

Consolidated Interim Financial Statements of

**SILVERCORP METALS INC.
(Formerly SKN Resources Limited)**

June 30, 2005

(Unaudited – Prepared by Management)

Notice: These interim consolidated financial statements have not been reviewed or audited by the Company's independent auditor.

SILVERCORP METALS INC.
(formerly SKN Resources Ltd.)
CONSOLIDATED BALANCE SHEETS
(Prepared by Management)

Stated in Canadian dollars	June 30, 2005	March 31, 2005
ASSETS	(Unaudited)	(Audited)
Current Assets		
Cash	\$ 2,260,295	\$ 2,371,882
Short-term investments (Note 2)	3,700,000	4,200,000
Accounts receivable	130,402	150,657
Prepaid expenses	247,595	115,802
Amount due from joint venture parties	-	16,501
	6,338,292	6,854,842
Investment at equity (Note 3)	2,031,065	1,946,099
Property, Plant and Equipment (Note 5)	572,079	586,373
Long term investments (Note 6)	1,087,584	1,041,333
Investment in and Expenditures on Resource Properties		
Mineral properties (Note 4)	1,704,938	1,668,740
Reclamation deposits	10,000	10,000
	\$ 11,743,958	\$ 12,107,387
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 117,163	\$ 237,254
Amount due to related parties	36,886	43,784
	154,049	281,038
SHARE CAPITAL AND DEFICIT		
Share capital (Note 7)	27,346,905	27,211,096
Treasury shares held for cancellation (Note 7)	-	(101,091)
Contributed surplus	3,251,865	2,926,855
Deficit	(19,008,861)	(18,210,511)
	11,589,909	11,826,349
	\$ 11,743,958	\$ 12,107,387

Approved on behalf of the Board:

"Rui Feng"

Director

"Paul Simpson"

Director

(The accompanying notes are an integral part of these consolidated financial statements)

SILVERCORP METALS INC.
(formerly SKN Resources Ltd.)
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
For the three months ended June 30, 2005 and July 31, 2004
(Unaudited - Prepared by Management)

Stated in Canadian dollars	June 30, 2005	July 31, 2004
Expenses		
Bank charges and interest	\$ 1,255	\$ 1,438
Consulting	38,378	30,777
Depreciation	18,771	9,741
Foreign exchange loss	10,682	34,545
General exploration expenses	160,510	37,553
Investor relations	25,599	13,920
Office and miscellaneous	101,268	72,976
Printing and mailing	117,524	8,364
Stock-based compensation expenses	419,912	56,993
Professional fees	52,582	24,600
Transfer agent and filing fees	5,053	4,158
	951,534	295,065
Operating loss	(951,534)	(295,065)
Other income and expenses		
Equity income	10,659	-
Mineral property option income	46,250	-
Interest income	24,885	30,729
Other income	71,390	-
	153,184	30,729
Net loss for the period	(798,350)	(264,336)
Deficit, beginning of period as previously reported	(18,210,511)	(16,935,583)
Stock-based compensation expenses	-	(457,686)
Deficit, beginning of period, restated	(18,210,511)	(17,393,269)
Deficit, end of period	\$ (19,008,861)	\$ (17,657,605)
Basic and diluted earnings (loss) per share	\$ (0.02)	\$ (0.01)
Weighted Average Number of Shares	40,523,731	34,325,315

(The accompanying notes are an integral part of these consolidated financial statements)

SILVERCORP METALS INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended June 30, 2005 and July 31, 2004
(Unaudited - Prepared by Management)

Stated in Canadian dollars	June 30, 2005	July 31, 2004
Cash provided by (used for)		
Operating activities		
Net loss for the period	\$ (798,350)	\$ (264,336)
Add (deduct) items not affecting cash :		
Equity income	(10,659)	-
Mineral property option income	(46,250)	-
Stock-based compensation	419,912	56,993
Depreciation	18,771	13,601
	(416,576)	(193,742)
Net change in non-cash working capital		
Accounts receivable	20,255	(34,147)
Prepaid expenses	(128,336)	(37,539)
Accounts payable and accrued liabilities	(120,091)	(58,746)
Cash used in operating activities	(644,748)	(324,174)
Investing activities		
Resource property additions	(36,198)	(362,391)
Equipment and furniture additions	(7,937)	(3,755)
Redemption of short-term investment	500,000	-
Investment in Henan Found Mining Co. Ltd.	(74,307)	-
Cash used in investing activities	381,558	(366,146)
Financing activities		
Advance from (to) related companies	(6,898)	55,824
Advance to joint venture parties	16,501	(235,004)
Share subscriptions for cash, net of commission	142,000	297,725
Cash provided by financing activities	151,603	118,545
Decrease in cash	(111,587)	(571,775)
Cash and cash equivalents, beginning of period	2,371,882	1,929,633
Cash and cash equivalents, end of period	\$ 2,260,295	\$ 1,357,858
Supplemental information:		
Interest paid	\$ 21	\$ 28
Income tax paid	\$ -	\$ -
Non-cash investing:		
154,167 shares of New Pacific Metals Corp. received as partial consideration for the Option Agreement in relation to the Kian Dian Project	\$ 46,250	\$ -

(The accompanying notes are an integral part of these consolidated financial statements)

SILVERCORP METALS INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

1. Basis of Presentation

The accompanying interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). However, they do not include all the information and disclosures required by Canadian GAAP for financial statements. They have been prepared on the same accounting policies and methods of applications as the latest annual consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. The information contained in the interim financial statements should be read in conjunction with the Company’s latest annual consolidated financial statements and the notes thereto.

The unaudited consolidated financial statements include Silvercorp Metals Inc. (“the Company”) and its subsidiaries, Yunnan Jin Chang Jiang Mining Co. Ltd., Fortune Mining Ltd., Fortune Copper Ltd., Fortress Gold Mining Inc., Fortress Mining Inc., Victor Resources Ltd., Lachlan Gold Ltd. and Victor Mining Ltd.. All significant inter-company transactions and accounts have been eliminated upon consolidation.

Certain comparative figures have been reclassified to conform with current year presentation.

2. Short-term Investments

Short term investments of \$3,700,000 (March 31, 2005 - \$4,200,000) are made up of Guaranteed Investment Certificates with the following terms:

Principal amount	Interest rate	Maturity date
\$ 1,700,000	2.18%	October 6, 2005
<u>2,000,000</u>	2.40%	November 15, 2005
<u><u>\$ 3,700,000</u></u>		

As of June 30, 2005, the related interest receivable is \$56,999 (March 31, 2005: \$41,011).

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3. Investment at Equity

In May 2004, the Company, through its wholly-owned subsidiary, Victor Mining Ltd., entered into a cooperative joint venture agreement with a Chinese party to acquire a 77.5% interest in the high grade Ying Silver-Gold Project located in Hennan Province, China. Under the cooperative agreement with the Chinese party, the Company holds the right to acquire 77.5% of the Ying Project by funding exploration and development of the Project in the amount of US\$3,670,000 (\$4,497,952) to the joint venture company, Hennan Found Mining Co. Ltd. (“HFMC”), over a period of three years for a 55% interest in HFMC and pay US\$1,500,000 (\$1,838,400) to the Chinese party over a period of three years to acquire another 22.5% interest in HFMC. After the Company has earned its 77.5% interest, contributions to fund the exploration and development of the Project will be made on a pro rata basis. The interest of the Chinese party can be diluted to not less than 10% if it elects not to make cash contributions.

As of June 30, 2005, the Company has contributed US\$1,350,500 (\$1,664,957) to the registered capital of HFMC, representing a 20.24% interest in HFMC. The Company also incurred \$337,068 exploration expenses on the project.

The Company accounts for its investment in HFMC on the equity basis, which is carried at cost, adjusted for the Company’s proportionate share of HFMC’s undistributed earnings or losses.

Capital contribution to HFMC	\$ 1,664,957
Exploration expenditures	337,068
Equity in undistributed income of investee company	29,040
Investment In HFMC on the equity basis	<u><u>\$ 2,031,065</u></u>

The exploration expenditures incurred for the three-month period ended June 30, 2005 can be summarized as follows:-

Exploration expenditures - Ying Project	
Balance, March 31, 2005	\$ 262,761
Administrative	811
Consulting fees	65,323
Travel	8,173
Balance, June 30, 2005	<u><u>\$ 337,068</u></u>

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4. Mineral Properties

Exploration expenditures - Tuoboka Project	
Balance, March 31, 2005	\$ 1,668,740
Salaries and wages	6,330
Amortization	2,305
Travel	133
Office	364
Assay fee	13,907
Trenching	6,366
Geochemistry survey	6,793
Balance, June 30, 2005	<u>\$ 1,704,938</u>

(a) Tuobuka Property

On August 1, 2003, the Company, through its wholly-owned subsidiary Lachlan Gold Ltd., signed a cooperative joint venture agreement with a Chinese party to form a Sino-Foreign Joint Venture Cooperative Company, Yunnan Jin-Chang-Jiang Mining Co. Ltd. ("YJCJM"), to explore the Tuobuka Gold property located in Yunnan Province, China. Under the terms of the cooperative joint venture agreement, the Chinese party held a 20% interest in YJCJM in consideration of transference of the Tuobuka project exploration permit to YJCJM, and the Company was to earn its 80% interest in YJCJM by contributing RMB8,000,000 (\$1,196,800) to YJCJM over three years and paying RMB1,000,000 (\$165,000) (paid) to the Chinese party. On January 13, 2004, the Company acquired the remaining 20% interest in YJCJM from the Chinese party by paying additional RMB1,600,000 (\$256,978) (paid). The Company now has a 100% interest in the Tuobuka Gold Project and no longer has any remaining commitments under the joint venture agreement.

As of June 30, 2005, the Company has invested \$2,447,102 in YJCJM.

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5. Property, Plant and Equipment

	June 30, 2005			March 31,
	Cost	Accumulated Depreciation	Net Book Value	2005 Net Book Value
Motor vehicle	\$ 77,956	\$ 21,762	\$ 56,194	\$ 59,623
Equipment & furniture	40,024	13,197	26,827	28,459
Computer equipment	95,708	51,277	44,431	43,560
Computer software	2,714	2,630	84	113
Mining equipment	482,108	37,565	444,543	454,618
	<u>\$ 698,510</u>	<u>\$ 126,431</u>	<u>\$ 572,079</u>	<u>\$ 586,373</u>

6. Long Term Investments

	June 30, 2005	March 31, 2005
Dajin Resources Corp.		
- 2,000,000 common shares (market value at June 30, 2005: \$260,000)	\$ 500,000	\$ 500,000
New Pacific Metals Corp.		
- 958,334 (March 31, 2005 - 804,167) common shares (market value at June 30, 2005: \$325,834)	587,584	541,333
	<u>\$ 1,087,584</u>	<u>\$ 1,041,333</u>

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7. Share Capital, Options and Warrants

(a) Share Capital

Since March 31, 2005, the Company has issued the following share capital :

	Number of Shares	Amount
Balance, March 31, 2005	40,595,407	\$ 27,211,096
Exercise of options		
Cash received	405,000	142,000
Transfer from stock option account	-	94,900
Cancellation of shares	(200,000)	(101,091)
Balance, June 30, 2005	<u>40,800,407</u>	<u>\$ 27,346,905</u>

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7. Share Capital, Options and Warrants (Continued)

(b) Options

The following is a summary of option transactions during the three-month period ended June 30, 2005:

	Number of options	Weighted- average exercise price
Balance, March 31, 2005	3,416,375	\$ 0.59
Options granted	350,000	2.06
Options exercised	(405,000)	0.35
Options cancelled	<u>(7,500)</u>	0.60
Balance, June 30, 2005	<u><u>3,353,875</u></u>	0.78
 Options exercisable at June 30, 2005	 <u><u>2,117,833</u></u>	 0.85

On May 6, 2005, the Company granted incentive stock options for 100,000 shares at a price of \$1.60 per share exercisable up to May 5, 2008 to an officer of the Company. 8.333% of the options were vested on the date of grant and 8.333% of the options are vested every three months after the date of grant for two years and nine months.

On June 5, 2005, the Company granted incentive stock options for 250,000 shares at a price of \$2.25 per share exercisable up to October 6, 2008 to an officer and consultants. 25% of the options were vested on the date of grant and 12.5% of the options are vested every three months after the date of grant for one and a half years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	2.93% to 3.40%
Expected life of options in years	1 to 3 years
Expected volatility	146% to 147%
Dividend per share	\$0.00

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7. Share Capital, Options and Warrants (Continued)

(b) Options - Continued

The following table summarizes information about stock options outstanding at June 30, 2005:

Number of Options	Exercise Price	Expiry Date
1,017,000	\$ 0.35	December 15, 2007
250,000	0.50	July 14, 2008
152,500	0.70	July 14, 2008
3,750	0.70	July 14, 2006
15,625	0.96	September 14, 2008
175,000	0.40	September 26, 2007
800,000	0.55	October 24, 2009
200,000	0.56	November 1, 2006
90,000	1.00	January 11, 2009
300,000	1.90	February 28, 2010
100,000	1.60	May 5, 2008
250,000	2.25	October 6, 2008
<u>3,353,875</u>		

During the three months ended June 30, 2005, compensation expense of \$419,912 was recognized for options previously granted and vesting over time using the Black-Scholes option pricing model with the assumptions disclosed in the annual audited consolidated financial statements and the interim quarterly financial statements.

(c) Warrants

The following is a summary of warrant transactions during the three-month period ended June 30, 2005:

	Number of warrants	Weighted- average exercise price
Balance, June 30 and March 31, 2005	<u>1,000,000</u>	\$ 1.61

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7. Share Capital, Options and Warrants (Continued)

(c) Warrants – Continued

The following table summarizes information about warrants outstanding at June 30, 2005:

Number of Warrants	Exercise Price	Expiry Date
200,000	\$ 1.05	September 23, 2005
<u>800,000</u>	1.75	February 23, 2006
<u><u>1,000,000</u></u>		

8. Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing net earnings (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net earnings available to common stockholders by the weighted-average number of common shares outstanding during the period increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued under the treasury stock method.

The following table sets forth the computations of shares and net loss used in the calculation of basic and diluted loss per share for the three months ended June 30, 2005 and July 31, 2004:

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8. Basic and Diluted Earnings (Loss) Per Share (Continued)

	Three months ended	
	June 30, 2005	July 31, 2004
Net income (loss)	\$ (798,350)	\$ (264,336)
Weighted-average number of shares outstanding	40,523,731	34,325,315
Effective of dilutive securities :		
Dilutive options - \$0.35	-	-
Dilutive options - \$0.40	-	-
Dilutive options - \$0.50	-	-
Dilutive options - \$0.55	-	-
Dilutive options - \$0.56	-	-
Dilutive options - \$0.70	-	-
Dilutive options - \$0.96	-	-
Dilutive options - \$1.00	-	-
Dilutive options - \$1.60	-	-
Dilutive options - \$1.90	-	-
Dilutive options - \$2.25	-	-
Dilutive warrants - \$1.05	-	-
Dilutive warrants - \$1.75	-	-
Dilutive potential common shares	-	-
Adjusted weighted-average shares	40,523,731	34,325,315
Basic earnings (loss) per share	\$ (0.02)	\$ (0.01)
Diluted earnings (loss) per share	\$ (0.02)	\$ (0.01)

The effect of some of the outstanding options and warrants are not included as the effect will be antidilutive.

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9. Related Party Transactions

During the three-month period ended June 30, 2005 and July 31, 2004, the Company incurred the following transactions:-

	<u>Three months ended</u>	
	<u>June 30,</u> 2005	<u>July 31,</u> 2004
Consulting fees by a company controlled by an officer and director	\$ 40,500	\$ 31,500
Legal fees by a law firm in which a director is a proprietor	13,747	9,540
Management fees by an officer and director	30,000	30,000
Accounting fees by an accounting firm related to an officer	12,891	-
	<u>\$ 97,138</u>	<u>\$ 71,040</u>

During the quarter ended June 30, 2005, the Company's wholly owned subsidiary, Yunnan Jin Chang Jiang Mining Co. Ltd. received RMB475,000 (\$71,390) after taxes from the joint venture company, Hennan Found Mining Co. Ltd., through providing geological survey services.

As of June 30, 2005, the Company has an amount of \$8,144 due from a director and an officer in relation to travel advance. The Company has an amount of \$3,381 due to a director in relation to expenses advanced on behalf of the Company.

As of June 30, 2005, the Company has an amount of \$14,810 due to a listed company with a director in common. The Company also has an amount of \$18,695 due to another listed company with two directors in common. The outstanding balances are non-interest bearing and repayable on demand.

Included in accounts payable, an amount of \$26,322 was due to two directors and an officer for their services provided.

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10. Segmented Information

(a) Industry Information

The Company operates in one reportable operating segment, being the acquisition, exploration and development of mineral properties.

(b) Geographic Information

	British Virgin Islands	China	Canada	Total
As of June 30, 2005				
Mineral properties	\$ -	\$ 1,704,938	\$ -	\$ 1,704,938
Property, plant and equipment	-	527,076	45,003	572,079
Investment in equity	2,031,065	-	-	2,031,065
Long term investments	1,087,584	-	-	1,087,584
As of March 31, 2005				
Mineral properties	\$ -	\$ 1,668,740	\$ -	\$ 1,668,740
Property, plant and equipment	-	544,861	41,512	586,373
Investment in equity	1,946,099	-	-	1,946,099
Long term investments	1,041,333	-	-	1,041,333
Three months ended June 30, 2005				
Other income	\$ -	71,390	\$ -	\$ 71,390
Net loss	1,352	38,560	(838,262)	(798,350)
Three months ended July 31, 2004				
Other income	\$ -	\$ -	\$ -	\$ -
Net loss	57,347	(50,395)	(271,288)	(264,336)