capital	11,170	38	952	-	164	12,324
All-in sustaining costs, net of by-product credits	A \$ 6,444	\$ 423	\$ (1,053)	\$ 295	\$ 4,681	\$ 10,790
Investment capital	725	-	566	49	-	1,340
All-in costs, net of by-product credits	B \$ 7,169	\$ 423	\$ (487)	\$ 344	\$ 4,681	\$ 12,130
Ounces of silver sold	C 2,796	-	344	-	-	3,140
All-in sustaining costs per ounce of silver, net of by-product credits	A/C \$ 2.30	\$ -	\$ (3.06)	\$ -	\$ -	\$ 3.44
All-in costs per ounce of silver, net of by-product credits	B/C \$ 2.56	\$ -	\$ (1.42)	\$ -	\$ -	\$ 3.86

Six months ended September 30, 2016	Ying Mining			Developing		Total
	District	BYP	GC	Projects	Corporate	
Cost of sales (as reported)	\$ 32,134	\$ -	\$ 7,932	\$ -	\$ -	\$ 40,066
Depreciation, amortization and depletion	(9,147)	-	(1,536)	-	-	(10,683)
By-products credits	(26,337)	-	(7,421)	-	-	(33,758)
Total cash costs, net of by-product credits	(3,350)	-	(1,025)	-	-	(4,375)
General & administrative	2,904	450	962	99	4,097	8,512
Amorization included in general & administrative	(265)	(199)	(112)	-	(90)	(666)
Government fees and other taxes	2,209	-	186	1	30	2,426
Reclamation accretion	175	15	13	5	-	208
Sustaining capital	10,777	5	413	-	2	11,197
All-in sustaining costs, net of by-product credits	A \$ 12,450	\$ 271	\$ 437	\$ 105	\$ 4,039	\$ 17,302
Investment capital	3,070	-	94	-	-	3,164
All-in costs, net of by-product credits	B \$ 15,520	\$ 271	\$ 531	\$ 105	\$ 4,039	\$ 20,466
Ounces of silver sold	C 3,120	-	332	-	-	3,452
All-in sustaining costs per ounce of silver, net of by-product credits	A/C \$ 3.99	\$ -	\$ 1.32	\$ -	\$ -	\$ 5.01
All-in costs per ounce of silver, net of by-product credits	B/C \$ 4.97	\$ -	\$ 1.60	\$ -	\$ -	\$ 5.93

### (c) Average Production Costs

The Company assesses average production costs as the total production costs on a co-product basis. This is calculated by allocating the Company's total cost of sales to each co-product based on the ratio of actual sales volumes multiplied by realized sales prices. The following table provides a reconciliation of average production costs for the periods presented:

Three months ended September 30, 2017				
	Ying Mining			Total
	District	GC		
Cost of sales		\$ 17,716	\$ 4,219	\$ 21,935
Less: mineral resources tax		(1,107)	(210)	(1,317)
<b>Production costs expensed in cost of sales</b>	<b>A</b>	<b>16,609</b>	<b>4,009</b>	<b>20,618</b>
Metals revenue (in thousands of US\$)				
Silver	B	20,928	1,668	22,596
Gold	C	857	-	857
Lead	D	16,036	1,769	17,805
Zinc	E	2,528	3,558	6,086
Other	F	187	10	197
	G	40,536	7,005	47,541
Metals sold				
Silver (in thousands of ounces)	H	1,472	155	1,627
Gold (in thousands of ounces)	I	0.8	-	0.8
Lead (in thousands of pounds)	J	15,279	1,656	16,935
Zinc (in thousands of pounds)	K	2,269	3,311	5,580
Other (in thousands of pounds)	L	176	4,234	4,410
Average production cost (\$/unit)				
Silver	B/G*A/H	\$ 5.83	\$ 6.16	\$ 6.02
Gold	C/G*A/I	\$ 439	\$ -	\$ 465
Lead	D/G*A/J	\$ 0.43	\$ 0.61	\$ 0.46
Zinc	E/G*A/K	\$ 0.46	\$ 0.61	\$ 0.47
Other	F/G*A/L	\$ 0.44	\$ -	\$ 0.02

# SILVERCORP METALS INC.

## Management's Discussion and Analysis

For the Three and Six Months Ended September 30, 2017

(Expressed in thousands of U.S. dollars, unless otherwise stated)

Three months ended September 30, 2016				
		Ying Mining		
		District	GC	Total
Cost of sales		\$ 16,420	\$ 4,119	\$ 20,539
Less: mineral resources tax		(843)	(187)	(1,030)
Production costs expensed in cost of sales	A	15,577	3,932	19,509
Metals revenue ( in thousands of US\$)				
Silver	B	24,923	2,051	26,974
Gold	C	1,087	-	1,087
Lead	D	12,684	1,459	14,143
Zinc	E	1,260	2,833	4,093
Other	F	-	1	1
	G	39,954	6,344	46,298
Metals sold				
Silver (in thousands of ounces)	H	1,630	183	1,813
Gold (in thousands of ounces)	I	1.0	-	1.0
Lead (in thousands of pounds)	J	17,768	2,163	19,931
Zinc (in thousands of pounds)	K	1,785	4,106	5,891
Other (in thousands of pounds)	L	-	365	365
Average production cost (\$/unit)				
Silver	B/G*A/H	\$ 5.96	\$ 6.95	\$ 6.27
Gold	C/G*A/I	\$ 424	\$ -	\$ 458
Lead	D/G*A/J	\$ 0.28	\$ 0.42	\$ 0.30
Zinc	E/G*A/K	\$ 0.28	\$ 0.43	\$ 0.29
Other	F/G*A/L	\$ -	\$ -	\$ -
Six months ended September 30, 2017				
		Ying Mining		
		District	GC	Total
Cost of sales		\$ 31,838	\$ 9,789	\$ 41,627
Less: mineral resources tax		(1,980)	(448)	(2,428)
Production costs expensed in cost of sales	A	29,858	9,341	39,199
Metals revenue ( in thousands of US\$)				
Silver	B	39,132	3,647	42,779
Gold	C	1,816	-	1,816
Lead	D	27,683	3,570	31,253
Zinc	E	3,267	7,500	10,767
Other	F	395	228	623
	G	72,293	14,945	87,238
Metals sold				
Silver (in thousands of ounces)	H	2,796	344	3,140
Gold (in thousands of ounces)	I	1.7	-	1.7
Lead (in thousands of pounds)	J	29,044	3,803	32,847
Zinc (in thousands of pounds)	K	3,024	7,555	10,579
Other (in thousands of pounds)	L	430	12,136	12,566
Average production cost (\$/unit)				
Silver	B/G*A/H	\$ 5.78	\$ 6.63	\$ 6.12
Gold	C/G*A/I	\$ 441	\$ -	\$ 480
Lead	D/G*A/J	\$ 0.39	\$ 0.59	\$ 0.43
Zinc	E/G*A/K	\$ 0.45	\$ 0.62	\$ 0.46
Other	F/G*A/L	\$ 0.38	\$ 0.01	\$ 0.02

# SILVERCORP METALS INC.

## Management's Discussion and Analysis

For the Three and Six Months Ended September 30, 2017

(Expressed in thousands of U.S. dollars, unless otherwise stated)

Six months ended September 30, 2016				
		Ying Mining District	GC	Total
Cost of sales		\$ 32,134	\$ 7,932	\$ 40,066
Less: mineral resources tax		(1,157)	(284)	(1,441)
Production costs expensed in cost of sales	A	30,977	7,648	38,625
Metals revenue ( in thousands of US\$)				
Silver	B	44,289	3,522	47,811
Gold	C	1,959	-	1,959
Lead	D	22,065	2,571	24,636
Zinc	E	2,313	4,739	7,052
Other	F	-	111	111
	G	70,626	10,943	81,569
Metals sold				
Silver (in thousands of ounces)	H	3,120	332	3,452
Gold (in thousands of ounces)	I	1.9	-	1.9
Lead (in thousands of pounds)	J	32,629	4,023	36,652
Zinc (in thousands of pounds)	K	3,605	7,513	11,118
Other (in thousands of pounds)	L	-	8,551	8,551
Average production cost (\$/unit)				
Silver	B/G*A/H	\$ 6.23	\$ 7.41	\$ 6.56
Gold	C/G*A/I	\$ 452	\$ -	\$ 488
Lead	D/G*A/J	\$ 0.30	\$ 0.45	\$ 0.32
Zinc	E/G*A/K	\$ 0.28	\$ 0.44	\$ 0.30
Other	F/G*A/L	\$ -	\$ 0.01	\$ 0.01

\*Mineral resources tax has been excluded from production costs.

### (d) Production Costs per Tonne

Three months ended September 30, 2017				
		Ying Mining District	GC	Consolidated
Cost of sales		\$ 17,716	4,219	\$ 21,935
Less: mineral resources tax		(1,107)	(210)	(1,317)
Less: stockpile and concentrate inventory - Beginning		(4,943)	(91)	(5,034)
Add: stockpile and concentrate inventory - Ending		4,971	235	5,206
Adjustment for foreign exchange movement		(78)	(209)	(287)
Total production costs		\$ 16,559	\$ 3,944	\$ 20,503
Non-cash mining costs	A	3,731	528	4,259
Non-cash milling costs	B	339	208	547
Total non-cash production costs		\$ 4,070	\$ 736	\$ 4,806
Cash mining costs	C	10,341	2,277	12,618
Shipping costs	D	669	-	669
Cash milling costs	E	1,478	931	2,409
Total cash production costs		\$ 12,488	\$ 3,208	\$ 15,696
Ore mined ('000s)	F	173.294	65.812	239.105
Ore shipped ('000s)	G	181.661	65.812	247.472
Ore milled ('000s)	H	173.946	63.648	237.594
Per tonne Production costs				
Non-cash mining costs (\$/tonne)	I=A/F	21.53	8.02	17.81
Non-cash milling costs (\$/tonne)	J=B/H	1.95	3.27	2.30
Non-cash production costs (\$/tonne)	K=I+J	\$ 23.48	\$ 11.29	\$ 20.11
Cash mining costs (\$/tonne)	L=C/F	59.67	34.60	52.77
Shipping costs (\$/tonne)	M=D/G	3.68	-	2.70
Cash milling costs (\$/tonne)	N=E/H	8.50	14.63	10.14
Cash production costs (\$/tonne)	O=L+M+N	\$ 71.85	\$ 49.23	\$ 65.61
Total production costs (\$/tonne)	P=K+O	\$ 95.33	\$ 60.52	\$ 85.72

# SILVERCORP METALS INC.

## Management's Discussion and Analysis

For the Three and Six Months Ended September 30, 2017

(Expressed in thousands of U.S. dollars, unless otherwise stated)

Three months ended September 30, 2016		Ying Mining District	GC	Consolidated
Cost of sales		\$ 16,420	\$ 4,119	\$ 20,539
Less: mineral resources tax		(843)	(187)	(1,030)
Less: stockpile and concentrate inventory - Beginning		(5,253)	(211)	(5,464)
Add: stockpile and concentrate inventory - Ending		5,982	208	6,190
Adjustment for foreign exchange movement		1	3	4
<b>Total production costs</b>		<b>\$ 16,307</b>	<b>\$ 3,932</b>	<b>\$ 20,239</b>
Non-cash mining costs	A	4,869	610	5,479
Non-cash milling costs	B	362	200	562
<b>Total non-cash production costs</b>		<b>\$ 5,231</b>	<b>\$ 810</b>	<b>\$ 6,041</b>
Cash mining costs	C	8,803	2,137	10,940
Shipping costs	D	679	-	679
Cash milling costs	E	1,595	985	2,580
<b>Total cash production costs</b>		<b>\$ 11,077</b>	<b>\$ 3,122</b>	<b>\$ 14,199</b>
Ore mined ('000s)	F	179.194	74.692	253.886
Ore shipped ('000s)	G	178.329	74.692	253.021
Ore milled ('000s)	H	180.154	76.100	256.254
<b>Per tonne Production costs</b>				
Non-cash mining costs (\$/tonne)	I=A/F	27.17	8.17	21.58
Non-cash milling costs (\$/tonne)	J=B/H	2.01	2.63	2.19
<b>Non-cash production costs (\$/tonne)</b>	<b>K=I+J</b>	<b>\$ 29.18</b>	<b>\$ 10.80</b>	<b>\$ 23.77</b>
Cash mining costs (\$/tonne)	L=C/F	49.13	28.61	43.09
Shipping costs (\$/tonne)	M=D/G	3.81	-	2.68
Cash milling costs (\$/tonne)	N=E/H	8.85	12.94	10.07
<b>Cash production costs (\$/tonne)</b>	<b>O=L+M+N</b>	<b>\$ 61.79</b>	<b>\$ 41.55</b>	<b>\$ 55.84</b>
<b>Total production costs (\$/tonne)</b>	<b>P=K+O</b>	<b>\$ 90.97</b>	<b>\$ 52.35</b>	<b>\$ 79.61</b>

  

Six months ended September 30, 2017		Ying Mining District	GC	Consolidated
Cost of sales		\$ 31,838	\$ 9,789	\$ 41,627
Less: mineral resources tax		(1,980)	(448)	(2,428)
Less: stockpile and concentrate inventory - Beginning		(3,514)	(1,358)	(4,872)
Add: stockpile and concentrate inventory - Ending		4,971	235	5,206
Adjustment for foreign exchange movement		(164)	(14)	(178)
<b>Total production costs</b>		<b>\$ 31,151</b>	<b>\$ 8,204</b>	<b>\$ 39,355</b>
Non-cash mining costs	A	7,244	1,033	8,277
Non-cash milling costs	B	674	413	1,087
<b>Total non-cash production costs</b>		<b>\$ 7,918</b>	<b>\$ 1,446</b>	<b>\$ 9,364</b>
Cash mining costs	C	19,128	4,820	23,948
Shipping costs	D	1,296	-	1,296
Cash milling costs	E	2,809	1,938	4,747
<b>Total cash production costs</b>		<b>\$ 23,233</b>	<b>\$ 6,758</b>	<b>\$ 29,991</b>
Ore mined ('000s)	F	333.701	130.677	464.378
Ore shipped ('000s)	G	335.479	130.677	466.156
Ore milled ('000s)	H	338.904	129.592	468.496
<b>Per tonne Production costs</b>				
Non-cash mining costs (\$/tonne)	I=A/F	21.71	7.90	17.82
Non-cash milling costs (\$/tonne)	J=B/H	1.99	3.19	2.32
<b>Non-cash production costs (\$/tonne)</b>	<b>K=I+J</b>	<b>\$ 23.70</b>	<b>\$ 11.09</b>	<b>\$ 20.14</b>
Cash mining costs (\$/tonne)	L=C/F	57.32	36.88	51.57
Shipping costs (\$/tonne)	M=D/G	3.86	-	2.78
Cash milling costs (\$/tonne)	N=E/H	8.29	14.95	10.13
<b>Cash production costs (\$/tonne)</b>	<b>O=L+M+N</b>	<b>\$ 69.47</b>	<b>\$ 51.83</b>	<b>\$ 64.48</b>
<b>Total production costs (\$/tonne)</b>	<b>P=K+O</b>	<b>\$ 93.17</b>	<b>\$ 62.92</b>	<b>\$ 84.62</b>

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## Management's Discussion and Analysis

For the Three and Six Months Ended September 30, 2017

(Expressed in thousands of U.S. dollars, unless otherwise stated)

Six months ended September 30, 2016		Ying Mining District	GC	Consolidated
Cost of sales		\$ 32,134	\$ 7,932	\$ 40,066
Less: mineral resources tax		(1,157)	(284)	(1,441)
Less: stockpile and concentrate inventory - Beginning		(4,729)	(135)	(4,864)
Add: stockpile and concentrate inventory - Ending		5,982	208	6,190
Adjustment for foreign exchange movement		450	104	554
<b>Total production costs</b>		<b>\$ 32,680</b>	<b>\$ 7,825</b>	<b>\$ 40,505</b>
Non-cash mining costs	A	9,432	1,151	10,583
Non-cash milling costs	B	728	405	1,133
<b>Total non-cash production costs</b>		<b>\$ 10,160</b>	<b>\$ 1,556</b>	<b>\$ 11,716</b>
Cash mining costs	C	17,883	4,292	22,175
Shipping costs	D	1,353	-	1,353
Cash milling costs	E	3,284	1,977	5,261
<b>Total cash production costs</b>		<b>\$ 22,520</b>	<b>\$ 6,269</b>	<b>\$ 28,789</b>
Ore mined ('000s)	F	352.702	139.041	491.743
Ore shipped ('000s)	G	352.528	139.041	491.569
Ore milled ('000s)	H	347.901	139.687	487.588
Per tonne Production costs				
Non-cash mining costs (\$/tonne)	I=A/F	26.74	8.28	21.51
Non-cash milling costs (\$/tonne)	J=B/H	2.09	2.90	2.32
<b>Non-cash production costs (\$/tonne)</b>	<b>K=I+J</b>	<b>\$ 28.83</b>	<b>\$ 11.18</b>	<b>\$ 23.83</b>
Cash mining costs (\$/tonne)	L=C/F	50.70	30.87	45.09
Shipping costs (\$/tonne)	M=D/G	3.84	-	2.75
Cash milling costs (\$/tonne)	N=E/H	9.44	14.15	10.79
<b>Cash production costs (\$/tonne)</b>	<b>O=L+M+N</b>	<b>\$ 63.98</b>	<b>\$ 45.02</b>	<b>\$ 58.63</b>
<b>Total production costs (\$/tonne)</b>	<b>P=K+O</b>	<b>\$ 92.81</b>	<b>\$ 56.20</b>	<b>\$ 82.46</b>

### 11. 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 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 unaudited condensed consolidated financial statements as of and ended September 30, 2017, as well as the audited consolidated financial statements for the year ended March 31, 2017.

#### (i) Ore reserve and mineral resource estimates

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. Such an analysis requires complex engineering and geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with engineering and geological assumptions and judgements made in estimating the size and grade of the ore body.

The Company estimates ore reserves in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous assumptions including:

- Future production estimates – which include proved and probable reserves, resource estimates and committed expansions;
- Expected future commodity prices, based on current market price, forward prices and the

## SILVERCORP METALS INC.

### Management's Discussion and Analysis

For the Three and Six Months Ended September 30, 2017

(Expressed in thousands of U.S. dollars, unless otherwise stated)

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Company's assessment of the long-term average price; and

- Future cash costs of production, capital expenditure and rehabilitation obligations.

As the economic assumptions change and as additional geological information is produced during the operation of a mine, estimates of reserves may change. Such changes may impact the Company's reported financial position and results which include:

- The carrying value of mineral rights and properties and plant and equipment may be affected due to changes in estimated future cash flows;
- Depreciation and depletion charges in net income may change where such charges are determined using the units of production method, or where the useful life of the related assets change; and
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

#### (ii) Impairment of assets

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is determined as 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 operating performance (which includes production and sales volumes). 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 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. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the costs of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## 12. New Accounting Standards

**IFRS 15 – Revenue from contracts with customers**, the standard on revenue from contracts with customers was issued in September 2015 and may be effective for annual reporting periods beginning on or after January 1, 2018 for public entities with early adoption permitted. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. In April 2016, the IASB issued targeted amendments to IFRS 15 related to identifying performance obligations, principal vs agent consideration, licensing and transitional relief for modified contracts and completed contracts. The Company is assessing the impact of this standard and related amendment.

**IFRS 9 (2014) – Financial Instruments (amended 2014)**: In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9"). The Company adopted IFRS 9 (2010) – *Financial Instruments* effective April 1, 2011. The Company is currently evaluating the impact this amended standard is expected to have on its consolidated financial statements.

**IFRS 16 - Leases** was issued by the IASB and will replace Leases ("IAS 17"). IFRS 16 requires most leases to be reported on a company's balance sheet as assets and liabilities. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early application permitted for companies that also apply IFRS 15 - Revenue from Contracts with Customers. The Company is currently assessing the impact of this new standard.

**Amendments to IFRS 2 - Share-based payment**. On June 20, 2016, the IASB issued amendments to IFRS 2, Share-based Payment, regarding accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net

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settlement features and accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this amendment.

**IFRIC 22 - Foreign currency transactions and advance consideration.** On December 8, 2016, the IASB published IFRIC 22, Foreign Currency Transactions and Advance Consideration to clarify the exchange rate that should be used for transactions that include the receipt or payment of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard.

#### 13. Other MD&A Requirements

Additional information relating to the Company:

- (a) may be found on SEDAR at [www.sedar.com](http://www.sedar.com);
- (b) may be found at the Company's web-site [www.silvercorpmetals.com](http://www.silvercorpmetals.com);
- (c) may be found in the Company's Annual Information Form; and,
- (d) is also provided in the Company's annual audited consolidated financial statements as of March 31, 2017.

#### 14. 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 – **168,194,254** common shares with a recorded value of **\$232.4 million**

Shares subject to escrow or pooling agreements - \$nil.

##### (b) Options

As at the date of this report, the outstanding options comprise the following:

Number of Options	Exercise Price (CAD\$)	Expiry Date
30,000	5.58	2/24/2020
1,120,000	3.36	10/2/2020
184,000	5.40	12/3/2017
143,000	4.34	9/18/2019
167,562	3.91	3/7/2018
990,000	3.63	2/18/2020
168,375	3.25	6/2/2018
266,124	3.41	9/12/2018
132,937	2.98	1/21/2019
378,375	1.75	5/29/2019
247,865	1.76	10/14/2019
1,509,757	1.43	6/2/2020
<u>2,825,894</u>	0.66	12/30/2018
<u><b>8,163,889</b></u>		

#### 15. Risks and Uncertainties

The Company is exposed to many risks in conducting its business, including but not limit to: metal price risk as the Company derives its revenue from the sale of silver, lead, zinc, and gold; credit risk in the



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normal course of dealing with other companies and financial institutions; foreign exchange risk as the Company reports its financial statements in USD whereas the Company operates in jurisdictions that utilize other currencies; equity price risk and interest rate risk as the Company has investments in marketable securities that are traded in the open market or earn interest at market rates that are fixed to maturity or at variable interest rates; inherent risk of uncertainties in estimating mineral reserves and mineral resources; political risks; and environmental risk.

Management and the Board of Directors continuously assess risks that the Company is exposed to, and attempt to mitigate these risks where practical through a range of risk management strategies.

These and other risks are described in the Company's Annual Information Form and NI 43-101 technical reports, which are available on SEDAR at [www.sedar.com](http://www.sedar.com); Form 40-F; Audited Consolidated Financial Statements; and Management's Discussion and Analysis for the year ended March 31, 2017. Readers are encouraged to refer to these documents for a more detailed description of some of the risks and uncertainties inherent to Silvercorp's business.

- **Metal Price Risk**

The Company's sales prices for lead and zinc pounds are fixed against the Shanghai Metals Exchange as quoted at [www.shmet.com](http://www.shmet.com); gold ounces are fixed against the Shanghai Gold Exchange as quoted at [www.sge.com.cn](http://www.sge.com.cn) and silver ounces are fixed against the Shanghai White Platinum & Silver Exchange as quoted at [www.ex-silver.com](http://www.ex-silver.com).

The Company's revenues, if any, are expected to be in large part derived from the mining and sale of silver, lead, zinc, and gold contained in metal concentrates. The prices of those commodities have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the Company's control including international and regional economic and political conditions; expectations of inflation; currency exchange fluctuations; interest rates; global or regional supply and demand for jewellery and industrial products containing silver and other metals; sale of silver and other metals by central banks and other holders, speculators and producers of silver and other metals; availability and costs of metal substitutes; and increased production due to new mine developments and improved mining and production methods. The price of base and precious metals may have a significant influence on the market price of the Company's shares and the value of the project. The effect of these factors on the price of base and precious metals, and therefore the viability of the Company's exploration projects and mining operations, cannot be accurately predicted.

If silver and other metals prices were to decline significantly or for an extended period of time, the Company may be unable to continue operations, develop its projects, or fulfil obligations under agreements with the Company's joint venture partners or under its permits or licenses.

- **Permits and licenses**

All mineral resources and mineral reserves of the Company's subsidiaries are owned by their respective governments, and mineral exploration and mining activities may only be conducted by entities that have obtained or renewed exploration or mining permits and licenses in accordance with the relevant mining laws and regulations. No guarantee can be given that the necessary exploration and mining permits and licenses will be issued to the Company or, if they are issued, that they will be renewed, or if renewed under reasonable operational and/or financial terms, or in a timely manner, or that the Company will be in a position to comply with all conditions that are imposed.

Nearly all mining projects require government approval. There can be no certainty that approvals necessary to develop and operate mines on the Company's properties will be granted or renewed in a timely and/or economical manner, or at all.

- **Title to properties**

With respect to the Company's Chinese properties, while the Company has investigated title to all of its

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mineral claims and to the best of its knowledge, title to all of its properties is in good standing, the properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. There may be valid challenges to the title of the Company's properties which, if successful, could impair development and/or operations. The Company cannot give any assurance that title to its properties will not be challenged. Title insurance is generally not available for mineral properties and the Company's ability to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be severely constrained. The Company's mineral properties in China have not been surveyed, and the precise location and extent thereof may be in doubt.

- **Operations and political conditions**

All the properties in which the Company has an interest are located in China, which has different regulatory and legal standards than those in North America. Even when the Company's mineral properties are proven to host economic reserves of metals, factors such as political instability, terrorism, opposition and harassment from local miners, or governmental expropriation or regulation may prevent or restrict mining of any such deposits or repatriation of profits.

All the Company's operations are located in China. These operations are subject to the risks normally associated with conducting business in China. Some of these risks are more prevalent in countries which are less developed or have emerging economies, including uncertain political and economic environments, as well as risks of war and civil disturbances or other risks which may limit or disrupt a project, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization or expropriation without fair compensation, risk of adverse changes in laws or policies, increases in foreign taxation or royalty obligations, license fees, permit fees, delays in obtaining or the inability to obtain necessary governmental permits, limitations on ownership and repatriation of earnings, and foreign exchange controls and currency devaluations.

In addition, the Company may face import and export regulations, including export restrictions, disadvantages of competing against companies from countries that are not subject to similar laws, restrictions on the ability to pay dividends offshore, and risk of loss due to disease and other potential endemic health issues. Although the Company is not currently experiencing any significant or extraordinary problems in China arising from such risks, there can be no assurance that such problems will not arise in the future. The Company currently does not carry political risk insurance coverage.

The Company's interests in its mineral properties are held through joint venture companies established under and governed by the laws of China. The Company's joint venture partners in China include state-sector entities and, like other state-sector entities, their actions and priorities may be dictated by government policies instead of purely commercial considerations. Additionally, companies with a foreign ownership component operating in China may be required to work within a framework which is different from that imposed on domestic Chinese companies. The Chinese government currently allows foreign investment in certain mining projects under central government guidelines. There can be no assurance that these guidelines will not change in the future.

- **Regulatory environment in China**

The Company conducts operations in China. The laws of China differ significantly from those of Canada and all such laws are subject to change. Mining is subject to potential risks and liabilities associated with pollution of the environment and disposal of waste products occurring as a result of mineral exploration and production.

Failure to comply with applicable laws and regulations may result in enforcement actions and may also include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws and regulations.

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New laws and regulations, amendments to existing laws and regulations, administrative interpretation of existing laws and regulations, or more stringent enforcement of existing laws and regulations could have a material adverse impact on future cash flow, results of operations and the financial condition of the Company.

- Environmental risks

The Company's activities are subject to extensive laws and regulations governing environmental protection and employee health and safety, including environmental laws and regulations in China. These laws address emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species, and reclamation of lands disturbed by mining operations.

There are also laws and regulations prescribing reclamation activities on some mining properties. Environmental legislation in many countries including China is evolving and the trend has been toward stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and increasing responsibility for companies and their officers, directors and employees. Compliance with environmental laws and regulations may require significant capital outlays on behalf of the Company and may cause material changes or delays in the Company's intended activities. There can be no assurance that the Company has been or will be at all times in complete compliance with current and future environmental and health and safety laws and permits will not materially adversely affect the Company's business, results of operations or financial condition. It is possible that future changes in these laws or regulations could have a significant adverse impact on some portion of the Company's business, causing the Company to re-evaluate those activities at that time. The Company's compliance with environmental laws and regulations entail uncertain costs.

- Risks and hazards of mining operations

Mining is inherently dangerous and the Company's operations are subject to a number of risks and hazards including, without limitation:

- (i) environmental hazards;
- (ii) discharge of pollutants or hazardous chemicals;
- (iii) industrial accidents;
- (iv) failure of processing and mining equipment;
- (v) labour disputes;
- (vi) supply problems and delays;
- (vii) encountering unusual or unexpected geologic formations or other geological or grade problems;
- (viii) encountering unanticipated ground or water conditions;
- (ix) cave-ins, pit wall failures, flooding, rock bursts and fire;
- (x) periodic interruptions due to inclement or hazardous weather conditions;
- (xi) equipment breakdown;
- (xii) other unanticipated difficulties or interruptions in development, construction or production;  
and
- (xiii) other acts of God or unfavourable operating conditions.

Such risks could result in damage to, or destruction of, mineral properties or processing facilities,

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personal injury or death, loss of key employees, environmental damage, delays in mining, monetary losses and possible legal liability. Satisfying such liabilities may be very costly and could have a material adverse effect on the Company's future cash flow, results of operations and financial condition.

#### 16. Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to allow for timely decision about public disclosure.

Management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as at September 30, 2017, as defined in the rules of the U.S. Securities and Exchange Commission and Canadian Securities Administration. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on this evaluation, management concluded that the disclosure controls and procedures (as defined in Rule 13a-15(e) under Securities Exchange Act of 1934) are effective in providing reasonable assurance that the information required to be disclosed in annual filings, interim filings, and other reports we filed or submitted under United States and Canadian securities legislation was recorded, processed, summarized and reported within the time periods specified in those rules.

#### 17. Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter that has materially affected or is reasonably likely to materially affect, its internal control over financial reporting.

#### 18. Directors and Officers

As at the date of this report, the Company's Directors and Officers are as follows:

<u>Directors</u>	<u>Officers</u>
Dr. Rui Feng, Director, Chairman	Rui Feng, Chief Executive Officer
Yikang Liu, Director	Derek Liu, Chief Financial Officer
Paul Simpson, Director	Lorne Waldman, Senior Vice President, Corporate Secretary & General Counsel
David Kong, Director	Luke Liu, Vice President, China Operations
Marina A. Katusa, Director	

Mr. Alex Zhang, P.Geo., is a Qualified Person for Silvercorp under NI 43-101 and has reviewed and given consent to the technical information contained in this MD&A.

#### Forward Looking Statements

*Certain of the statements and information in this MD&A constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and "forward-looking information" within the meaning of applicable Canadian provincial securities laws. Any statements or information that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategies", "targets", "goals", "forecasts", "objectives", "budgets", "schedules", "potential" or variations thereof or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements or information. Forward-looking statements or information relate to, among other things:*

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- *the price of silver and other metals;*
- *estimates of the Company's revenues and capital expenditures;*
- *estimated ore production and grades from the Company's mines in the Ying Mining District; and;*
- *timing of receipt of permits and regulatory approvals.*

*Forward-looking statements or information are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those reflected in the forward-looking statements or information, including, without limitation, risks relating to,*

- *fluctuating commodity prices;*
- *fluctuating currency exchange rates;*
- *increasing labour costs;*
- *exploration and development programs;*
- *feasibility and engineering reports;*
- *permits and licenses;*
- *operations and political conditions;*
- *regulatory environment in China and Canada;*
- *environmental risks; and*
- *risks and hazards of mining operations.*

*This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements or information. Forward-looking statements or information are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements or information due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this MD&A under the heading "Risks and Uncertainties" and elsewhere. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated, described or intended. Accordingly, readers should not place undue reliance on forward-looking statements or information.*

*The Company's forward-looking statements and information are based on the assumptions, beliefs, expectations and opinions of management as of the date of this MD&A, and other than as required by applicable securities laws, the Company does not assume any obligation to update forward-looking statements and information if circumstances or management's assumptions, beliefs, expectations or opinions should change, or changes in any other events affecting such statements or information. For the reasons set forth above, investors should not place undue reliance on forward-looking statements and information.*