

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations For the year ended March 31, 2007 (Expressed in Canadian Dollars)

Date of Report – As at May 31, 2007

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2007 and related notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles. In addition, the following should be read in conjunction with the Annual Information Form as well as other information relating to Silvercorp Metals Inc. (the "Company") on file with the Canadian provincial securities regulatory authorities, on SEDAR at www.sedar.com, and the Company's website at www.silvercorp.ca. This Management's Discussion and Analysis contains "forward looking" statements that are subject to risk factors set out in the cautionary note contained herein. All figures are in Canadian dollars unless otherwise noted. This Management's Discussion and Analysis has been prepared as of paragraph 1.1 as noted below.

FORWARD LOOKING STATEMENTS

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

1.0 Preliminary Information

Silvercorp Metals Inc., along with its subsidiary companies and joint ventures (collectively the "Company"), is engaged in the acquisition, exploration, development, and mining of precious and base metal mineral properties in the People's Republic of China ("China"). Currently, the Company's main mining operations are the Ying Silver-Lead-Zinc mine ("Ying Project" or "Ying Silver Project") and the Hou-Ping Gou Silver-Gold-Lead-Zinc mine ("HPG Project"), owned through its 77.5% and 70% Chinese subsidiary company, respectively. The Company is a reporting issuer in British Columbia, Alberta, Ontario, Nova Scotia, New Brunswick, Manitoba, and Saskatchewan and trades on the TSX Exchange under the symbol SVM.

Standard & Poors Canadian Index operations have added the Company's common shares to the S&P/TSX Composite Index and the S&P/TSX Global Gold Index (formerly the S&P/TSX Capped Gold Index), effective December 18, 2006.

Currently, the Company's main operations are focused on its Ying and HPG Projects, located in Henan Province, China. With the NZ gold (Au) mining permit acquisition, the Company will have three mining permits in Henan Province, China: the Ying, HPG, and NZ Mining Permits, enabling the Company to produce gold (Au), silver (Ag), lead (Pb), and zinc (Zn). The Company's projects are in various stages, from early stage exploration to late stage development and mining, as specified and discussed below in *Section 1.2 Overall Performance*.

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations For the year ended March 31, 2007 (Expressed in Canadian Dollars)

(a)(i) Henan Found – Ying Silver Property

In April 2004, the Company, through its wholly-owned subsidiary, Victor Mining Ltd., entered into a cooperative joint venture agreement with a Chinese party to earn a 77.5% interest in the high grade Ying Project located in, the Luoning area of the western Henan Province, China by contributing \$4,445,121 (US\$3,670,000) to the joint venture company, Henan Found Mining Co. Ltd. (“Henan Found” or “HFM”) and paying \$1,767,652 (US\$1,500,000) to the Chinese party. On December 31, 2005, the Company completed all necessary contributions and payments, and fully earned its 77.5% ownership interest in the Ying Project. On March 30, 2006, the Company obtained the mining permits for the Ying Project and mine production commenced on April 1, 2006.

During the year ended March 31, 2007 Henan Found acquired two additional exploration permits adjacent to the existing boundary of Ying Project for cash consideration of \$509,400 (RMB¥3,416,500), which was paid and capitalized as acquisition cost of mineral rights and properties. The exploration permits were transferred to Henan Found during the year ended March 31, 2007.

In July 2006, Henan Found, reached a settlement with a third party by paying the third party a total of \$1,051,155 (RMB¥7.05 million), of which \$1,013,880 (RMB¥6.8 million) was paid, to stop its unauthorized mining activities on the Ying Property. The payment made by Henan Found had been capitalized as acquisition cost of mineral rights and properties.

Upon receiving its mining permit for part of the Ying Property on March 30, 2006, the Company switched its focus at the Ying Property from exploration and development through gradual ramping up to achieve a full mining operation. By the end of March 2007, the Company has completed construction of the 600 tonnes per day mill and it is now capable of processing over 750 tonnes of ore per day. Mine development and mill construction are financed by cash flow from the operations of Ying Property.

During the 2007 fiscal year, Henan Found entered into a joint venture agreement, for a 22.5% participation interest, in a custom built 150,000-tonne/year lead-silver-gold smelter in Luoning County, Luoyang City, Henan Province, China. Henan Found's share, 22.5% of the cost, will be \$6.71 million (RMB¥45 million) for the first phase and is expected to be financed by cash flow from Ying Silver Mine. The construction of the smelter has received preliminary approval from the Henan provincial government and is subject to further approval by related Chinese governmental authorities. As of March 31, 2007, Henan Found contributed its first installment of \$67,095 (RMB¥450,000) to set up the joint venture.

(a)(ii) Henan Huawei – HPG Project

In May 2006, the Company, through its indirectly wholly owned subsidiary, Victor Resources Ltd., entered into an agreement to acquire a 60% interest of the HPG silver-gold-lead operating mine and property within the Ying Silver Project, Henan Province, China. The HPG gold-silver-lead property consists of two adjacent mining licenses surrounded by one exploration permit of approximately 6.4 square kilometers in total within the Ying Silver Project area in Henan, and a 200 tonne per day flotation mill and associated facilities. A joint venture company, Henan Huawei Mining Co. Ltd. (“Huawei”), was established, with all necessary governmental approvals, including approvals from the Ministry of Commerce, and issuance of the business license, being received on January 15, 2007.

In January 2007, the parties have agreed to increase the contributed capital of the Huawei by \$301,800 (RMB¥2 million) to \$2,112,600 (RMB¥14 million) and as a result the total payments required by the Company total \$6,522,493 (RMB¥43.2 million). In January 2007, the Company paid a total of \$6,206,826 (US\$5,271,286 or RMB¥41.1 million) resulting in total payment of \$6,839,600 (RMB¥45.3 million), under the HPG Project, of which \$317,107 (RMB¥2.1 million) was returned to the Company. The Company has made all required payments to the vendor and has contributed the required investment to Huawei, to earn a 60% interest in Huawei, which is the operator and 100% interest holder of HPG properties. Transfer of the

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations For the year ended March 31, 2007 (Expressed in Canadian Dollars)

mining licenses and exploration permit from the vendor to the Huawei are currently in process.

On May 11, 2007, the Company, through its indirectly wholly owned subsidiary, Victor Resources Ltd., signed an agreement to acquire a further 20% interest in Huawei from its joint venture, in which 10% interest will be held in trust for a shareholder of the joint venture partner. Total consideration for the 20% interest is \$1,983,030 million (RMB¥13.3 million) with the Company's share of approximately \$991,515 (RMB¥6.65 million) paid in full. While government approval is expected to be received shortly, the Company is now entitled to a 70% interest, in any future profit and funding requirements, of Huawei.

(a)(iii) Henan Found – NZ Project

In October 2006, the Company, through its 77.5% owned subsidiary company, Henan Found, entered into an agreement (the "Agreement") with a third party, related by common control, to acquire a 100% interest in the NZ Gold-Silver property (the "Property"), on its behalf.

As at March 31, 2007, the third party has completed its acquisition of the Property, by payment of \$1,267,350 (RMB¥8,500,000), and is in the process of transferring the ownership of the Property to Henan Found.

1.1 Date of Report – As above

1.2 Overall Performance

(a)(i) Henan Found – Ying Silver Property

The Company has employed two mining methods in its mine production, namely, the shrinkage and re-suing mining methods. The shrinkage mining method is relatively easy to develop but may result in a larger waste rock dilution factor of over 200% when applied to the narrow, high-grade veins at the Ying Property. Application of the re-suing mining method requires highly skilled miners and takes more time to accomplish; however, it also incurs much lower waste rock dilution, with a dilution factor of less than 20%. Prior to September 2006, most of the ores at Ying were extracted using the shrinkage mining method.

As at April 12, 2007, the 600 tonnes per day flotation mill and associated tailing dam facilities for the Ying Silver Mine is completed and has been in a test run since mid-March 2007. The mill has reached a capacity of about 750 tonnes per day since April 1, 2007. The Company anticipates, within the next several months, the 600 tonnes per day flotation mill and associated tailing dam facilities for the Ying Silver Mine will pass local governmental environmental and safety qualification inspections, and then formal commercial production will be allowed. With this added capacity, and with two third party flotation mills, the Company expects to be able to draw upon a combined milling capacity of 1,000 tonnes per day.

During the twelve months ended March 31, 2007, an additional 33,128 meters of tunneling were completed, resulting in a total of 60,702 meters of tunneling completed since August 2004.

Please refer to the below *Section 1.2 (b) Operation Results*.

(a)(ii) Henan Huawei – HPG Project

Since Silvercorp took over the HPG operations in early January 2007, an extensive exploration program budgeted at about \$3 million for 2007 has been implemented. The program includes 15,000 metres (m) of tunneling, sinking two 200 m shafts, and 13,500 m of surface and underground drilling.

After several months of preparation, mining and milling operations have commenced at the HPG Property since May 1. Currently, the mining capacity at HPG has achieved approximately 200 tonnes per day, while the mill is operating at a capacity of about 250 tonnes per day to produce gold-silver-lead and zinc

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

concentrates. Sales of direct shipping gold-silver-lead ores and recovered concentrates, since May 1st, 2007, indicates a potential positive cash flow that may be more than enough to cover all the cost of mining expansion and exploration program for the remainder of fiscal year 2007 at current mining and milling rate.

As of May 25, 2007, a total of 2,445 meters (m) of exploration tunnels and a total of 4 surface drill holes totaling 750 m, using 3 drill rigs, was completed.

(a)(iii) Henan Found – NZ Project

As at the date of this report, the third party has commenced the transferring of the ownership of the property to Henan Found.

(b) Operation Results

Mine production at the Ying Property started on April 1, 2006. At this relatively early phase, and as part of a staged start-up and ramp up to its mining operations, the Company generated sales of \$45,290,340 (2006 - \$nil), for the year ended March 31, 2007, by the selling of the direct shipping ore, gold-silver-lead and zinc concentrates. This resulted in earnings from mine operations of \$35,124,844 (2006 - \$nil) for the year ended March 31, 2007.

During the year ended March 31, 2007, the Company had net income (loss) of \$25,108,808 (2006 - (\$6,259,255)) resulting in basic and diluted earnings (loss) per share of \$0.52 (2006 - (\$0.15)) and \$0.50 (2006 - (\$0.15)), respectively. The net profit margin was 55.44% (2006 - n/a) for the year ended March 31, 2007.

The Company's net income was reduced by \$1,623,286 or \$0.03 basic and fully diluted earnings per share, due to the Company's conservative approach in applying China's Foreign Investment Enterprise ("FIE") income tax incentive policy towards the Ying operating company "(Henan Found)" by starting the income tax holiday from the 2005 calendar year for Henan Found. Accordingly, the Company applied a 15% income tax rate on Henan Found's first quarter financial results of 2007 (January 1 to March 31, 2007) or the Company's fourth quarter ended March 31, 2007. As a result, a \$1,623,286 income tax provision was recorded for the quarter. Henan Found has applied with local Chinese tax authorities to start the tax holiday from calendar year 2006, pending receipt of the favorable income tax certificate from the authorities to approve Henan Found's application, the Company will subsequently adjust the income tax provision.

The following table summarizes the operating and financial data in respect to the Ying Silver Project at the Ying Property. The Company operates in one geographical region and has one producing property, the Ying Silver Project. The Results of Operations for the Company are reported in Section 1.4 and 1.10 below.

SILVERCORP METALS INC.**Management's Discussion and Analysis of Financial Condition and Results of Operations****For the year ended March 31, 2007****(Expressed in Canadian Dollars)**

Ying Property**Year ended March 31, 2007*****Operating data***Mine production (*expressed in tonnes*)

Direct shipping ores	6,843
Silver-lead-zinc ores	162,987
	<u>169,830</u>

Direct shipping ores	6,843
Stockpile ores	24,088
Custom milled	138,899
	<u>169,830</u>

Metallurgical recovery *

Silver (Ag)	90.18%
Lead (Pb)	94.38%
Zinc (Zn)	75.31%

Financial data

Sales

	Weight	\$
Silver (Ag) - ounces	1,935,031	\$ 20,493,069
Gold (Au) - ounces	249	\$ 78,384
Lead (Pb) - pounds	26,262,191	\$ 16,019,484
Zinc (Zn) - pounds	7,135,930	\$ 8,694,166
Other	n/a	\$ 5,237
		<u>\$ 45,290,340</u>

Average selling price (net of Value Added Tax and smelter charges)

Silver (Ag) - ounces	\$ 10.59
Gold (Au) - ounces	\$ 315.40
Lead (Pb) - pounds	\$ 0.61
Zinc (Zn) - pounds	\$ 1.22

Average production cost

Silver (Ag) - ounces	\$ 2.38
Gold (Au) - ounces	\$ 70.79
Lead (Pb) - pounds	\$ 0.14
Zinc (Zn) - pounds	\$ 0.27

Average silver production cost adjusted for by-product credit

Silver (Ag) - ounces	\$ (7.56)
----------------------	-----------

**Metallurgical recovery relates to the milling recovery rate for silver-lead-zinc ores*

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

(c) Economic factors affecting the industry

The Company's sales price for metals are fixed against the Shanghai Metals Exchange as quoted at www.shmet.com for lead and zinc pounds while gold ounces are fixed against the Shanghai Gold Exchange as quoted at www.sge.com.cn, and silver ounces are fixed against the Shanghai White Platinum & Silver Exchange as quoted at www.ex-silver.com. These metal prices traditionally move in tandem with and at marginally higher prices than those quoted on the North American and European market places.

(d) Risk Factors

The Company is subject to numerous risks of which are outlined in the Annual Information Form 51-102F2, Short Form Prospectus, and the NI 43-101 Technical Reports, which are available on SEDAR at www.sedar.com. In addition, please refer to the below Section 1.14 Financial Instruments. The Company has not made any estimates or provisions for these risks.

1.3 Selected Annual Information

For the year ended March 31,

	2007	2006	2005
Sales	\$ 45,290,340	\$ -	\$ -
Earnings from mine operations	35,124,844	-	-
Gains and other income	6,107,725	483,310	1,156,194
Net income (loss)	25,108,808	(6,259,255)	(817,242)
Basic earnings (loss) per share	0.52	(0.15)	(0.02)
Diluted earnings (loss) per share	0.50	(0.15)	(0.02)
Total assets	108,546,948	21,085,801	12,107,387
Total long-term liabilities	2,392,480	-	-
Cash dividends declared per share	-	-	-

The significant increase in net income for the year ended March 31, 2007 is primarily attributed to the Company's sole producing asset, the Ying Property, and primarily the Sha Gou (SGX) mining area, resulting in sales of \$45,290,340.

The significant increase in net loss for the year ended March 31, 2006 was primarily due to the consolidation of the statement of operations of Henan Found starting from October 1, 2005, the write-off of mineral exploration capitalized expenses of \$1,714,491 in relation to the Tuobuka Property and the recognition of non-cash stock-based compensation expenses of \$2,295,591.

The reduction in net loss for 2005 was mainly due to the recording of a gain on the disposal of the subsidiary holding the Sha Gou Property of \$503,518 and the mineral property option income of \$529,406 after offsetting the stock-based compensation expenses of \$786,910.

1.4 Results of Operations

(i) Overall - 12 months

During the year ended March 31, 2007, the Company realized net income (loss) of \$25,108,808 (2006 - (\$6,259,255)) resulting in earnings (loss) per share of \$0.52 (2006 - (\$0.15)) and \$0.50 (2006 - (\$0.15)) on weighted average number of shares outstanding of 47,971,231 (2006 - 42,416,005) and 49,891,352 (2006 - 42,416,005), basic and fully diluted, respectively. The net income increase of \$31,368,063, as compared to the prior year, is primarily attributed to the sale of direct shipping ore and metal concentrates from the Ying

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations For the year ended March 31, 2007 (Expressed in Canadian Dollars)

Project since April 1, 2006.

The Company's net income was reduced by \$1,623,286 or \$0.03 basic and fully diluted earnings per share, due to the Company's conservative approach in applying China's Foreign Investment Enterprise ("FIE") income tax incentive policy towards the Ying operating company ("Henan Found") by starting the income tax holiday from the 2005 calendar year for Henan Found. Accordingly, the Company applied a 15% income tax rate on Henan Found's first quarter financial results of 2007 (January 1 to March 31, 2007) or the Company's fourth quarter ended March 31, 2007. As a result, a \$1,623,286 income tax provision was recorded for the quarter. Henan Found has applied with local Chinese tax authorities to start the tax holiday from calendar year 2006, pending receipt of the favorable income tax certificate from the authorities to approve Henan Found's application, the Company will subsequently adjust the income tax provision.

During the year ended March 31, 2007, the Company turned around a loss of \$6,259,255 in 2006 to achieve net income of \$25,108,808, which is mainly attributable to the Company's staged start-up and ramp-up of its Ying Project mining operations resulting in earnings from mine operations of \$35,124,844 (2006 - \$nil).

During the year ended March 31, 2007, the Company's cash and cash equivalents increased by \$57,584,885 (2006 - \$1,527,930) to \$61,484,697 (2006 - \$3,899,812) as a result of: cash provided by operating activities of \$34,217,804 (2006 - (\$1,565,021)); cash used by investing activities of \$21,321,826 (2006 - (\$7,264,173)); offset by cash provided by financing activities of \$44,085,262 (2006 - \$10,441,090), and the effect of exchange rate changes on cash of \$603,645 (2006 - (\$83,966)).

(ii) *Sales:* During the year ended March 31, 2007, the Company recorded total sales of \$45,290,340 (2006 - \$nil) comprised of the following: 1,935,031 ounces of silver sold for \$20,493,069 at an average selling price of \$10.59 per ounce; 249 ounces of gold sold for \$78,384 at an average selling price of \$315.40 per ounce; 26,262,191 pounds of lead sold for \$16,019,484 at an average selling price of \$0.61 per pound; and, 7,135,930 pounds of zinc sold for \$8,694,166 at an average selling price of \$1.22 per pound. All prices are net of value added tax and smelter charges.

(iii) *Cost of Sales:* The total cost of sales, including milling costs, for the year ended March 31, 2007 amounted to \$10,165,496 (2006 - \$nil), and is comprised of \$8,810,829 for the cash cost of production and \$1,354,667 for the depreciation charges. The average silver production cost adjusted for by-product credit was (\$7.56) per ounce.

For the year ended March 31, 2007, 169,830 tonnes of ores were extracted, from which 6,843 tonnes of direct shipping ores were hand sorted for direct shipment to smelter, and 162,987 tonnes of ores were shipped to local custom mills for treatment to recover silver-lead and zinc concentrates. The custom mills have achieved high recovery rates: 90.18% for silver, 94.38% for lead, and 75.31% for zinc. The total production cost for silver adjusted for lead and zinc credits is negative \$7.56 per ounce.

The year ended March 31, 2007, average production costs of \$2.38 per ounce for silver, \$70.79 per ounce for gold, \$0.14 per pound for lead, and \$0.27 per pound for zinc, respectively.

(iv) *Earnings from mine operations:* For the year ended March 31, 2007, earnings from mine operations amounted to \$35,124,844 (2006 - \$nil) representing a gross margin of 77.55% and is mainly attributable the Company's staged start-up and ramp up of its Ying Project mining operations.

The Company generated gross revenue of \$45,290,340 (2006 - \$nil) for the year ended March 31, 2007, respectively, by the selling of the direct shipping ore, gold-silver-lead and zinc concentrates. This resulted in an earnings from mine operations of \$35,124,844 (2006 - \$nil) and a gross margin of 77.55%, for the year ended March 31, 2007.

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

(v) Accretion of asset retirement obligations: For the year ended March 31, 2007, the Company recognized \$70,478 (2006 - \$nil) as accretion of asset retirement obligations. The Company's assets retirement obligations related to the reclamation cost of Ying property and was calculated using a credit-adjusted risk-free discount rate of 6.0% and an inflation rate of 2.5% for the year up to 2012. The total undiscounted amount of cash flows required to settle the obligations is estimated at approximately \$1.56 million and is expected to be settled gradually over the estimated mine life, 6 years. These obligations will be funded from the Company's resources upon local government's fee payment requests.

(vi) General exploration and property investigation expenses: During the year ended March 31, 2007, the Company incurred general exploration and property investigation expenses of \$919,639 (2006 - \$685,697) representing an increase of \$233,942 as the Company actively pursues its growth strategy to grow through the exploration, development and production of advanced silver properties in China.

(vii) Investor relations: During the year ended March 31, 2007, the Company incurred investor relation costs of \$856,856 (2006 - \$312,503) representing an increase of \$544,353 as compared to the same period in the prior year. The increase is mainly attributable to the Company's efforts to build the Company's profile and investor awareness within the global investment community.

(viii) Mineral properties written off: During the year ended March 31, 2007, the Company did not write off any mineral properties as compared to the same period in the prior year of \$1,714,491.

(ix) Office, administration and miscellaneous: During the year ended March 31, 2007, the Company incurred office, administration and miscellaneous expenses of \$2,581,496 (2006 - \$1,405,883) representing an increase of \$1,175,613 or 46%. The increase is mainly attributable to corporate community sponsorships and donations along with the enhancement of the corporate and operating infrastructure to manage the growth and business activities of the Company. HFM, SVM's 77.5% owned subsidiary, donated \$180,250 (RMB¥1.25 million) towards the construction of the Henan Found Youth Recreation and Activity Center, in Luoning county of Henan Province, China. HFM also donated \$43,260 (RMB¥300,000) towards Luoning County's Hope Elementary School.

(x) Professional fees: During the year ended March 31, 2007, the Company incurred professional fees of \$515,788 (2006 - \$335,325) an \$180,463 or 35% increase mainly attributed to the increase in corporate activities, accounting and audit fees associated with the business growth of the Company

(xi) Stock-based compensation expenses: During the year ended March 31, 2007, the Company recognized \$2,226,425 (2006 - \$2,295,591) of non-cash stock-based compensation expenses for incentive stock options granted to directors, officers, employees, and consultants using the Black Scholes options pricing model, representing a decrease of 3% or \$69,166 over the same period in the prior year.

(xii) Equity loss in investment: During the year ended March 31, 2007, the Company recognized \$252,839 (2006 - \$159,334) of equity loss mainly attributed to the Company's investment in NUX.

(xiii) Mineral property option income: During the year ended March 31, 2007, the Company recorded mineral property option income of \$4,387,748 (2006 - \$342,376) resulting from the receipt of shares issued by NUX pursuant to the Kang Dian Project Option Agreement along with the increase in NUX's market value upon the release of the escrow shares.

(xiv) Interest income: During the year ended March 31, 2007, the Company recognized \$1,952,313 (2006 - \$164,369) representing an increase of \$1,787,944 and is mainly attributed to the short form prospectus financing completed on April 26, 2006 raising gross proceeds of \$47,773,875 through the sale of 2,501,250 units at a price of \$19.10 per unit.

(xv) Income tax expense: During the year ended March 31, 2007, the Company recognized \$1,623,286

SILVERCORP METALS INC.**Management's Discussion and Analysis of Financial Condition and Results of Operations****For the year ended March 31, 2007****(Expressed in Canadian Dollars)**

(2006 - \$nil) representing the income tax provision for Henan Found's interim financial results for the first calendar quarter of 2007 resulting in basic and fully diluted earnings per share impacted by \$0.03 per share. Upon receipt of the tax certificate of the tax holiday, the Company, in fiscal 2008, will prospectively adjust the tax provision accordingly.

1.5 Summary of Quarterly Results

	For the Quarters Ended			
	31-Mar-07	31-Dec-06	30-Sep-06	30-Jun-06
Sales	\$ 15,517,529	\$ 14,731,638	\$ 10,708,123	\$ 4,333,050
Earnings from mine operations	11,405,935	12,027,107	8,279,088	3,412,714
Gains and other income	2,693,415	1,559,528	908,111	946,671
Net income	8,050,571	9,338,817	5,361,840	2,357,580
Basic earnings per share	0.17	0.19	0.11	0.05
Diluted earnings per share	0.16	0.19	0.11	0.05
Total assets	108,546,948	91,189,927	76,533,323	69,397,329
Total long-term liabilities	2,392,480	-	-	-
Cash dividends declared per share	-	-	-	-
	For the Quarters Ended			
	31-Mar-06	31-Dec-05	30-Sep-05	30-Jun-05
Sales	\$ -	\$ -	\$ -	\$ -
Earnings from mine operations	-	-	-	-
Gains and other income	242,051	95,280	111,227	153,184
Net loss	(1,556,317)	(1,446,857)	(2,339,299)	(798,350)
Basic loss per share	(0.04)	(0.03)	(0.06)	(0.02)
Diluted loss per share	(0.04)	(0.03)	(0.06)	(0.02)
Total assets	21,085,801	17,543,934	18,566,011	11,743,958
Total long-term liabilities	-	-	-	-
Cash dividends declared per share	-	-	-	-

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares as it anticipates that all available funds will be invested to finance the growth of its business.

1.6 Liquidity and Capital Resources**(a) Working Capital**

As at March 31, 2007, the Company had a working capital position of \$62,565,112 (2006 - \$11,804,772) comprised mainly of cash and cash equivalents of \$61,484,697 (2006 - \$3,899,812), short term investments of \$6,282,426 (2006 - \$8,700,000), accounts receivable and prepaids of \$1,470,820 (2006 - \$996,077), inventories of \$2,077,954 (2006 - \$nil), offset by current liabilities of \$8,750,785 (2006 - \$1,791,117) and holds no debt.

Working capital increased by \$50,760,340 to \$62,565,112, primarily as a result of the successful operation of Ying Silver-Lead-Zinc Property and the completion of a short form prospectus financing on April 26,

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

2006 for gross proceeds of \$47,773,875 through the sale of 2,501,250 units at a price of \$19.10 per unit. Each unit is comprised of one common share of the Company and one half share purchase warrant. Each whole warrant is exercisable up to October 25, 2007 at a strike price of \$24 per common share. As of the date of this report, 1,250,623 share purchase warrants remain outstanding under this financing. During the year, no share purchase warrants were exercised under this financing.

(b) Cash and Cash Equivalents, and Short term investments

During the year ended March 31, 2007, the Company's cash and cash equivalents increased by \$57,584,885 (2006 - \$1,527,930) to \$61,484,697 (2006 - \$3,899,812) as a result of: cash provided by operating activities of \$34,217,804 (2006 - (\$1,565,021)); cash used by investing activities of \$21,321,826 (2006 - (\$7,264,173)); offset by cash provided by financing activities of \$44,085,262 (2006 - \$10,441,090), and effect of exchange rate changes on cash of \$603,645 (2006 - (\$83,966)).

Cash and cash equivalents plus short term investments, as at March 31, 2007 amounted to \$67,767,123 (2006 - \$12,599,812) and are unencumbered. Short term investments are invested in high quality money market instruments.

(c) Operating Activities

During the year ended March 31, 2007, the Company's net cash provided by operating activities of \$34,217,804 is comprised of cash provided by net income of \$25,108,808, items not affecting cash of \$6,864,191, and \$2,244,805 of net change in non-cash working capital.

(d) Investing Activities

During the year ended March 31, 2007, the Company's net cash used in investing activities of \$21,321,826 is comprised primarily of: \$13,380,876 for the purchase of mineral rights and properties; \$7,201,641 for the purchase of property, plant and equipment; and, \$2,317,095 for the purchase of long term investments.

(e) Financing Activities

During the year ended March 31, 2007, the Company's net cash provided by financing activities of \$44,085,262 is comprised primarily \$47,776,954 raised through share subscriptions for cash offset by shares returned to treasury for cancellation of \$5,499,104.

During the year ended March 31, 2007, the Company, through a short form prospectus financing, raised gross proceeds of \$47,773,875 through the sale of 2,501,250 units at a price of \$19.10 per unit.

During the year ended March 31, 2007, a total of 987,239 options were exercised at an average strike price of \$0.90 per share for gross proceeds of \$889,160.

During the year ended March 31, 2007, a total of 522,500 warrants were exercised at a strike price of \$4.60 per share for gross proceeds of \$2,403,500.

For the year ended March 31, 2007, the Company acquired and cancelled 420,500 of its common shares under the Normal Course Issuer Bid at a cost of \$5,499,104, respectively.

On July 24, 2006, the Company granted incentive stock options to directors, employees, and consultants for 200,000 shares at a price of \$12.95 per share expiring on July 23, 2011. 188,000 of the options granted were 8.333% vested on grant date and 8.333% of the options are vested every 3 months after the date of grant for 3 years. The remaining 12,000 options were 25% vested on grant date and 12.5% of the options are vested every 3 months after the date of grant for 18 months.

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

On August 15, 2006, the Company granted incentive stock options to officers, employees, and consultants for 131,500 shares at a price of \$13.40 per share expiring on August 14, 2011. 100,000 of the options granted were 8.333% vested on September 15, 2006 and 8.333% of the options are vested every 3 months thereafter for 3 years while the remaining 31,500 remaining options were 8.333% vested on October 15, 2006 and 8.333% of the options are vested every 3 months thereafter for 3 years.

On August 29, 2006, the Company granted incentive stock options to officers, employees, and consultants for 82,000 shares at a price of \$13.28 per share expiring on August 28, 2011. 70,000 of the options granted were 8.333% vested on December 05, 2006 and 8.333% of the options are vested every 3 months thereafter for 3 years while the remaining 12,000 options were 8.333% vested on October 15, 2006 and 8.333% of the options are vested every 3 months thereafter for 3 years.

On January 3, 2007, the company granted incentive stock options to an employee for 20,000 shares at a price of \$16.97 per share vesting 8.333% on April 3, 2007 and a further 8.333% every three months thereafter with an expiry date of January 2, 2012.

On April 11, 2007, incentive stock options of 260,900 shares were granted to officers, directors, employees, and consultants pursuant to the stock option plan at a price of \$20.21 per share vesting 8.333% on October 11, 2007 and a further 8.333% every three months thereafter with an expiry date of April 10, 2012.

On April 13, 2007, incentive stock options of 24,999 shares at a strike price of \$13.40 per share were exercised for gross proceeds of \$334,987 and 75,001 incentive stock options at a strike price of \$13.40 per share were cancelled.

On May 7, 2007, a total of 143,993 incentive stock options were exercised for gross proceeds of \$442,308 on the following: 8,333 shares at \$1.60 per share; 60,666 shares at \$2.25 per share; and, 74,994 shares at \$3.90 per share.

During May 8 to May 10, 2007, incentive stock options were exercised for gross proceeds of \$20,100 on 1,500 shares at a strike price of \$13.40 per share; and further 75,000 at a strike price of \$0.35 per share were exercised for gross proceeds of \$26,250. On May 10, 2007, a further 14,312 at a strike price of \$2.25 per share were exercised for gross proceeds of \$32,202.

On June 13, 2006, the Board of Directors approved a Normal Course Issuer Bid to acquire up to 1,000,000 of its Common Shares (being approximately 2% of the currently issued and outstanding), over a one year period through the facilities of the TSX Exchange. The Company has cancelled all shares acquired under the Normal Course Issuer Bid.

(f) Commitments, Contingencies, Contractual Obligations

The Company's commitments, contingencies, and contractual obligations include:

- (i) During the 2007 fiscal year, Henan Found entered into a joint venture agreement, for a 22.5% participation interest, in a custom built 150,000-tonne/year lead-silver-gold smelter in Luoning County, Luoyang City, Henan Province, China. Henan Found's share, 22.5% of the cost, will be \$6.71 million (RMB¥45 million) for the first phase and is expected to be financed by cash flow from its Ying Silver Mine. As of March 31, 2007, Henan Found contributed its first installment of \$67,095 (RMB¥450,000) to set up the joint venture.
- (ii) With respect to its leasehold obligations, the Company has commitments totaling \$581,048 over 5 years (2008 – 2011: \$162,153 per year; 2012: \$94,589).

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

No other commitments to provide additional funds have been made by management or other stockholders. Accordingly, there can be no assurance that any additional funds will be available to the Company to allow it to cover operating expenses. The Company has no other capital resources other than the ability to issue common stock to raise additional capital or receive funds on the exercise of warrants or options by the holders. The Company believes it has sufficient capital to meet its cash needs for the next 12 months, including the costs of compliance with the continuing reporting requirements.

(g) Available sources of funding

The Company does not have unlimited resources and its future capital requirements will depend on many factors, including, among others, cash flow from operations. To the extent that 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.

1.7 Capital Resources

Item 1.6 provides further details.

1.8 Off-Balance Sheet Arrangements

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

1.9 Transaction with Related Parties

(a) During the year ended March 31, 2007, the Company incurred the following related party transactions:

- (i) consulting fees of \$173,750 (2006 - \$174,000) payable to a company owned by an officer and director of the Company and to an officer of the Company;*
- (ii) legal fees of \$87,642 (2006 - \$77,546) payable to a law firm controlled by a director of the Company;*
- (iii) management fees of \$143,518 (2006 - \$128,801) payable to company owned by an officer and director of the Company, and to an officer and director of the Company;*
- (iv) accounting fees of \$88,066 (2006 - \$69,614) payable to an accounting firm controlled by a former officer of the Company;*
- (v) directors' fees of \$41,404 (2006 - \$nil); and,*
- (vi) expenses and exploration costs recovery of \$366,550 (2006 - \$nil) from NUX.*

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

(b) As of March 31, 2007, the related transaction balances included the following:

- (i) \$nil (2006 - \$22,085 which was included in accounts payable) due to a law firm controlled by a director of the Company;
- (ii) \$nil (2006 - \$32,843 which was included in accounts payable) due to three directors for their services provided;
- (iii) \$nil (2006 - \$8,246 which was included in accounts payable) due to an accounting firm controlled by a former officer of the Company;
- (iv) \$nil (2006 - \$5,812) due to two directors for expenses incurred on behalf of the Company;
- (v) \$nil (2006 - \$14,199) due to a company with former director in common for expenses incurred on behalf of the Company;
- (vi) \$39,750 (2006 - \$17,130) due to a company controlled by a director of the Company for its services provided;
- (vii) \$151,769 (2006 - \$nil) due from the joint venture partner of Huawei for funds advanced by Huawei; and,
- (viii) \$32,660 (2006 - \$nil) due from a Chinese company related by common control; and,
- (ix) \$1,377,863 (2006 - \$nil) due to NUX for funds advanced from NUX and services rendered and costs incurred on behalf of NUX by the Company.

On December 8, 2006, the NUX entered into a Declaration of Trust Agreement (the "Trust Agreement") with Yunnan Jin Chang Jiang Mining Co. Ltd. ("YJCJM" and the "Trustee"), an equity investee of the Company, to hold in trust for NUX, two exploration permits ("Guangdong Project") located in Guangdong Province, China. Pursuant to the agreement, NUX paid \$35,331 (US\$30,000) to the Company as handling fee and NUX is responsible for all costs in relation to the exploration permits.

On January 25, 2007, NUX advanced to the Company \$1,461,092 (US\$1,240,000). The loan is unsecured, non-interest bearing, and due on demand. The loan will be paid by offsetting the Guangdong Project exploration expenditures incurred by the Trustee on behalf of NUX.

On March 15, 2007, the Company participated in NUX's private placement and acquired 900,000 units at \$2.50 per unit with warrants to acquire a further 450,000 units at \$3.00 per unit per a period of one year to expire on March 15, 2008. As at the date of this report, the Company owns 4,987,501 common shares of NUX representing an equity interest of 17.7%.

The transactions with related parties during the year are measured at the exchange amount, which is the amount of consideration established and agreed by the parties.

The balances with related parties are unsecured, non-interest bearing, and due on demand.

1.10 Fourth Quarter

The following table summarizes the operating and financial data in respect to the Ying Silver Project at the Ying Property. The Company operates in one geographical region and has one producing property, the

SILVERCORP METALS INC.**Management's Discussion and Analysis of Financial Condition and Results of Operations****For the year ended March 31, 2007****(Expressed in Canadian Dollars)***Ying Silver Project. The Results of Operations for the Company are reported in Section 1.4 and 1.10 below.***Ying Property****Three months ended March 31,
2007*****Operating data***Mine production (*expressed in tonnes*)

Direct shipping ores	2,018
Silver-lead-zinc ores	43,047
	<u>45,065</u>

Direct shipping ores	2,018
Stockpile ores	-
Custom milled	43,047
	<u>45,065</u>

Metallurgical recovery *

Silver (Ag)	89.95%
Lead (Pb)	94.31%
Zinc (Zn)	76.70%

Financial data

Sales

	Weight	\$
Silver (Ag) - ounces	592,554	\$ 6,749,843
Gold (Au) - ounces	73	\$ 24,050
Lead (Pb) - pounds	8,371,480	\$ 5,846,242
Zinc (Zn) - pounds	2,328,418	\$ 2,892,157
Other	n/a	\$ 5,237
		<u>\$ 15,517,529</u>

Average selling price (net of Value Added Tax and smelter charges)

Silver (Ag) - ounces	\$ 11.39
Gold (Au) - ounces	\$ 331.60
Lead (Pb) - pounds	\$ 0.70
Zinc (Zn) - pounds	\$ 1.24

Average production cost

Silver (Ag) - ounces	\$ 3.15
Gold (Au) - ounces	\$ 91.48
Lead (Pb) - pounds	\$ 0.19
Zinc (Zn) - pounds	\$ 0.34

Average silver production cost adjusted for by-product credit

Silver (Ag) - ounces	\$ (7.76)
----------------------	-----------

**Metallurgical recovery relates to the milling recovery rate for silver-lead-zinc ores*

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

(i) Overall – 3 months

During the fourth quarter ended March 31, 2007, the Company realized net income of \$8,050,571 (Q4-2006 - (\$1,556,317)) resulting in earnings per share of \$0.17 (Q4 - 2006 - (\$0.04)) on weighted average number of basic shares outstanding of 48,606,665 (Q4 - 2006 - 42,416,005) or \$0.16 per share on fully diluted shares outstanding of 50,257,368 (Q4-2006 - 42,416,005). The net income increase of \$9,606,888, as compared to the prior year, is primarily attributed to the sale of direct shipping ore and metal concentrates from the Ying Project since April 1, 2006.

During the fourth quarter ended March 31, 2007, net income increased six fold to \$8,050,571, as compared to the same period of 2006, and is mainly attributable the Company's staged start-up and ramp up of its Ying Project mining operations resulting in earnings from mine operations of \$11,405,935.

(ii) Sales: During the fourth quarter ended March 31, 2007, the Company recorded total sales of \$15,517,529 (Q4-2006 - \$nil) comprised of the following: 592,554 ounces of silver sold for \$6,749,843 at an average selling price of \$11.39 per ounce; 73 ounces of gold sold for \$24,050 at an average selling price of \$331.60 per ounce; 8,371,480 pounds of lead sold for \$5,846,242 at an average selling price of \$0.70 per pound; and, 2,328,418 pounds of zinc sold for \$2,892,157 at an average selling price of \$1.24 per pound. All prices are net of value added tax and smelter charges.

(iii) Cost of Sales: The total cost of sales, including milling costs, for the fourth quarter ended March 31, 2007 amounted to \$4,111,594 (Q4-2006 - \$nil), and is comprised of \$3,346,847 for the cash cost of production and \$764,747 for the depreciation charges. The average silver production cost adjusted for by-product credit was (\$7.76) per ounce.

For the fourth quarter ended March 31, 2007, 45,065 tonnes of ores were extracted, from which 2,018 tonnes of direct shipping ores were hand sorted for direct shipment to smelter, and 43,047 tonnes of ores were shipped to local custom mills for treatment to recover silver-lead and zinc concentrates. The custom mills have achieved high recovery rates: 89.95% for silver, 94.31% for lead, and 76.70% for zinc. The total production cost for silver adjusted for lead and zinc credits is negative \$7.76 per ounce.

During the fourth quarter ended March 31, 2007, average production costs were \$3.15 per ounce for silver, \$91.48 per ounce for gold, \$0.19 per pound for lead, and \$0.34 per pound for zinc, respectively.

(iv) Earnings from mine operations: For the fourth quarter ended March 31, 2007, earnings from mine operations amounted to \$11,405,935 (Q4-2006 - \$nil) representing a gross margin of 73.50% and is mainly attributable the Company's staged start-up and ramp up of its Ying Project mining operations.

The Company generated gross revenue of \$15,517,529 (Q4-2006 - \$nil) for the fourth quarter ended March 31, 2007 through the sale of the direct shipping ore, gold-silver-lead and zinc concentrates. This resulted in an earnings from mine operations of \$11,405,935 (Q4-2006 - \$nil) and a gross margin of 73.50%, for the quarter ended March 31, 2007.

(v) Accretion of asset retirement obligations: For fourth quarter ended March 31, 2007, the Company recognized \$70,478 (Q4-2006 - \$nil) as accretion of asset retirement obligations. The Company's assets retirement obligations related to the reclamation cost of Ying property and was calculated using a credit-adjusted risk-free discount rate of 6.0%. The total undiscounted amount of cash flows required to settle the obligations is estimated at approximately \$1.56 million and is expected to be settled gradually over the estimated mine life, 6 years. These obligations will be funded from the Company's resources upon local government's fee payment requests.

(vi) General exploration and property investigation expenses: During the fourth quarter ended March 31, 2007, the Company incurred general exploration and property investigation expenses of \$301,108 (Q4-2006 - (\$274,638)) representing an increase of \$575,746 as the Company actively pursues its growth

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

strategy to grow through the exploration, development and production of advanced silver properties in China.

(vii) *Investor relations*: During the fourth quarter ended March 31, 2007, the Company incurred investor relation costs of \$404,966 (2006 - \$156,536) representing an increase of \$248,430 as compared to the same period in the prior year. The increase is mainly attributable to the Company's efforts to build the Company's profile and investor awareness within the global investment community.

(viii) *Mineral properties written off*: During the fourth quarter ended March 31, 2007 and in the same period in the prior year, the Company did not write off any mineral properties.

(ix) *Office, administration and miscellaneous*: During the fourth quarter ended March 31, 2007, the Company incurred office, administration and miscellaneous expenses of \$719,601 (Q4-2006 - \$478,127) representing an increase of \$241,474 or 46%. The increase is mainly attributable to corporate community sponsorships and donations along with the enhancement of the corporate and operating infrastructure to manage the growth and business activities of the Company.

(x) *Professional fees*: During the fourth quarter ended March 31, 2007, the Company incurred professional fees of \$156,265 (Q4-2006 - \$182,705) a \$26,440 or 14% decrease mainly attributed to in-house management of corporate legal, accounting, and other administrative activities.

(xi) *Stock-based compensation expenses*: During the fourth quarter ended March 31, 2007, the Company recognized \$540,240 (Q4-2006 - \$1,311,842) of non-cash stock-based compensation expenses for incentive stock options granted to directors, officers, employees, and consultants using the Black Scholes options pricing model, representing a decrease of 59% or \$771,602 over the same period in the prior year.

(xii) *Equity loss in investment*: During the fourth quarter ended March 31, 2007, the Company recognized \$182,419 (Q4-2006 - \$nil) of equity loss mainly attributed to the Company's investment in NUX.

(xiii) *Mineral property option income*: During the fourth quarter ended March 31, 2007, the Company recorded mineral property option income of \$2,364,248 (Q4-2006 - \$202,084) resulting from the receipt of shares issued by NUX pursuant to the Kang Dian Project Option Agreement along with the increase in NUX's market value upon the release of the escrow shares.

(xiv) *Interest income*: During the fourth quarter ended March 31, 2007, the Company recognized \$511,585 (Q4-2006 - \$61,210) representing an increase of \$450,375 and is mainly attributed to the short form prospectus financing completed on April 26, 2006 raising gross proceeds of \$47,773,875 through the sale of 2,501,250 units at a price of \$19.10 per unit.

(xv) *Income tax expense*: During the fourth quarter ended March 31, 2007, the Company recognized \$1,623,286 (2006 - \$nil) representing the income tax provision for Henan Found's financial results for the first calendar quarter of 2007 resulting in basic and fully diluted earnings per share impacted by \$0.03 per share. Upon receipt of the tax certificate of the tax holiday, the Company, in fiscal 2008, will prospectively adjust the tax provision accordingly.

1.11 Proposed Transactions

There are no proposed assets or business acquisitions or dispositions, other than those in the ordinary course of business, before the board of directors for consideration.

1.12 Critical Accounting Estimates

A detailed summary of the Company's significant accounting policies is included in Note 2 to the annual

SILVERCORP METALS INC.

**Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended March 31, 2007
(Expressed in Canadian Dollars)**

audited consolidated financial statements for the year ended March 31, 2007.

(a) Mineral rights and properties

Mineral rights and properties include the acquisition costs, direct exploration and development expenditures.

Upon commencement of commercial production, mineral properties and capitalized expenditures are amortized over the mine's estimated life using the units of production method calculated based on estimated reserves.

The Company reviews the carrying value of each property that is in the exploration/development stage by reference to the project economics including the timing of the exploration and/or development work, the work programs and the exploration results experienced by the Company and others. The review of the carrying value of each producing property will be made by reference to the estimated future operating results and net cash flows. When the carrying value of a property exceeds its estimated net realizable amount, provision will be made for the decline in value. The carrying amount will be written off if the Company decides to abandon the property.

The recoverability of the amounts capitalized for the undeveloped mineral properties and deferred exploration costs is dependent upon the determination of economically recoverable ore resources, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their exploration and development and future profitable production or proceeds from the disposition thereof.

(b) Asset retirement obligations

Asset retirement obligations ("ARO") represent the estimated discounted net present value of statutory, contractual or other legal obligations relating to site reclamation and restoration costs that the Company will incur on the retirement of assets and abandonment of mine and exploration sites. ARO are added to the carrying value of mineral rights and properties as such expenditures are incurred and amortized against income over the useful life of the related asset. ARO are determined in compliance with recognized standards for site closure and mine reclamation established by governmental regulation.

Over the life of the asset, imputed interest on the ARO liability is charged to operations as accretion of asset retirement obligations on the consolidated statements of income (loss) using the discount rate used to establish the ARO. The offset of accretion expense is added to the balance of the ARO.

Where information becomes available that indicates a recorded ARO is not sufficient to meet, or exceeds, anticipated obligations, the obligation is adjusted accordingly and added to, or deducted from, the ARO.

(c) Income taxes

The Company uses the liability method of accounting for income taxes. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases on the balance sheet date. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in substantively enacted rates is included in operations. A future income tax asset is recorded when the probability of the realization is more likely than not.

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations For the year ended March 31, 2007 (Expressed in Canadian Dollars)

(d) Stock-based compensation

The Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted to employees, officers, and directors is measured at fair value at the date of the grant using the Black-Scholes valuation model and is expensed in the statement of income (loss) over the vesting period of the options granted. Stock options granted to consultants are measured at their fair value using the Black-Scholes valuation method.

Upon the exercise of the stock option, consideration received and the related amount transfer from contributed surplus are recorded as share capital.

1.13 Adoption of Accounting Policies

The significant accounting policies that have been adopted by the Company, for the fiscal year ended March 31, 2007 as a result of commercial operation, are disclosed in the annual audited consolidated financial statements.

(a) Inventories

Inventories include metal contained in concentrate, metal contained in stockpiles and operating materials and supplies. The classification of inventory is determined by the stage at which the ore is in the production process. Inventories of ore are sampled for metal content and are valued based on the lower of actual production costs incurred or estimated net realizable value based upon the period ending prices of contained metal. Material that does not contain a minimum quantity of metal to cover estimated processing expense to recover the contained metal is not classified as inventory and is assigned no value. All metal inventories are stated at the lower of cost or market, with cost being determined using the moving average method. Supplies inventories are valued at the average cost, net of obsolescence. Concentrate inventories are valued at lower of cost or market.

(b) Revenue Recognition

Revenue is recognized upon delivery when title and risk of ownership of metals or metals bearing concentrate passes to the buyer and when collection is reasonably assured. The passing of title to the customer is based on the terms of the sales contract. Product selling price is referenced to the active and freely traded commodity markets.

(c) Future Changes in Accounting Policies

(i) Stripping Costs

On March 2, 2006, the CICA issued EIC-160 Stripping Costs Incurred in the Production Phase of a Mining Operation that requires adoption for fiscal year beginning on or after July 1, 2006 with early adoption encouraged. EIC-160 requires the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations be charged to income in the period in which they are incurred, except when the costs represent betterment to the mineral property. Stripping costs represent betterment to the mineral property when the stripping activity provides access to reserves that will be produced in future periods and that would otherwise not have been accessible without the stripping activity. When stripping costs are deferred in relation to betterment, the costs are amortized to operations over the reserve accessed by the stripping activity using the units of production method.

The Company will adopt, on a prospective basis, EIC-160 beginning with fiscal year 2008. The Company believes the application of this new accounting policy will not have a material impact on the financial position or results of operations.

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

(ii) Financial instrument standards

During 2006, the CICA introduced financial instrument standards effective for fiscal years beginning on or after October 1, 2006. These standards are Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement and Section 3865, Hedges. The Company will adopt these standards on April 1, 2007. Management is currently assessing the impact of these new standards.

(iii) Accounting changes

In July 2006, the CICA revised Section 1506, "Accounting Changes", which now requires that: (a) a voluntary change in accounting principles can be made if, and only if, it is required by primary source of GAAP or the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (c) for changes in estimates, the nature and amount of the change should be disclosed. The revised section is effective for the Company's financial year beginning April 1, 2007.

1.14 Financial Instruments and Other Instruments

The fair values of the Company's cash and cash equivalents, short term investments, accounts receivable and prepaids, accounts payable and accrued liabilities, deposits received from customers, and amount due to related parties are estimated to approximate their carrying values due to its short term in nature. The fair value of the long term investments which the Company does not have significant influence or control, is estimated using the lower of carrying value and market price.

The Company undertakes transactions denominated in foreign currencies and as such is exposed to risk due to fluctuations in foreign currency exchange rates. The Company does not use derivative instruments to reduce its exposure to foreign currency and metal price volatility risks.

Credit risk may potentially arise if counterparty fails to perform its obligations. The Company invests its cash balances in money market instruments with financial institutions with high credit standing.

The majority of the Company's assets, liabilities, revenues and expenses are denominated in Chinese Yuan ("RMB¥" or "yuan"), which was tied to the U.S. Dollar until July 2005 and is now tied to a basket of currencies of China's largest trading partners. The RMB¥ is not a freely convertible currency. Beijing revalued the yuan against the United States dollar by 2.1 percent in July 2005 and has let it rise another 5.3 percent since then in tightly controlled trading. On May 18, 2007 Beijing will allow the yuan to fluctuate against the United States dollar by 0.5 percent a day, up from 0.3 percent.

As at March 31, 2007, approximately \$21,405,140 (2006 - \$3,206,632) of cash and cash equivalents, and short term investments were held in RMB¥.

1.15 Other MD&A Requirements

1.15.1 Additional Information in relation to the Company

Additional information relating to the Company:

- (a) may be found on SEDAR at www.sedar.com;
- (b) may be found at the Company's web-site www.silvercorp.ca;
- (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 for the years ended March 31, 2007 and 2006.

SILVERCORP METALS INC.**Management's Discussion and Analysis of Financial Condition and Results of Operations****For the year ended March 31, 2007****(Expressed in Canadian Dollars)**

1.15.2 Outstanding Share Data

As at the date of this report, the following securities were outstanding:

(a) Share Capital

Authorized - unlimited number of common shares without par value

Issued and outstanding - 48,912,450 common shares with a recorded value of \$87,701,804.

Shares subject to escrow or pooling agreements - nil

(b) Warrants

As at the date of this report, outstanding warrants are comprised of the following:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,250,623	\$ 24.00	October 25, 2007
<u>1,250,623</u>		

(c) Options

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

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
25,000	0.40	September 26, 2007
200,000	0.35	December 15, 2007
25,001	1.60	May 5, 2008
200,000	0.50	July 14, 2008
37,824	2.25	October 6, 2008
75,006	3.90	December 6, 2008
550,000	0.55	October 24, 2009
300,000	1.90	February 28, 2010
200,000	12.95	July 23, 2011
27,000	13.40	August 14, 2011
82,000	13.28	August 28, 2011
260,900	20.21	April 10, 2012
<u>1,982,731</u>		

1.16 Controls and Procedures**(a) Design and Operation of Disclosure Controls and Procedures**

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as at March 31, 2007. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date the Chief Executive Officer completed his evaluation, nor were there any significant deficiencies of material weaknesses in the Company's internal controls requiring corrective actions.

(b) Internal Controls over Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervisions of the Chief Financial Officer, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"). The Company's controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP; and,
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

The Company has a limited number of staff and it is not always possible to achieve a complete segregation of incompatible duties. Management attempts to mitigate the risk of any material misstatement occurring through compensating controls and the "hands-on" involvement and knowledge of the senior management, however, a control system, no matter how well designed and functioning, can only provide reasonable, not absolute assurance the objectives of the control system are met. Management noted some areas that need improvement in the financial reporting process during a review and evaluation of the effectiveness of its internal controls over financial reporting of the Company's operations in China. The accounting staff in China prepares financial statements in accordance with the requirements in China and not in accordance with Canadian GAAP. The accounting staff in Canada has bilingual language abilities (English and Chinese) and oversees the operations in China to ensure the adjustments required to present the financial statements of the operations in accordance with Canadian GAAP are identified, however, the limited staff resources, the time difference and the geographical distances between its head office and operations in China creates some challenges. The Company will attempt to hire a knowledgeable, bilingual staff member in China who will devote a substantial amount of time and effort to ensure Canadian reporting and compliance matters are addressed in China.

There has been no change in the Company's internal control over financial reporting during the Company's year ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(c) Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

(d) Corporate Governance

Under National Instrument 58-101, the Company has adopted the following Corporate Governance Practices:

(i) Supervision by the Board

The Board of Directors facilitates its exercise of independent supervision over the Company's management through frequent meetings of the Board. During the fiscal year ended March 31, 2007, the Board of Directors acted by consent resolutions on 19 (2006 - 19) occasions and by meeting(s) on one (2006 - 2) occasion(s). As the nature of the Company's assets being primarily in China, resulting in the CEO, COO, and other Directors spending considerable time in China, scheduling more regular face to face meetings is difficult. Thereby, Board decisions are often carried out by telephone consensus and then formalized by a consent resolution.

The independent directors are encouraged to hold meetings at which non-independent directors and members of management are not in attendance on an ad hoc basis.

(ii) Participation of Directors in Board Meetings

For the financial year ended March 31, 2007, 1 (2006 - 2) Board meeting(s) were held. The table below shows the attendance record of each director for the Board meeting(s).

Name of Director	Number of Board Meeting(s) Attended in the most recently Completed Financial Year(s) ended March 31,	
	2007	2006
Dr. Rui Feng, Director, Chairman & CEO	1 out of 1	2 out of 2
Myles J. Gao, Director, COO	1 out of 1	1 out of 2
YiKang Liu, Director	1 out of 1	na
Earl Drake, Director	1 out of 1	na
Paul Simpson, Director	1 out of 1	2 out of 2
Greg Hall, Director	1 out of 1	2 out of 2

(iii) Position Description for the CEO

The Board and CEO have not adopted a written position description for the CEO. The Board delineates the role and responsibilities of the CEO by reference to industry norms, past practice and through discussions at Board meetings.

While the Board is satisfied that its current practices sufficiently specify the roles and responsibilities for the CEO, it is considering adopting a written position description for the CEO.

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended March 31, 2007

(Expressed in Canadian Dollars)

(iv) Nomination of Directors

The Board of Directors is responsible for recommending candidates for nomination to the Board and its committees. The Corporate Governance Committee, which is composed entirely of independent directors, assisted the Board by identifying and recommending to the Board suitable candidates for nomination as new directors.

New nominees must have one or more of the following attributes: a track record in general business management, particularly with public companies; special expertise in an area of strategic interest to the Company; and financial literacy, together with the ability to devote the required time, show support to the Company's mission and objectives, and a willingness to serve.

The Board of Directors is composed of individuals who will best serve the interest of the Company and assist management in achieving the Company's goals. Members of the Board and representatives of the mining industry are often consulted for potential candidates.

(v) Assessment

The Corporate Governance Committee and the Board annually, and at such other times as they deem fit, monitors the adequacy of information given to directors, communications between the Board and management and the strategic direction and processes of the Board & its committees.

As part of the assessments, the Board and/or the committees may review their respective charter, and conduct reviews of applicable corporate policies.

(e) 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 & CEO	Dr. Rui Feng, Director, Chairman & CEO
Myles J. Gao, Director, COO	Cathy S.Y. Fong, President
YiKang Liu, Director	Myles J. Gao, Director, COO
Earl Drake, Director	Grace Soo, Chief Financial Officer
Paul Simpson, Director	
Greg Hall, Director	

1.17 Outlook

(a) Henan Found – Ying Silver Project

As the custom built 300 tonne loading capacity barge and the new 750 tonnes per day mill are operating smoothly at the Ying Mine, the Company anticipates ore production and milling put-through to be stable for the 2008 fiscal year; therefore, the Company's revenue and net profit should increase substantially in comparison to 2007 fiscal year from this operation.

(b) Henan Huawei – HPG Project

After several months of preparation, mining and milling operations have also been resumed at the HPG Property since May 1, 2007. The mining capacity at HPG has achieved approximately 200 tonnes per day, while the mill is operating at a capacity of about 250 tonnes per day to produce Au-Ag-Pb and zinc (Zn) concentrates. Sales of direct shipping Au-Ag-Pb ores and recovered concentrates since May 1, 2007 indicate a positive cash flow being achieved. The Company anticipates that the HPG operation shall add to the 2008 fiscal year's revenue and net profit.