



New Pacific Metals: Bolivia Looks Friendly Until A Coup Forces Your Friends to Flee to Mexico— 90%+ Downside

Nathan Anderson, CFA, CAIA, Founder

Contrarian Investor Conference, April 20, 2020



Disclosure & Legal Disclaimer

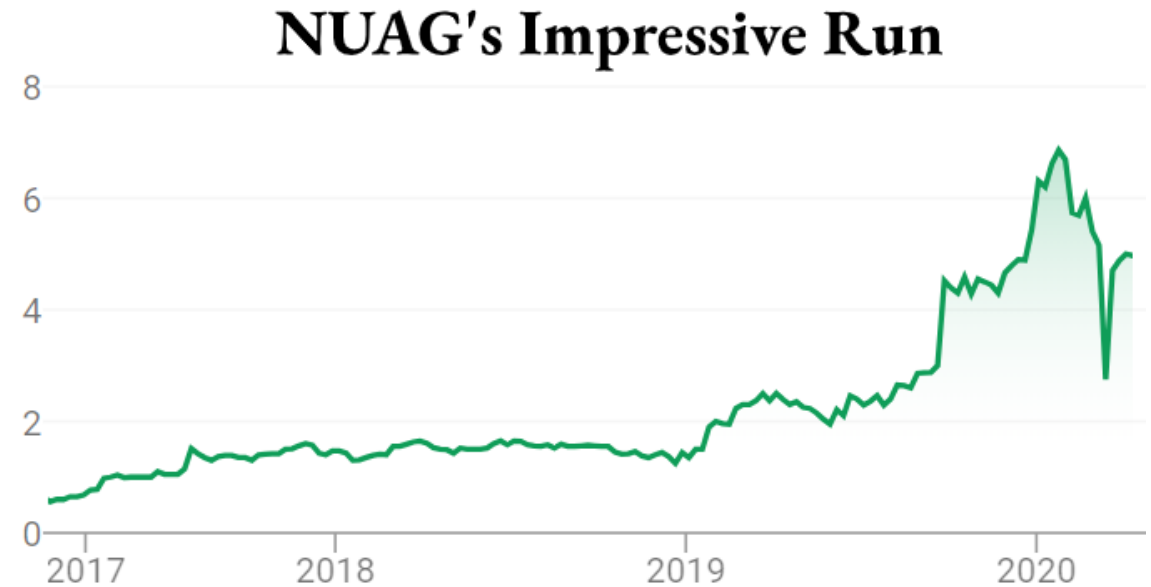
We are short shares of (OTC:NUPMF) and (NYSE:SVM)

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Background and the Bull Case

- **Management:** CEO Rui Feng, also serves as Chairman/CEO of Silvercorp (NYSE:SVM)
- **Backing:** Stakes by Pan American Silver (NYSE:PAAS) and Silvercorp
- **Macro:** Unprecedented central bank moves are buoying silver prices.
- **Hope:** The company's Bolivian Silver projects could be world class assets



...Helped Along by Paid Promotion

- **GoldNewsLetter:** paid \$200,000 to [promote](#) New Pacific, calling it a “World Class Silver Project”
- **Proactive Canada:** paid \$25,000 per year to [promote](#) New Pacific



World-Class Silver Project Suddenly Appears

Well over a year after announcing the start of a massive drilling program, New Pacific Metals (NUAG.V; NUPMF.OTCQX) finally unveiled the drill results.

And suddenly the world realized that a new, world-class silver project had been discovered — one with the potential to shake up the sector all by itself.



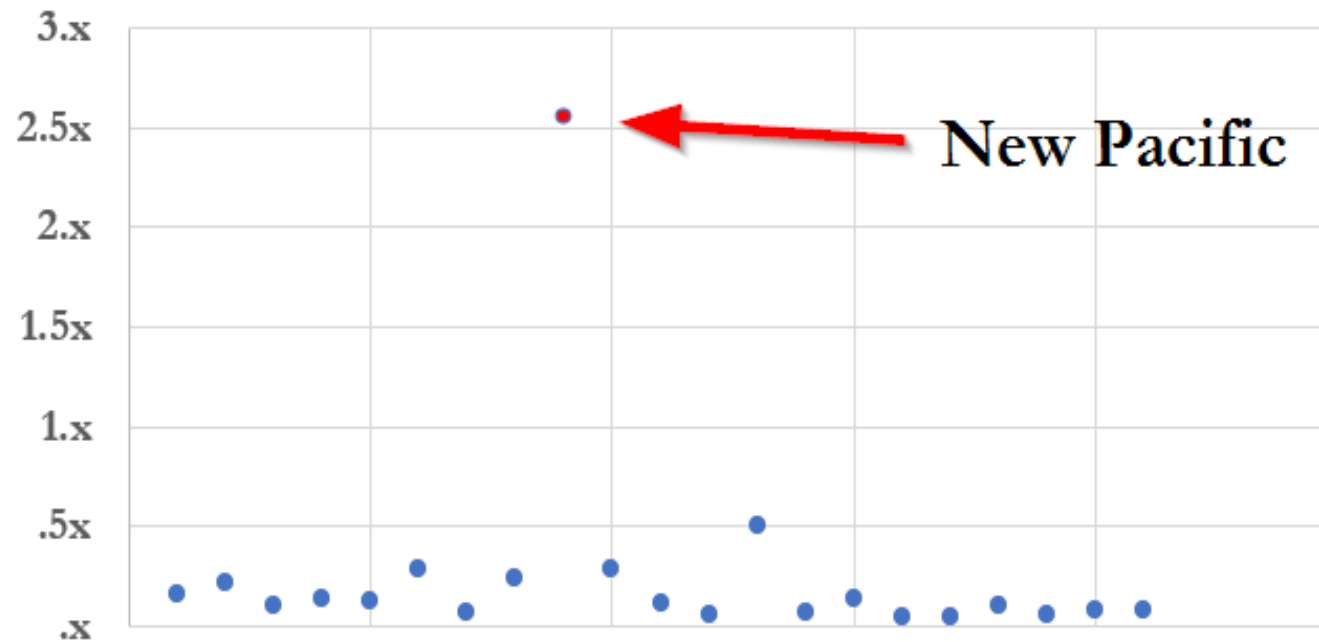
Intro: 85% Fundamentally Overvalued

Ticker	Company	Project	Mkt Cap (US\$M)	EV (US\$M)	Resource (Moz AgEq)	EV/Resor. (US\$/oz AgEq)
BCM CN Equity	Bear Creek Mining Crp	Corani	145.0	119.9	735	\$0.16
ITR CN Equity	Integra Resources Corp	DeLamar	82.2	72.0	336	\$0.21
AMM CT Equity	Almaden Minerals Limited	Ixtaca	36.0	37.5	355	\$0.11
SVL AU Equity	Silver Mines Limited	Bowdens	48.0	43.5	305	\$0.14
KTN CN Equity	Kootenay Silver Inc	La Cigarra / Promontori	37.1	29.9	238	\$0.13
SVE CN Equity	Silver One Resources	Candelaria	40.5	37.7	132	\$0.29
AUN CN Equity	Aurcana Corporation	Revenue-Virginus	37.7	31.7	443	\$0.07
AUMN US Equity	Golden Minerals Company	El Quevar	27.5	23.5	96	\$0.24
DV CN Equity	Dolly Varden Silver Corp	Dolly Vardan	15.9	12.5	44	\$0.29
SSV CN Equity	Southern Silver Exploration Corporation	Cerro Las Minitas	14.2	11.3	95	\$0.12
AZS AU Equity	Azure Minerals Limited	Alacran	7.1	6.1	105	\$0.06
MMG CN Equity	Metallic Minerals Corp	Keno-Lightninig	12.8	11.0	22	\$0.50
IVROA AT Equity	Investigator Resources Limited	Peterlumbo	6.4	3.6	48	\$0.08
REX CN Equity	Orex Minerals Inc.	Sandra-Escobar	7.9	7.5	55	\$0.14
WRM AU Equity	White Rock Minerals Limited	Mt Carrington	4.8	3.5	71	\$0.05
NBR CN Equity	Nubian Resources Ltd.	Eqsuilache	2.1	2.1	46	\$0.05
SDR CN Equity	Stroud Resources Limited	Santo Domingo II	4.4	4.3	39	\$0.11
MMN CN Equity	Monarca Minerals Inc.	Tejamen	1.1	1.9	30	\$0.06
AHNR US Equity	Athena Silver Corporation	Langtry	1.2	3.5	43	\$0.08
ABRA CN Equity	AbraPlata Resource Corp.	Diablillos	12.5	12.5	145	\$0.09
Average						\$0.15
NUAG CN Equity	New Pacific Metals	Silver Sand	519.4	486.9	191	\$2.55
					Diff	17.2x



Intro: 85% Fundamentally Overvalued

Comparables Valuation
(\$EV/Oz)



Intro: Management Red Flags

Management Red Flags: Historical allegations of inflation of silver grades at mines, and enrichment through related-party transactions.

It was only last year, after a legal battle, that Carnes's lawyers got some insight into the BCSC investigation of Silvercorp. The lawyers pried loose a letter that the commission's chief mining adviser, Robert Holland, sent to Rui Feng in November, 2011. The eight-page letter was a litany of complaints about Silvercorp technical reports. Holland wrote that the reports used resource estimation methods that were inconsistent with best practices, and contained "errors that could individually or collectively result in material overestimation of mineral resources." Holland pointed to one technical report that, he said, relied "unduly" on information from the company's chief operating officer and president, and had "uncorrected errors in mineral resource tables." He added that there were large unexplained differences in the report between two measures of a mine: resources and reserves. In summary, he wrote: "We consider the Company to be in material default of its technical disclosure and filing requirements." He threatened to put Silvercorp on the BCSC's default list—exposed publicly as a company that was in violation of the BCSC's rules.

(Source: [Globe & Mail](#))



Intro: Management Red Flags

Management Red Flags: Litigious. Has historically used state influence and litigation to pressure critics

NATIONAL  POST

Jailed in a Chinese hellhole, a B.C. short-seller strikes back with lawsuit against mining company

Kun Huang is suing a Vancouver-based mining company for damages, over what he alleges is an extraordinary corporate conspiracy



Intro: Related Parties

- New Pacific and Silvercorp
 - Shared board members
 - Shared office space
 - Shared contacts
 - Per SEDAR, shared mailing address/contact name
 - Silvercorp owns ~29% of New Pacific
 - “Independent” geologist who prepared New Pacific’s technical report for its flagship property was a former Silvercorp employee



Intro: Related Parties

New Pacific had previously bought 3 mining projects from Silvercorp. All were hyped extensively but all turned out to be duds.



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Press Release

High Grade Copper-Silver Zone discovered in the Jinhe Permit and layered Copper-Nickel-Cobalt-Platinum-Palladium mineralization discovered in the Nantianwan Permit of the Kang Dian Project, Sichuan Province, China

VANCOUVER, BRITISH COLUMBIA--(January 16, 2007) - New Pacific Metals Corp. ("NUX")



New Pacific Metals Corp
新太平洋金属有限公司

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Tel: (604) 633-1368
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E-Mail: info@newpacificmetals.com

Trading Symbol: TSX-V: NUX

April 29, 2009

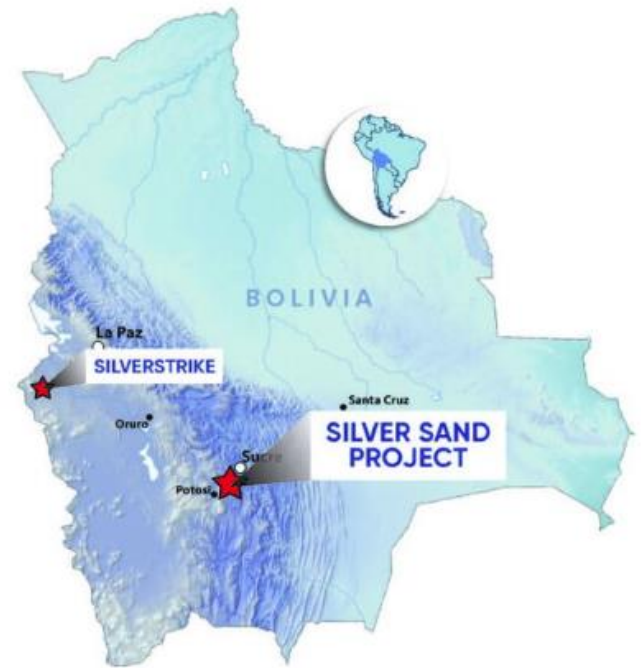
Press Release

Further High Grade Gold Mineralization Intersected by Underground Tunneling at the HNK Gold-Polymetallic Project, Guangdong Province, China



Intro: New Pacific's Flagship Project

- Silver Sand Project in Bolivia
- Company acquired concessions to project in mid-2017
- Not actively exploring or developing any properties other than its Bolivian properties
- Estimated 10 years away from production
- Stock is up almost 400% since announcing the purchase



Part I:

**New Pacific May Not Have Control
Over Any of Its Bolivian Projects,
Including its Flagship Property**



A Smooth Start, Helped By a Very Friendly Relationship With the Bolivian Government

- New Pacific acquired Bolivian mining entity Alcira in 2017 for [\\$45 million](#) from its Chinese owners. That deal was focused on a small 3.17 km² core area that New Pacific refers to as the Silver Sand Project.
- In January 2019, New Pacific [announced](#) it had reached a large deal with state mining company COMIBOL and signed a contract for a much larger swath of surrounding land.
- The deal was [reportedly](#) the first foreign company to sign a new contract with COMIBOL since President Evo Morales took office in 2006.
- Things were progressing well and it seemed as though the company was on track to win legislative approval to secure and begin exploiting its new, expanded mining areas.



Minister of Mines Cesar Navarro Appeared Instrumental In The New Pacific Deals

In 2019 he held two separate signing ceremonies for the contract between New Pacific and COMIBOL.



A photograph of four people standing in front of a wall with flags. From left to right: a man in a dark suit and light blue shirt, a man in a grey blazer and blue shirt, a woman in a grey blazer and white top, and a man in a dark suit and blue plaid shirt. They are all smiling. The background features a red flag on the left and a green and white flag on the right.

New Pacific President Gordon Neal , in Jan. 2019, said he:

“commend[s] the Minister of Mines and Metallurgy and the President of COMIBOL for committed focus to complete this transaction. It is a benchmark achievement that shows that Bolivia is open to foreign investment.”



But Then...



The Administration New Pacific Was Working With Was Ousted Via Coup

- In November 2019, the Bolivian administration that New Pacific had closely worked with, led by President Evo Morales, was ejected in what was described as a coup.
- In Potosi, where New Pacific's mining operations are based, the electoral court building in the region was burned to the ground, giving a sense of how the region had become a literal political tinder box.



The New Admin. Accused The Old One of Acts of Corruption Relating To New Pacific's Project

- Immediately following the coup, Evo Morales **fled to Mexico**.
- His Minister of Mines, Cesar Navarro also [managed to escape](#) to Mexico in February this year.
- Days before he fled, the new **Minister of Mines publicly accused Navarro of corruption relating to the Alcira deal (the subsidiary of New Pacific)**.

Los Tiempos

Minister of Mining reveals that Cesar Navarro was a strategic partner of the Alcira Mining Company

Economy



The current Minister of Mining and Metallurgy, Carlos Fernando Huallpa, and the former Minister of that State portfolio, Cesar Navarro | Web

Political Risk Remains High

- We hired local consultants, including international investigation firm [Kreller Group](#), to perform checks with local sources and officials.
- What we found is that political risk is high. In fact, our base case is that New Pacific's deal for the expanded mining area will never be ratified. We also expect the Silver Sand property will be contested and, if any deal is ever approved, we expect the economics to be worse.
- Multiple sources also indicated that there was potential for graft in the kind of deal Navarro's ministry was putting together with Alcira.



Political Risk Remains High

“The contract is currently suspended. It’s been signed by COMIBOL and the company but without (parliamentary) approval it does not enter into effect. Until there’s a framework regulation, I personally don’t think this will get approved by parliament.”

- Hector Cordova, Former COMIBOL chairman (2011-2012) and former Vice Minister of Mines (2010-2011)



Political Risk Remains High

“My personal opinion is that Cesar Navarro is totally corrupt and even more politically protected by President Evo Morales himself (another great corrupt too).”

“...Particularly in the case of Minera Alcira and Cesar Navarro, the secrecy with which they handled the issue and the speed of procedures in all administrative instances, to grant prospecting areas, is very suspicious. This fact clearly shows Navarro's interest in Minera Alcira.”

- Bolivian Journalist Who Reports on the Local Mining Industry



Political Risk Remains High

- **Political Advisor to the New Bolivian Government:** According to the current Mining Minister, there was a government-based group that had an economic interest in obtaining money from Alcira
- **Former Mines Minister:** “Navarro was one of the most corrupt ministers there has been.” [He was] “always open for business”.



New Pacific's Purchase Of Mining Concessions May Have Violated Bolivian Laws

- Unlike most other mining economies, Bolivia does not permit the sale or transfer of mining areas (formerly known as concessions) privately. All transactions must be state approved.
- A key legal question emerges in relation to New Pacific's [\\$45 million purchase](#) of Alcira, the Bolivian entity that controlled the company's flagship Silver Sand property: **did New Pacific pay in order to acquire its concessions (which would likely be illegal) or was the price tag purely to acquire the assets of Alcira?**
- The answer seems quite clear. The information circular detailing New Pacific's acquisition of Alcira showed that the entity had total assets of only \$84,131 just prior to the acquisition.



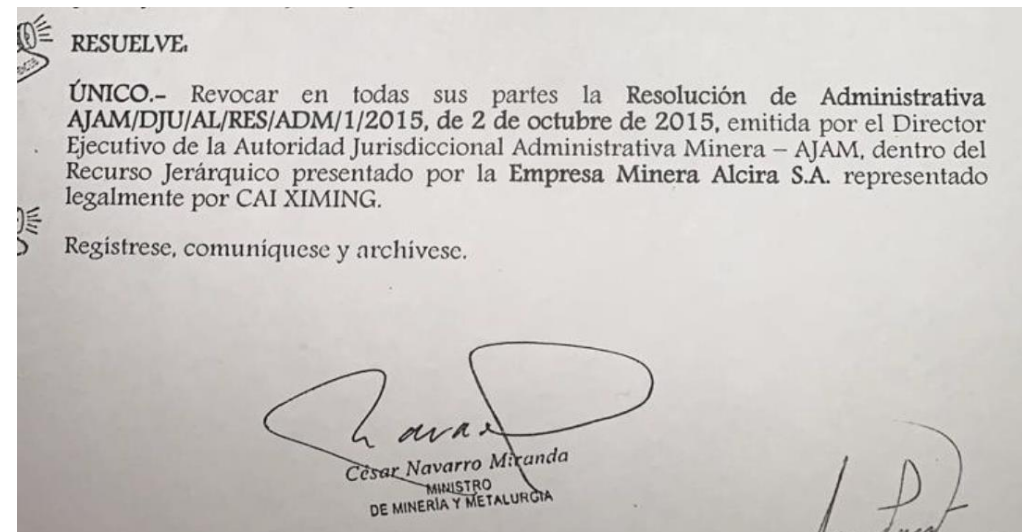
New Pacific's Purchase Of Mining Concessions May Have Violated Bolivian Laws

New Pacific paid ~85x more for
Alcira than its prior owners,
China-based Ningde Jungie,
which paid \$530,000.



New Pacific's Flagship Property is in a State of Legal Limbo

- The prior owner of the Alcira Silver Sand Concessions had allegedly purchased them in violation of the constitution.
- As a result, the areas were stripped by the state.
- Cesar Navarro initially supporting their revocation, but then conveniently moved to reinstate the concessions prior to the sale to New Pacific.



New Pacific's Flagship Property is in a State of Legal Limbo

- The Mines Ministry ruling issued on Jan. 15, 2016 and signed by the Mines Minister Cesar Navarro overturned AJAM's appeal ruling regarding the revocation of the Silver Sand concessions.
- However, that Mines Ministry ruling does not appear to have overturned the substantive decision in May, 2015, to actually revoke the Alcira's 17 concessions.
- **In other words, the appeal upholding the revocation was tossed, but the original revocation of the Alcira mining concessions was never actually reversed.**
- New Pacific [announced](#) the agreement to acquire Alcira on April 10, 2017, from Ningde Jungie Minería Co., Ltd. and two Chinese individuals. The purchase price was U.S. \$45 million in cash to be paid by New Pacific. [[Pg. 6](#)]



New Pacific's Flagship Property is in a State of Legal Limbo

“...when the Mines minister considered the appeal, they ruled against the AJAM's first appeal verdict but they left the original revocation of (mining) areas in place.”

“....my understanding is that Alcira has been operating outside the law since these areas were revoked in 2015.”

- Former Senior State Mining Authority (AJAM) Legal Source



New Pacific's Other Purchases Of Bolivian Concessions. Also In Violation of Law?

- Beyond the original purchase of Alcira, which held the Silver Sand project, New Pacific also made subsequent purchases of three nearby concessions. Once again, these acquisitions in July 2018 and December 2019 appear to be in open violation of Bolivian law.

The Company also entered into agreements with private owners to acquire their 100% interest in certain mineral concessions located adjacent to the Silver Sand Property as part of the Company's expansion plan in the area. For the three months ended September 30, 2018, the Company acquired total mineral concessions valued at \$2,631,200 (US\$2,000,000) by cash payments of \$1,315,600 (US\$1,000,000) and issuance of 832,000 of its common shares.

VANCOUVER, British Columbia – December 19, 2019 – New Pacific Metals Corp. ("New Pacific" or the "Company") is pleased to announce it has expanded its Silver Sand land package by acquiring a 100% interest in a Special Temporary Authorization ("ATE") located immediately to the north of the project by making a one-time cash payment of US\$200,000 to arm's length private owners. This newly acquired ATE currently consists of six hectares but will total approximately 0.50 square kilometres once it has been consolidated to concessions called "Cuadriculas" and converted to Mining Administrative Contract with Bolivia's *Autoridad Jurisdiccional Administrativa Minera* ("AJAM").



Local Miner: “Money Must Be Changing Hands” With Navarro As Minister

“Those areas are changing hands for millions. I don’t know too much about it because I can’t stick my nose in too much. But you know that **by law concessions can’t be sold anymore. But up until last year they were still being sold.** And tomorrow they’ll be being sold as well.”

“...There must be money changing hands because Navarro was Mines Minister and he gave the orders to **COMIBOL.** And **COMIBOL** was telling us everything (all the mining areas) was for Alcira.”

- Local cooperative miner who lives and works next to Silver Sand



Prominent Bolivian Legislator Confirms Our Concerns Have Merit

- “Concession-holders have use of those concessions but cannot dispose of them at will because those areas belong to the state. **If concession-holders do not respect the rules then those areas return to the state.**”
- “If this company (Alcira/Jungie) sold areas that had already been revoked and reverted to the state then that would be very serious, quite simply be an act of corruption. I don’t understand how the Ministry of Mines has allowed this type of operation and the exploitation of mineral wealth if the areas had reverted to the state.”
- “This sounds very serious. As a member of parliament I will try to investigate this subject...”
- “If there’s corrupt people or people who have made the government look bad then they must be sanctioned.”

- Victor Borda, former speaker of lower House and a prominent member of the MAS Party



Another Bolivian Lawmaker Seemed Malleable, To Say The Least

- As part of our research, we spoke with one lawmaker influential in mining issues.
- When we asked about New Pacific he came back with what sounded like an unsolicited offer to help pass or block the contract between New Pacific and COMIBOL.
- “I’m going to look for an alternative to see if I can get bring that (Alcira/New Pacific) contract up for consideration and get it passed because I have been able to bring up several contracts like that and get them passed.”
- “And now a little question. Would you be interested in this going ahead, so that I can take an interest in it? Or on the contrary would you prefer it to stop? I just wanted to talk to you a little about that because if you’re interested then I can do something ...to push forward this mining contract otherwise I can just ask about the situation, yes or no.”



Another Bolivian Lawmaker Seemed Malleable, To Say The Least

When asked if his intervention would come at a price, he said:

“Yes exactly that’s true and that’s exactly what I wanted to say. And so we’d have to work with the technical experts (of the senate) and something could be done.”



Conversation With New Minister of Mines, Carlos Huallpa

- We talked by phone with the new Minister of Mines, Carlos Huallpa about New Pacific's purchase of Alcira and his predecessor's offer of a major mining contract on generous terms.
- The right-wing interim government, running Bolivia until new general elections can be held, has an interest in showing the country remains open to foreign investment. That may be one reason why Huallpa appeared to strike a more conciliatory tone compared to his remarks in January when he accused Navarro and Alcira of being in a corrupt alliance.
- **He said New Pacific's legal team had already been in touch about rescuing the contract deal but was insistent that if a new deal was reached, the Bolivian state's percentage share of production or the profits would be significantly higher.**
- Even if new terms are hammered out with the Mines Ministry, however, a deal would still need approval by the legislature.



Will The New Administration Bless The Allegedly Corrupt and Illegal Dealings of the Old Regime? We Think Not.

We think investors need to weigh three possible scenarios:

1. Total revocation of contracts and mining areas
2. A renegotiated deal with COMIBOL/the legislature, which would likely be on far less favorable terms
3. The deal somehow passes through Bolivia's congress as-is



Part II:

Management Red Flags, Related Party Deals With Silvercorp & Other Warning Signs



New Pacific/Silvercorp Overlap

- **Leadership Overlap:** [Rui Feng](#), CEO and director of New Pacific, also serves as Chairman/CEO of Silvercorp. [David Kong](#) also serves as director at both companies.
- **Cross-Ownership:** Silvercorp owns about 29% of New Pacific, according to a recent management circular [[Pg. 6](#)] Historically, New Pacific had also owned stakes in Silvercorp's equity, per company filings. [[Pg. 3](#)]
- **Shared Office Space.** The companies also share overhead expenses and office space [[Pg. 12](#)]. This can also be seen from the Canadian SEDAR profiles of each company [[1,2](#)]



New Pacific Management Has Been Accused of Inflating Silver Grades

In late 2011, fraud researcher Jon Carnes, who has among the best track records in the industry in identifying irregularities with China-based companies, [issued a report](#) on Silvercorp that alleged, among other things:

- The company's technical reports were based on a 2-man team that used resource estimates provided by Silvercorp and who hadn't visited the site in years.
- The quality and resource estimates of its mines were overstated.
- That a related-party transaction had enriched a relative of CEO Rui Feng.



New Pacific Management Has Been Accused of Inflating Silver Grades

- The British Columbia Securities Commission (BCSC) investigated Silvercorp after the report. According to the [Globe and Mail](#), the commission's chief mining advisor, Robert Holland, wrote to the company, outlining major irregularities:
 - “Holland wrote that the reports used resource estimation methods that were inconsistent with best practices, and contained ‘errors that could individually or collectively result in material overestimation of mineral resources.’
 - Holland pointed to one technical report that, he said, relied ‘unduly’ on information from the company’s chief operating officer and president, and had ‘uncorrected errors in mineral resource tables.’ He added that there were large unexplained differences in the report between two measures of a mine: resources and reserves.
 - **In summary, he wrote: ‘We consider the Company to be in material default of its technical disclosure and filing requirements.’ He threatened to put Silvercorp on the BCSC’s default list—exposed publicly as a company that was in violation of the BCSC’s rules.”**



One of the “Independent” Geologists Who Wrote the Silver Sand Technical Report Worked at Silvercorp

- A technical report is meant to provide a summary of material scientific and technical information of mining projects so investors have a clear, objective view of its prospects. In order to achieve this objective, the role of *independent* geologists in preparing technical reports is critical.
- A fulsome technical report for Silver Sand is all the more important given that the project’s prior owners “conducted no commercial mining or material processing but only surface exploration and limited surface core drilling” [[Pg. 16](#)]. The prior owners drilled only 8 core holes in two separate campaigns totaling 2,334 meters. [[Pg. 19](#)]



One of the “Independent” Geologists Who Wrote the Silver Sand Technical Report Worked at Silvercorp

- New Pacific released its latest technical report for the Silver Sand property on October 31, 2019, effective August 31, 2019. [[Link](#)].
- The report was prepared by 2 “independent” geologists, and one additional geologist associated with the company.
- Of the two “independent” geologists, only Ruijin Jiang, actually visited the site. [[Pg. i](#)]
- Jiang was also responsible for almost *all* of the report (everything except for 1 section).

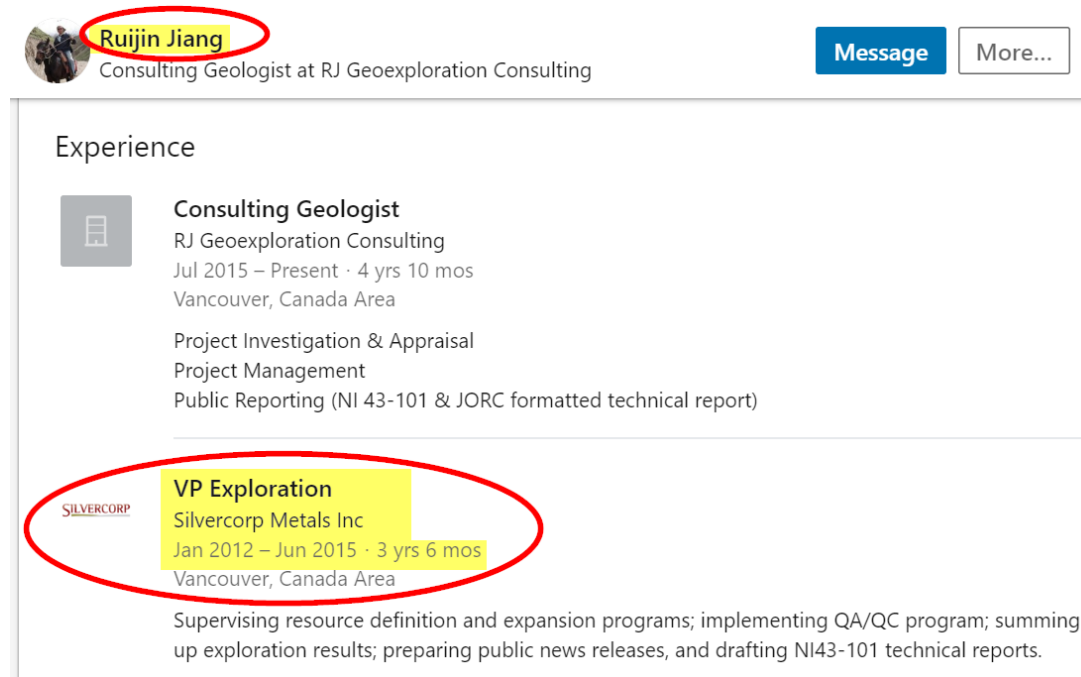
Table 2.1 Qualified Person's Responsibilities

Qualified Persons	Position	Employer	Independent or not	Professional Designation	Sections of Report
Ruijin Jiang	Consulting Geologist	Self Employed	Yes	P.Geo, M.Sc	1 to 12 and 14 to 27
Andy Holloway	Principal Process Engineer	AGP Mining Consultants Inc.	Yes	P.Eng	13
Yongming (Alex) Zhang	Vice President, Exploration	New Pacific Metals Corp.	No	P.Geo, M.Eng, M.Sc	part of 4, part of 26



One of the “Independent” Geologists Who Wrote the Silver Sand Technical Report Worked at Silvercorp

- But we see from his [LinkedIn profile](#) that he was actually an employee of Silvercorp for 3.5 years, representing an obvious conflict.



The screenshot shows the LinkedIn profile of Ruijin Jiang. The name 'Ruijin Jiang' is circled in red. Below the name, it says 'Consulting Geologist at RJ Geoexploration Consulting'. To the right are 'Message' and 'More...' buttons. The 'Experience' section lists two roles: 'Consulting Geologist' at 'RJ Geoexploration Consulting' (Jul 2015 – Present · 4 yrs 10 mos) and 'VP Exploration' at 'Silvercorp Metals Inc' (Jan 2012 – Jun 2015 · 3 yrs 6 mos). The 'VP Exploration' entry is circled in red. The Silvercorp logo is visible next to the company name. The description for the VP Exploration role states: 'Supervising resource definition and expansion programs; implementing QA/QC program; summing up exploration results; preparing public news releases, and drafting NI43-101 technical reports.'

Ruijin Jiang
Consulting Geologist at RJ Geoexploration Consulting

Message More...

Experience

Consulting Geologist
RJ Geoexploration Consulting
Jul 2015 – Present · 4 yrs 10 mos
Vancouver, Canada Area

Project Investigation & Appraisal
Project Management
Public Reporting (NI 43-101 & JORC formatted technical report)

VP Exploration
Silvercorp Metals Inc
Jan 2012 – Jun 2015 · 3 yrs 6 mos
Vancouver, Canada Area

Supervising resource definition and expansion programs; implementing QA/QC program; summing up exploration results; preparing public news releases, and drafting NI43-101 technical reports.



Key Individuals in New Pacific's Bolivian Operations Held Senior Positions at Another Nearby Silver Project That Allegedly Inflated Silver Grades

- In a 2015 opinion column in the El Diario newspaper, former Mines Minister and private mining industry consultant Jorge Espinoza [publicly accused](#) Prophecy Development Corp. (now OTC:ELEF) of manipulating mineral values at its [Pulacayo-Paca](#) prospect, near the city of Uyuni.
- Key Prophecy personnel have significant overlap and/or links to New Pacific and its Bolivian subsidiary, Alcira. New Pacific also had a small stockholding in Prophecy. [\[Pg. 5\]](#)
- At the time of the public newspaper accusations, Hernan Uribe Zeballos was [chief geologist](#) at Prophecy. He later became [country manager](#) of New Pacific/Alcira, a role he [serves to this day](#).



Multiple Chinese Mining Projects Bought From Silvercorp Were Hyped For Years Before Ultimately Failing

- New Pacific has purchased 3 Chinese mining projects through Silvercorp. All were hyped considerably around the time of purchase, but have since been suspended, sold at a loss, or surrendered back to the local government.
 - **Kang Dian Project.** New Pacific came [public via reverse merger](#) in October 2004 with options to acquire a majority stake in the Kang Dian Project in China from Silvercorp. (The project was owned by a Silvercorp subsidiary at the time.) New Pacific ultimately exercised the options, paying 6.5 million shares at a deemed price of ~\$2.4 million. [[Pg. 5](#)]
 - **The Huaiji “HNK” Project.** New Pacific purchased these mining projects from a Silvercorp subsidiary for C\$37.7 million. [[Pg. 2](#)] After much hype and about C\$4.3 million in exploration expenditures, New Pacific quietly reported that it sold the project for C\$30.5 million, representing a loss. [[Pg. 2](#)]
 - **RZY Silver-Lead-Zinc Project.** New Pacific [paid](#) U.S. \$3.5 million for a stake in this China mining project from Silvercorp in 2013, but later disclosed that it would surrender the project back to the local government for a one-time cash payment of C\$3.8 million. [[Pg. 4](#)]



Odd Related Party Deal With Silvercorp And A Travel Website For Chinese Tourists

- In October 2015, with its historical mining projects not working out, New Pacific [announced](#) it was changing its business from a mining issuer to focusing on making investments in privately held and publicly traded corporations.
- One of these investments, made sometime around 2016 [[Pg. 3](#)], was a private placement for [CozyStay](#) holdings, a travel/accommodations website similar to AirBnB [geared toward Chinese travelers](#).
- In 2019, (after New Pacific renewed its focus on mining) its shares of CozyStay were [sold to Silvercorp](#).
- We fail to understand why a silver producer would purchase an interest in a privately-owned travel website from another silver mining company.



Rui Feng's Habit Of Silencing Criticism

- We at Hindenburg take pride in reporting on companies that try to silence criticism with intimidation.
- We also believe that companies engaging in such practices are vastly more likely to have something to hide.
- In one recent example, MiMedx Group [sued its critics](#), only to be [charged criminally with fraud](#) two years later:

MiMedx Files Lawsuit Related To Short Seller Attacks

NEWS PROVIDED BY
[MiMedx Group, Inc.](#) →
Oct 04, 2017, 09:35 ET

FOR IMMEDIATE RELEASE

Tuesday, November 26, 2019

Former Chief Executive Officer And Chief Operating Officer Of Publicly Traded Biopharmaceutical Company Charged With Accounting Fraud

Geoffrey S. Berman, the United States Attorney for the Southern District of New York, and Philip R. Bartlett, Inspector-in-Charge of the New York Office of the U.S. Postal Inspection Service ("USPIS"), announced today the unsealing of an Indictment in Manhattan federal court charging PARKER H. "PETE" PETIT and WILLIAM TAYLOR, the respective former chief executive officer and chief operating officer of MiMedx Group, Inc. ("MiMedx"), a publicly traded biopharmaceutical company, with securities fraud offenses for engaging in a scheme to fraudulently inflate MiMedx's revenue. The case is assigned to U.S. District Judge Jed S. Rakoff.



Rui Feng's Habit Of Silencing Criticism

- New Pacific CEO Rui Feng has taken it a step further, with a history of using litigation and state influence (including payments to Chinese authorities and pressure on Canadian regulators) to silence criticism against his business interests.
- As reported in the [Globe and Mail](#), following Carnes' critical piece on Silvercorp, the company sued Carnes and used its influence in China to advance an investigation into his local analysts. Per the Globe expose:
 - “Silvercorp helped pay for police expenses in the investigation of Carnes's operation. Evidence also shows that Silvercorp passed results of the Chinese police investigation to the BCSC.”



Rui Feng's Habit Of Silencing Criticism

- One analyst, Kun Huang, was thrown in a crowded Chinese prison cell without charges and interrogated for a month by local police.
- The company appears to have aided in the police interrogation of the analyst, as well as his eventual prosecution.
- “In the summer of 2013, Huang was charged with ‘criminal defamation’ for criticizing a Chinese company. His trial in September of that year lasted one day and was closed to the public, at Silvercorp’s behest. Silvercorp was also granted standing.”
- “In the end, Huang received a two-year sentence and was returned to the same overcrowded cell to serve out the rest of his term.”



Rui Feng's Habit Of Silencing Criticism

- In Canada, the BCSC [alleged fraud](#) against Carnes, who published under a pseudonym with a fictitious biography.
- The case was [later dismissed](#), and Carnes' work was [largely vindicated](#).
- Kun's story should say something about management's approach on matters of transparency.
- We believe that the same executive team has once again failed to thoroughly disclose to investors the major issues relating to New Pacific.



Part III:

Regardless of Whether New Pacific
Controls Its Bolivian Concessions,
We Still See 85% Fundamental
Downside



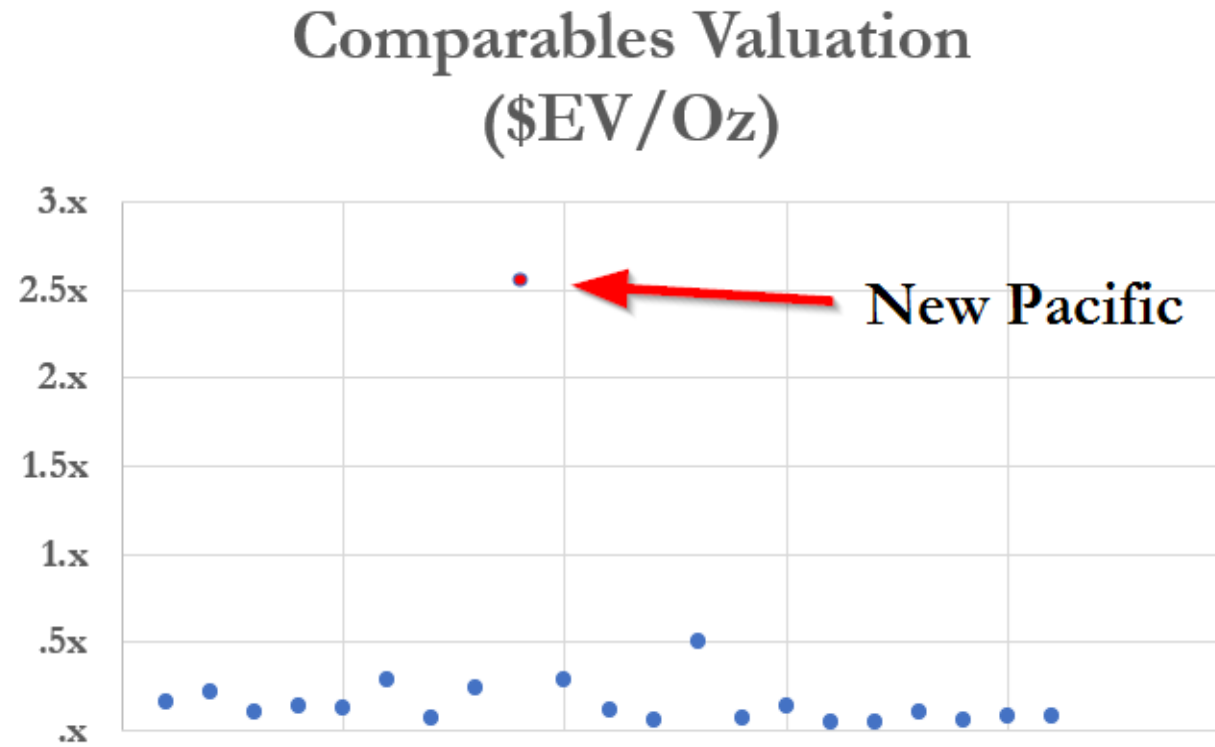
Balance Sheet Shows C\$0.30/Share In Liquidation Value Ex-Mining Interests

On the balance sheet side, as of the [latest financials](#) (ending December 2019), New Pacific had about C\$43 million in current liquid assets (including C\$33.6 million in cash and C\$8.7 million in bonds.) [[Pg. 1](#)]

December 31, 2019	
ASSETS	
Current Assets	
Cash and cash equivalents	33,620,262
Bonds	8,694,975
Receivables	381,177
Deposits and prepayments	197,268
	42,893,682
Non-current Assets	
Reclamation deposits	15,075
Other tax receivable	2,590,017
Equity investments	6,187,122
Plant and equipment	1,308,938
Mineral property interests	86,653,184
TOTAL ASSETS	139,648,018
LIABILITIES AND EQUITY	
Current Liabilities	
Accounts payable and accrued liabilities	1,473,365
Payable for mineral property acquisition	263,120
Due to a related party	124,032
	1,860,517
Non-current liabilities	
Payable for mineral property acquisition	-
Total Liabilities	1,860,517

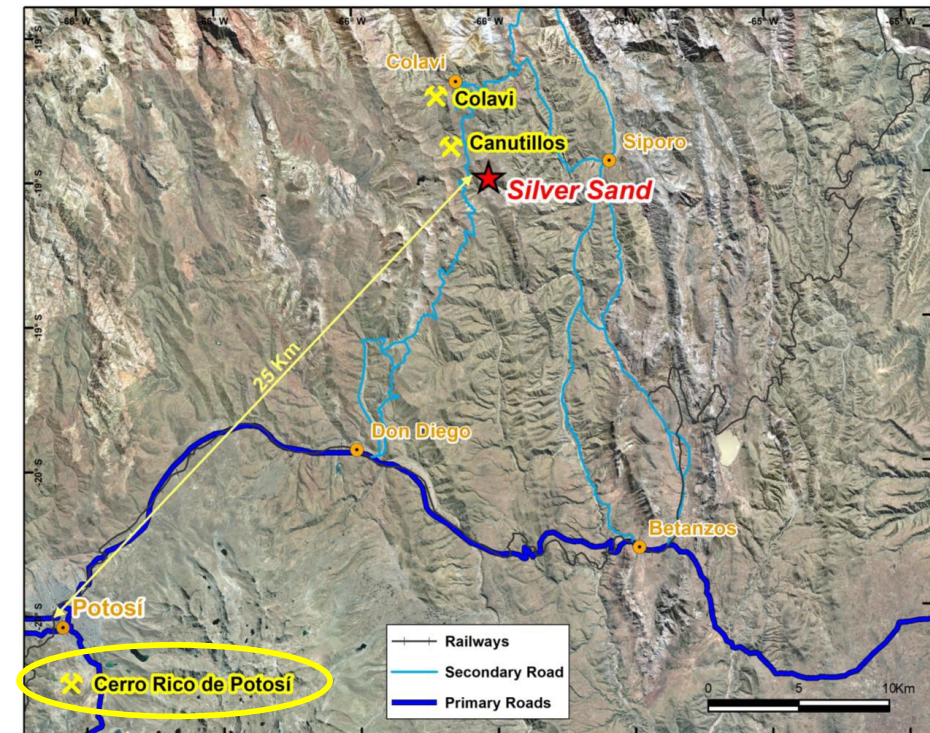


A Comparables Analysis Shows That Silver Sand Is Valued 17x Higher Than Peers



Technical Analysis Shows New Pacific's Silver Sand Project Is Worth Est. C\$0.29/Share

- The Potosi region is well known for its world-class silver deposits, especially the [Cerro Rico mine](#).
- Upwards of [2 billion](#) ounces of silver have been mined from Cerro Rico since 1545.
- This jaw-dropping quantity and grade of silver resulted in decades of exploitation and abuse by the Spanish Empire and other foreign entities since the discovery, resulting in the death of an [estimated 8 million people](#).
- Cerro Rico is known locally as "[the mountain that eats men](#)" and "[the mouth to hell](#)".
- Despite the abundance of riches that sat within Cerro Rico, the silver has brought mostly death and misery to local people (Potosinos), which has instilled hostility towards foreign miners in the region.
- Given this history and social/political backdrop, deposits in Potosi arguably need to be "world-class" to make it worthwhile for foreign mining companies and their investors to try to develop such deposits.



Technical Analysis Shows New Pacific's Silver Sand Project Is Worth Est. C\$0.29/Share

- Silver Sand is only about 27 km from Cerro Rico, so it is definitely in a world-class silver *district*.
- But is Silver Sand a world-class silver deposit?
 - The grades within the Silver Sand deposit are low, at about 132 g/t Ag (about 1.2 g/t Au if using gold-equivalents) based on the resource estimate, which envisions this to be mined using low-cost open pit methods.
- But investors should not expect this to be a low-cost open pit, heap leach project.
- The metallurgy is much more complex and includes sulphides, which may not be cyanide-leachable like oxides.
- Therefore, processing capital and operating costs could be quite high, as both cyanidation and flotation plants may be required. Furthermore, recoveries may not achieve the levels suggested by preliminary testing.
- As a low-grade deposit with complex mineralogy, Silver Sand then needs gargantuan size to qualify as world-class. Based on the market capitalization, investors are pricing this as a foregone conclusion. Our technical expert, however, suggests that Silver Sand is not a world-class silver deposit based on drilling to date and evidence suggests that exploration upside may be limited.



Technical Analysis Shows New Pacific's Silver Sand Project Is Worth Est. C\$0.29/Share

- New Pacific trades at a market capitalization of approximately CAD\$700 million. The only way to justify such a lofty valuation for a mineral asset without a resource estimate, located in Potosi, Bolivia, is if the project has in the ballpark of a billion ounces of silver.
- Silver exploration and development companies, most of which are at a more advanced stage of exploration than New Pacific, currently trade at a valuation of less than US\$0.50 per silver ounce in the ground. Even ascribing an in situ value of US\$0.50/oz to New Pacific, would mean that it would need a resource of ~1.3 billion ounces.
- The recently released [maiden resource estimate](#) contains a total of only 191 million ounces of silver, or about 85% less than needed.



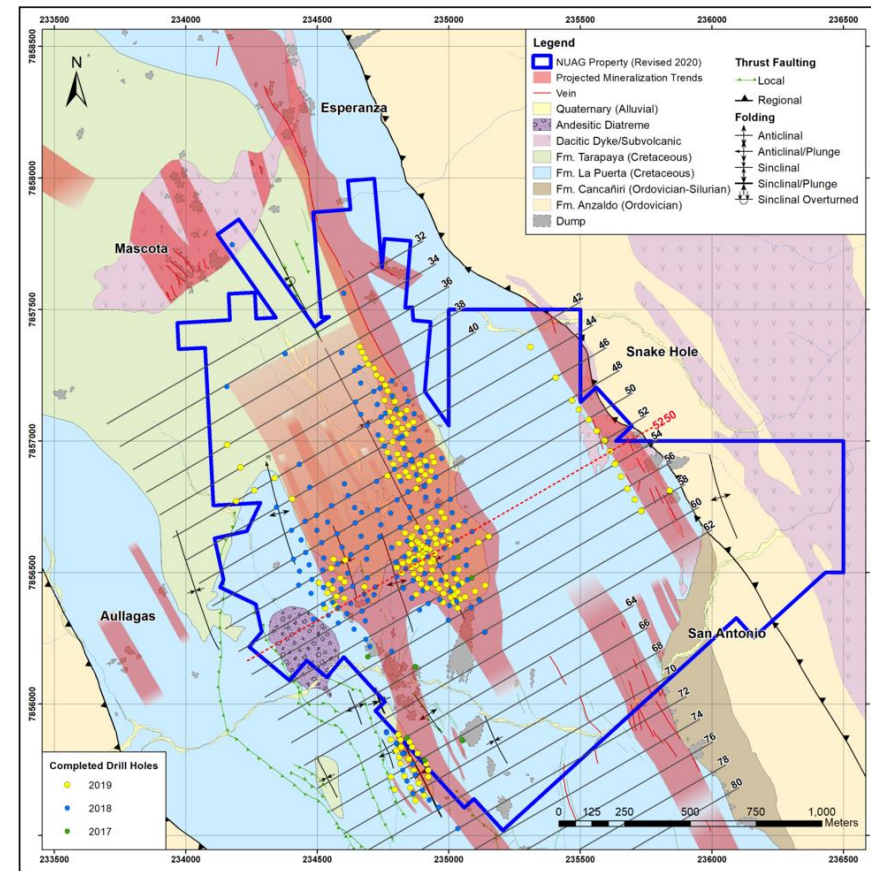
Technical Analysis Shows New Pacific's Silver Sand Project Is Worth Est. C\$0.29/Share

- Using 191 million ounces of contained silver, as per the resource estimate, New Pacific currently trades at about US\$2.56 per ounce of in situ silver. According to the technical consultant we worked with, that is in the ballpark of advanced silver developers and producers, **not early stage explorers.**
- A more appropriate comparable for New Pacific is likely Bear Creek Mining (TSX: BCM), which currently has a market capitalization of US\$145 million. Bear Creek's primary project is Corani in southern Peru, a more politically stable mining jurisdiction than Potosi, Bolivia. Corani is an open pit mine, silver-dominant polymetallic deposit that contains approximately 735 million silver-equivalent ounces.
- Bear Creek is currently being valued at US\$0.16 per silver-equivalent ounce, which is more in line with the majority of silver explorers and developers than the valuation at which New Pacific is currently trading.



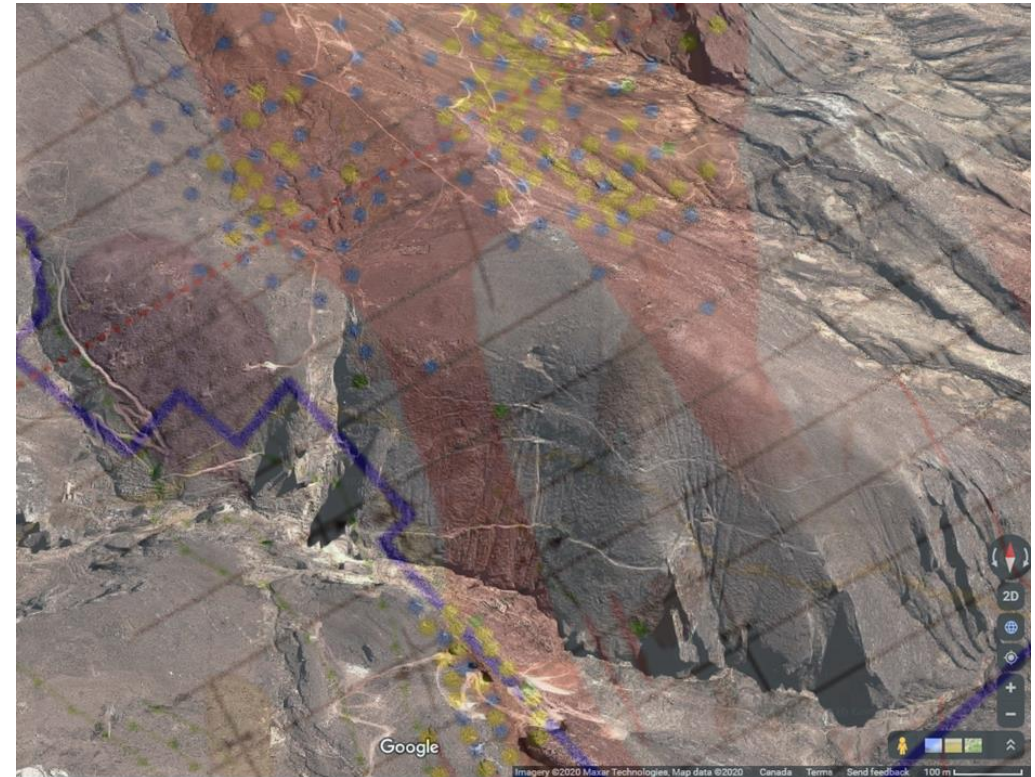
New Pacific's Infill Drilling Suggests Exploration Potential is Limited

- New Pacific drilled 195 holes in the "discovery exploration" program conducted in 2017 and 2018. [Pg. 1] Then, rather than continuing to expand the resource footprint, the company conducted mostly infill drilling in 2019.
- The location of the infill drill holes (yellow dots) do a good job of showing the best zones within the Silver Sand deposit and indicate that the footprint is relatively small. An additional 19 holes were drilled on the Snake Hole target, but as previously mentioned, mineralized widths there are narrow and often too deep for economic open pit extraction.



New Pacific's Infill Drilling Suggests Exploration Potential is Limited

- Our technical consultant believed that New Pacific switched from exploration drilling to infill drilling because the resource expansion potential was dwindling.
- Mineralization to the south and the west falls off a cliff, literally and appears to be cut-off by geology/structure to the east.
- Mineralization appears to be open to the north, but drilling and the plan map suggest that mineralization plunges and pinches out to the north.
- All that is to say that Silver Sand may not get much bigger.



(Drill plan map draped over Google satellite map, our interpretation)

Metallurgy—Oxides + Transition + Sulphides = Complexity + High Cost

- In August 2019, New Pacific [announced](#) "high recovery of silver from various metallurgical processes for sulphide, transition and oxide styles of mineralization". High silver recoveries (i.e., >80%) were quoted for flotation, bottle roll cyanidation, and coarse column leach cyanidation testing. The high-level results provided the appearance that any of these processing methods could be used for all of Silver Sand mineralization, which strikes us as dubious.
- A review of the technical report filed in November 2019 provides better insight into potential silver recoveries. What it reveals is that neither flotation nor cyanide leaching seem to provide an optimal processing approach for all of the mineralization. As well, the *maximum* silver recovery numbers quoted in the metallurgical testing news release seem misleading.



Metallurgy—Oxides + Transition + Sulphides = Complexity + High Cost

- The low-grade oxide material (LEACHMET 1) demonstrated silver recoveries of only 59.1% to 77.5% in bottle roll tests at room temperature, using air as the sparge gas, and with reasonable cyanide consumption.

Table 13.21 LEACHMET 1 Bottle Roll Test Results

Test #	Grind P ₈₀ , µm	% Sol. Strength	Consumption, kg/t		Pulp Temp °C	Sparge Gas	% Extraction	
		NaCN	NaCN	CaO			Ag	Cu
20	105	0.05	1.99	1.60	26	Air	59.1	40.1
21	74	0.05	2.13	1.86	26	Air	71.1	38.8
22	50	0.05	2.21	1.86	28	Air	77.5	41.1
26	74	0.15	4.55	0.84	28	Air	74.1	45.1
27	74	0.30	5.95	0.59	27	Air	78.2	45.7
30	74	0.30	4.53	0.79	29	O ₂	81.0	47.9
31	74	0.30	6.71	0.78	59	O ₂	81.6	48.5

- Results for the high-grade oxide sample (LEACHMET 4) were even worse, achieving recoveries of 69.0% or less of the silver at lower temperatures and cyanide consumption.

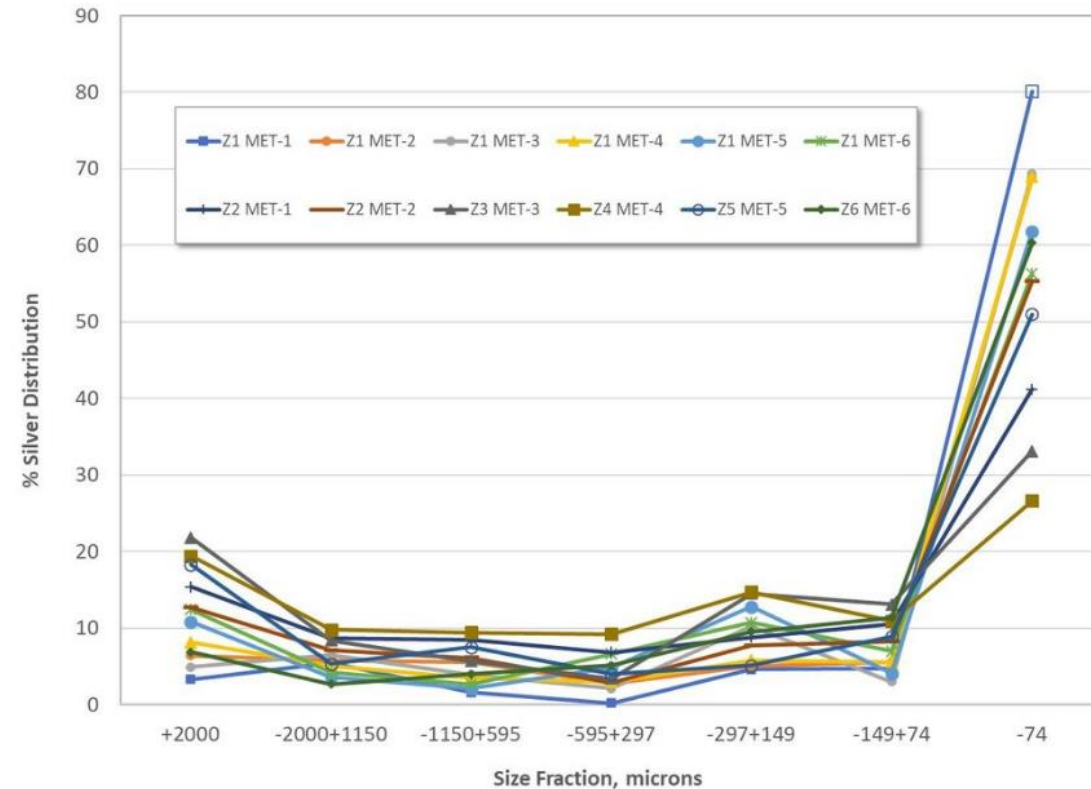
Table 13.20 LEACHMET 4 Bottle Roll Test Results

Test #	Grind P ₈₀ , µm	% Sol. Strength	Consumption, kg/t		Pulp Temp °C	Sparge Gas	% Extraction	
		NaCN	NaCN	CaO			Ag	Cu
23	105	0.05	1.79	1.96	28	Air	65.5	25.7
24	74	0.05	2.09	2.02	27	Air	66.4	29.2
25	50	0.05	2.32	2.03	28	Air	69.0	34.7
28	74	0.15	4.69	0.46	27	Air	83.4	31.0
29	74	0.30	5.38	0.39	28	Air	86.7	31.2
32	74	0.30	3.94	0.78	27	O ₂	95.6	27.4
33	74	0.30	5.08	0.78	59	O ₂	96.3	34.5



Metallurgy—Oxides + Transition + Sulphides = Complexity + High Cost

- The silver at Silver Sand is very fine grained. As shown, the majority of the silver falls into the smallest size fraction of -74 microns (1 micron = 0.001 mm). That means most of the silver grains are about the thickness of a human hair, which is very small and will require very fine grinding for cyanidation or flotation to be effective. The finer the grind, the higher the cost, so this should also be noted. In addition, fine grinding can lead to sliming issues during flotation.



(Silver Distribution by Size Fraction, [microns])



Our Conclusion: 90%+ Downside

- Our price target for New Pacific is C\$0.37, representing over 90% downside from current levels.
- Given the issues outlined in this presentation, and those relating to management's communication on subjects that are of critical importance to investors, we are short both New Pacific and Silvercorp.



Our Conclusion: 90%+ Downside

- To arrive at our final price target, we weighted 3 scenarios
 - Total revocation of the Bolivian mining areas (concessions). In this scenario we assign a price target of C\$0.30, the estimated value of the balance sheet assets.
 - A renegotiated deal on the Bolivian concessions (30%), to which we assign a price target of C\$0.45 (balance sheet assets plus half of the value of the mine, given the historic profit splits Bolivian deals have typically entailed).
 - The deal (somehow) passing through Bolivian legislation as-is (10%), to which we assign a price target of C\$0.59, representing our estimate of the balance sheet assets and the Silver Sand project.



Please see our full report available at:
www.hindenburgresearch.com



