

Consolidated Interim Financial Statements of

SILVERCORP METALS INC.

June 30, 2006

(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.
CONSOLIDATED BALANCE SHEETS
Basis of Presentation - See Note 2
(Unaudited - Prepared by Management)

| Stated in Canadian dollars | June 30, 2006 | March 31, 2006 |
|--|--------------------------|---------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Note 4) | \$ 10,765,049 | \$ 3,899,812 |
| Short-term investments (Note 5) | 46,500,000 | 8,700,000 |
| Accounts receivable | 131,425 | - |
| Inventories (Note 6) | 748,666 | - |
| Prepaid expenses and deposits | 831,518 | 701,242 |
| Deposits paid to contractors | 446,895 | 124,006 |
| Other receivables | 359,487 | 170,829 |
| | 59,783,040 | 13,595,889 |
| Long term deposits (Notes 7 and 8(b)) | 272,025 | 356,720 |
| Advances to joint venture parties (Note 8(c)) | 595,449 | 305,760 |
| Investment at equity (Note 9) | 1,413,736 | 855,079 |
| Property, Plant and Equipment (Note 7) | 2,186,540 | 1,740,552 |
| Long term investments (Note 10) | 250,000 | 500,000 |
| Investment in and Expenditures on Resource Properties | | |
| Mineral rights and properties (Note 8) | 4,886,539 | 3,721,801 |
| Reclamation deposits | 10,000 | 10,000 |
| | \$ 69,397,329 | \$ 21,085,801 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities (Note 12) | \$ 1,449,663 | \$ 1,398,362 |
| Deposits received from customers | 913,466 | 357,685 |
| Amount due to related parties (Note 12) | 17,257 | 35,070 |
| | 2,380,386 | 1,791,117 |
| Commitments (Notes 7, 8 and 16) | | |
| Minority Interest | 1,403,847 | 700,637 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 11) | 82,964,029 | 38,130,910 |
| Contributed surplus | 4,874,770 | 4,886,735 |
| Cumulative translation adjustment | (113,517) | 46,168 |
| Deficit | (22,112,186) | (24,469,766) |
| | 65,613,096 | 18,594,047 |
| | \$ 69,397,329 | \$ 21,085,801 |

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.
CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT
For the three months ended June 30, 2006 and 2005
(Unaudited - Prepared by Management)

| Stated in Canadian dollars | 2006 | 2005 |
|--|------------------------|------------------------|
| Sales | \$ 4,333,050 | \$ - |
| Cash cost | 814,671 | - |
| Depreciation | 105,665 | - |
| Total production cost | 920,336 | - |
| Earnings from mine operations | 3,412,714 | - |
| Expenses | | |
| Depreciation | 20,697 | 18,771 |
| Foreign exchange loss | 39,707 | 10,682 |
| General exploration and property investigation expenses | 275,931 | 160,510 |
| Investor relations | 114,776 | 42,354 |
| Office, administration and miscellaneous (Note 12) | 542,807 | 246,723 |
| Professional fees (Note 12) | 169,391 | 52,582 |
| Stock-based compensation expenses (Note 11(d)) | 135,286 | 419,912 |
| | 1,298,595 | 951,534 |
| Other income and expenses | | |
| Equity income (loss) in investment | (7,177) | 10,659 |
| Loss on disposal of long term investments | (12,400) | - |
| Mineral property option income | 565,834 | 46,250 |
| Interest income | 400,414 | 24,885 |
| Other income | - | 71,390 |
| | 946,671 | 153,184 |
| Income (Loss) before minority interest | 3,060,790 | (798,350) |
| Minority interest - share of earnings | (703,210) | - |
| Net income (loss) for the period | 2,357,580 | (798,350) |
| Deficit, beginning of period | (24,469,766) | (18,210,511) |
| Deficit, end of period | \$ (22,112,186) | \$ (19,008,861) |
| Basic earnings (loss) per share | \$ 0.05 | \$ (0.02) |
| Diluted earnings (loss) per share | \$ 0.05 | \$ (0.02) |
| Weighted Average Number of Shares Outstanding - basic | 47,012,138 | 40,523,731 |
| Weighted Average Number of Shares Outstanding - diluted | 49,560,078 | 40,523,731 |

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

SILVERCORP METALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended June 30, 2006 and 2005
(Unaudited - Prepared by Management)

| Stated in Canadian dollars | 2006 | 2005 |
|---|----------------------|---------------------|
| Cash provided by (used for) | | |
| Operating activities | | |
| Net income (loss) for the period | \$ 2,357,580 | \$ (798,350) |
| Add (deduct) items not affecting cash : | | |
| Equity (income) loss | 7,177 | (10,659) |
| Loss on disposal of long term investments (Note 10(a)) | 12,400 | - |
| Mineral property option income | (565,834) | (46,250) |
| Stock-based compensation | 135,286 | 419,912 |
| Minority interest - share of earnings | 703,210 | - |
| Depreciation | 126,362 | 18,771 |
| | 2,776,181 | (416,576) |
| Net change in non-cash working capital | | |
| Accounts Receivable | (131,425) | 20,255 |
| Inventory | (748,666) | - |
| Prepaid expenses and deposits | (130,276) | (128,336) |
| Other receivables | (188,658) | - |
| Deposits paid to contractors | (322,889) | - |
| Accounts payable and accrued liabilities | 51,301 | (120,091) |
| Deposits received from customers | 555,781 | - |
| Cash provided by (used in) operating activities | 1,861,349 | (644,748) |
| Investing activities | | |
| Mineral property additions | (1,260,888) | (36,198) |
| Fixed assets additions | (532,111) | (7,937) |
| Purchase of short-term investment | (37,800,000) | - |
| Redemption of short-term investment | - | 500,000 |
| Advance to related parties | (17,813) | - |
| Investment in Henan Found Mining Co. Ltd. | - | (74,307) |
| Decrease in long term deposits | 84,695 | - |
| Cash used in (provided by) investing activities | (39,526,117) | 381,558 |
| Financing activities | | |
| Advance from related parties | - | (6,898) |
| Advances to joint venture parties | (289,689) | 16,501 |
| Proceeds from disposal of long-term investments | 237,600 | - |
| Share subscriptions for cash, net of commission and expenses | 44,685,868 | 142,000 |
| Cash provided by financing activities | 44,633,779 | 151,603 |
| Effect of exchange rate changes on cash | (103,774) | - |
| Increase (Decrease) in cash | 6,865,237 | (111,587) |
| Cash and cash equivalents, beginning of period | 3,899,812 | 2,371,882 |
| Cash and cash equivalents, end of period | \$ 10,765,049 | \$ 2,260,295 |
| Supplemental information: | | |
| Interest paid | \$ - | \$ 21 |
| Income tax paid | \$ - | \$ - |
| Non-cash investing activities: | | |
| Common shares of New Pacific Metals Corp. received as partial consideration for the Option Agreement in relation to the Kang Dian Project | \$ 565,834 | \$ 46,250 |

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

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Silvercorp Metals Inc., subsidiary companies and joint ventures (collectively “the Company”) are engaged in silver exploration, development and related activities in People’s Republic of China (“China”). 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.

2. 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”), its wholly-owned subsidiaries, Yunnan Jin Chang Jiang Mining Co. Ltd. (“YJCJM”), Fortune Mining Ltd., Fortune Copper Ltd., Fortress Gold Mining Inc., Fortress Mining Inc., Victor Resources Ltd., Lachlan Gold Ltd., Victor Mining Ltd. and its 77.5% owned subsidiary, Henan Found Mining Co. Ltd. (“Henan Found”). All significant inter-company transactions and accounts have been eliminated upon consolidation.

Certain comparative figures have been reclassified to conform to current period presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are in addition to those disclosed in the latest annual consolidated financial statements:

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 pricing is determined at the point revenue is recognized by reference to active and freely traded commodity markets.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Earnings Per Share

Earnings per share calculations are based on the weighted average number of common shares and common share equivalents issued and outstanding during the period. Diluted earnings per share are calculated using the treasury method which requires the calculation of diluted earnings per share by assuming that outstanding share purchase options or warrants, with an average market price that exceeds the average exercise prices of the options and warrants for the period, are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the common shares for the period.

4. CASH AND CASH EQUIVALENTS

Cash equivalents consist of two term deposits of \$800,000 bearing interest at Prime minus 2.05% per annum maturing on September 21, 2006 and RMB24,059,923 (\$3,356,359) (March 31, 2006: \$1,456,000) bearing interest at 1.71% per annum maturing on September 30, 2006. As of June 30, 2006, the related interest receivable is \$23,207 (March 31, 2006: \$136).

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

5. SHORT-TERM INVESTMENTS

Short term investments of \$46,500,000 (March 31, 2006 - \$8,700,000) are made up of Guaranteed Investment Certificates with the following terms:

| Principal Amount | Interest Rate Per Annum | Maturity Date |
|-----------------------------|------------------------------------|----------------------|
| \$ 2,500,000 | Prime minus 1.9% | March 16, 2007 |
| 4,000,000 | 4.00% | April 26, 2007 |
| 40,000,000 | 4.10% | June 18, 2007 |
| <u>\$ 46,500,000</u> | | |

As of June 30, 2006, the related interest receivable is \$111,151 (March 31, 2006: \$101,057).

6. INVENTORIES

Inventories consist of the following:

| | June 30, 2006 | March 31, 2006 |
|---------------------------------------|----------------------|-----------------------|
| Concentrate inventory | \$ 166,710 | \$ - |
| Direct shipping ore and stockpile ore | 560,527 | - |
| Material and supplies | 21,429 | - |
| | <u>\$ 748,666</u> | <u>\$ -</u> |

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

| | June 30, 2006 | | | March 31, 2006 |
|--------------------------|----------------------|-------------------------------------|---------------------------|---------------------|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| Motor vehicle | \$ 311,482 | \$ 63,650 | \$ 247,832 | \$ 271,180 |
| Equipment and furniture | 152,765 | 35,127 | 117,638 | 121,240 |
| Computer equipment | 100,122 | 67,874 | 32,248 | 29,228 |
| Computer software | 63,251 | 5,184 | 58,067 | 62,185 |
| Mining equipment | 491,643 | 76,777 | 414,866 | 424,461 |
| Machinery | 247,469 | 12,819 | 234,650 | 195,285 |
| Building | 268,952 | 6,297 | 262,655 | 150,448 |
| Construction in progress | 818,584 | - | 818,584 | 486,525 |
| | \$ 2,454,268 | \$ 267,728 | \$ 2,186,540 | \$ 1,740,552 |

On September 20, 2005, Henan Found entered into an agreement with a non-related party to purchase one storey of an office building in Henan Province, China for a consideration of \$697,500 (RMB5,000,000). As at June 30, 2006, Henan Found has paid a deposit of \$209,250 (RMB1,500,000) which is classified as long term deposit on the consolidated balance sheet.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

8. MINERAL RIGHTS AND PROPERTIES

| | Tuobuka | Ying | Total |
|---|---------------------|----------------------|----------------------|
| Cost | | | |
| Balance, March 31, 2005 | \$ 421,978 | \$ - | \$ 421,978 |
| Mineral rights addition | - | 3,236,996 | 3,236,996 |
| Balance, March 31, 2006 | 421,978 | 3,236,996 | 3,658,974 |
| Mineral rights addition | - | 155,305 | 155,305 |
| Balance, June 30, 2006 | \$ 421,978 | \$ 3,392,301 | \$ 3,814,279 |
| Exploration and development costs | | | |
| Balance, March 31, 2005 | 1,246,762 | 262,761 | 1,509,523 |
| Acquisition of mineral properties | - | 1,044,630 | 1,044,630 |
| Consulting and management fees | - | 255,072 | 255,072 |
| Drilling, assay fee and reporting | 31,150 | 1,779,718 | 1,810,868 |
| Office and miscellaneous | 8,235 | 700,520 | 708,755 |
| Tunneling and trenching | 6,366 | 1,867,386 | 1,873,752 |
| Balance, March 31, 2006 | \$ 1,292,513 | \$ 5,910,087 | \$ 7,202,600 |
| Consulting and management fees | - | 113,842 | 113,842 |
| Drilling, assay fee and reporting | - | 276,693 | 276,693 |
| Office and miscellaneous | - | 2,014 | 2,014 |
| Tunneling and trenching | - | 713,034 | 713,034 |
| Balance, June 30, 2006 | \$ 1,292,513 | \$ 7,015,670 | \$ 8,308,183 |
| Total cost, exploration and development cost | \$ 1,714,491 | \$ 10,407,971 | \$ 12,122,462 |
| Less: | | | |
| Balance, March 31, 2005 | \$ - | \$ - | \$ - |
| Mineral property written off | (1,714,491) | - | (1,714,491) |
| Cost recovery | - | (5,425,282) | (5,425,282) |
| Balance, March 31, 2006 | (1,714,491) | (5,425,282) | (7,139,773) |
| Amortization | - | (96,150) | (96,150) |
| Balance, June 30, 2006 | \$ (1,714,491) | \$ (5,521,432) | \$ (7,235,923) |
| Total cost, exploration and development cost | \$ - | \$ 4,886,539 | \$ 4,886,539 |

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

8. MINERAL RIGHTS AND PROPERTIES (Continued)

Although the Company has taken steps to verify title to the mineral properties in which it, through its subsidiaries, has an interest, in accordance with industry standards for the stage of exploration of such property, those procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

(a) Ying Property

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 earn a 77.5% interest in the high grade Ying Silver-Lead-Zinc Project located in Henan Province, China. Under the cooperative agreement, the Company had the right to earn up to 77.5% of the Ying Project by funding exploration and development of the Project in the amount of US\$3,670,000 (\$4,445,121) to the joint venture company, Henan Found Mining Co. Ltd. ("Henan Found"), over a period of three years for a 55% interest in Henan Found and paying US\$1,500,000 (\$1,767,652) to the Chinese party over a period of three years to earn another 22.5% interest in Henan Found. In September 2005, the Company reached an agreement with the Chinese partner to immediately earn its 77.5% interest in the Ying Project through making the required cash contributions. Pursuant to the agreement, the Chinese partner will maintain a fully-carried 22.5% interest. The operating results of Henan Found have been consolidated into the Company's consolidated financial statements from October 1, 2005.

The Company has entered into the mine development stage when Henan Found obtained its mining permits on March 30, 2006.

(b) Acquisition of Two Exploration Permits Adjacent to the Ying Project

Henan Found acquired an additional exploration permit adjacent to the existing boundary of Ying Project for RMB1,000,000 (\$139,500) (paid). The exploration permit was transferred to Henan Found on June 30, 2006.

Henan Found acquired another exploration permit adjacent to the existing boundary of Ying Project for RMB1,800,000 (\$251,100). As at June 30, 2006, Henan Found has paid a deposit of RMB200,000 (\$27,900), which is classified as long term deposit on the consolidated balance sheet. The transfer of the exploration permit was still in progress as of June 30, 2006.

(c) HPG Silver-Gold-Lead Property

On March 31, 2006, the Company signed a co-operative joint venture agreement (following an initial letter agreement) with a private Chinese company to acquire a 60% interest in the Hou-Ping-Gou ("HPG") silver-gold-lead mine, located within the Ying Silver-Lead-Zinc Property area, Henan Province, China. The acquisition of the HPG Mine remains subject to the Chinese regulatory approvals.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

8. MINERAL RIGHTS AND PROPERTIES (Continued)

(c) HPG Silver-Gold-Lead Property (Continued)

Under the joint venture agreement, a joint venture company, Henan Huwei Mining Co. Ltd. (“Henan Huwei”), will be established. The Company will have a 60% interest and the Chinese party will have a 40% interest in Henan Huwei. The Chinese party will contribute the HPG mine property and exploration permits to Henan Huwei and the Company will pay a total of RMB42,000,000 (\$5,859,000) to the Chinese party in installments, timed with the signing of the final joint venture contract, receipts of government approvals, issuance of the business license for Henan Huwei and transfer of the exploration and mining permits to Henan Huwei. The Company will take over control of the operation upon receipt of a business license for Henan Huwei. Once the Company has acquired its 60% interest, any future profit and funding requirement will be shared based on a 60%-40% ratio with a straight line dilution clause.

As of June 30, 2006, the Company made an advance to the Chinese party of HPG Silver-Gold-Lead Property of \$595,449 (March 31, 2006 - \$305,760) as initial payments to the Chinese partner according to the agreement.

(d) 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 the 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 (\$1,324,800) (paid) 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 an additional RMB1,600,000 (\$256,978) (paid). The Company now has a 100% interest in the Tuobuka Gold Project and has no remaining commitments under the joint venture agreement.

The Company has written off the mineral exploration expenses of \$1,714,491 capitalized in relation to the Tuobuka Property during the financial year ended March 31, 2006 as the Company decided to suspend carrying out any exploration work on the Tuobuka Property.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

9. INVESTMENT AT EQUITY

(a) New Pacific Metals Corp.

In November 2003, the Company, through a wholly owned subsidiary SKN Nickel & Platinum Ltd. (“SNP”), entered into a letter agreement with the holder of the permits and permit applications comprising the Kang Dian Project located in Sichuan Province, China, thereby obtaining the rights to acquire 75% in the exploration permits by contributing US\$2,500,000 (\$3,024,000) to fund the exploration and development of the Project over a period of four years and paying US\$80,000 (\$96,768) to a Chinese party within 10 days after obtaining the approvals from China government. After SNP has earned its 75% interest, contributions to fund the exploration and development of the Project will be made pro rata. The interest of the Chinese property owners can be diluted to not less than 10% if they elect not to make cash contributions.

The Company has signed a letter agreement with New Pacific Metals Corp. (“NPM”), a related party by way of common director, whereby NPM has the option to acquire SNP, through meeting the required capital commitment of SNP under the joint venture contract, and thereby the Kang Dian Project through the issuance of a total of 6,500,000 common shares at a market price as at the date of release. The common shares are issuable on the basis of 2,500,000 common shares on issuance of a Bulletin by the TSX Venture Exchange accepting the transaction (issued); a further 2,000,000 shares will be issued upon successful completion of the US\$374,000 (\$452,390) work program recommended under the Technical Report that has been completed on the Project (issued); and 2,000,000 shares will be issued on completion of US\$1,000,000 (\$1,209,600) in funding obligations by SNP under the agreement. The initial 2,500,000 common shares are subject to escrow with 650,000 common shares released upon receipt of exchange approval and 154,167 every quarter over the 3 year escrow period. The first 2,000,000 common shares issued upon completion of the work program are subject to escrow with a release of 250,000 common shares every three months. The common shares remaining in escrow are subject to cancellation in the event NPM determines not to continue contributing to the joint venture company to be created. The Company had placed a representative on the NPM board of directors pursuant to the terms of the agreement.

As of June 30, 2006, NPM had issued into escrow 4,500,000 (March 31, 2006: 4,500,000) common shares. The Company is entitled to the voting rights attached to the escrow shares. A total of 2,075,002 (March 31, 2006: 1,670,835) shares were released from escrow as of June 30, 2006. For the three months ended June 30, 2006, mineral property option income of \$565,834 (2005: \$46,250) was recorded.

Although the Company does not exercise control over NPM as the decision making process requires majority board members’ approval, the Company is considered to have the ability to exercise significant influence on NPM in its decision making process as NPM has two common directors with the Company. The Company thus accounts for its investment in NPM on the equity basis, which is carried at cost, adjusted for the Company’s proportionate share of their undistributed earnings or losses.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006

(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

9. INVESTMENT AT EQUITY (Continued)

(a) *New Pacific Metals Corp. (Continued)*

| | June 30, 2006 | March 31, 2006 |
|---|----------------------|----------------|
| Cost of 2,075,002 (March 31, 2006: 1,670,835) shares of NPM | \$ 1,449,543 | \$ 883,709 |
| Equity in loss of investee company | (35,807) | (28,630) |
| Investment in NPM on equity basis | \$ 1,413,736 | \$ 855,079 |

10. LONG TERM INVESTMENTS

| | June 30, 2006 | March 31, 2006 |
|---|--------------------------|-------------------|
| Dajin Resources Corp. (Note 9(a)) | | |
| - 1,000,000 (March 31, 2006: 2,000,000) common shares (market value at June 30, 2006: \$255,000 (March 31, 2006: \$500,000)) | \$ 250,000 | \$ 500,000 |
| | \$ 250,000 | \$ 500,000 |

(a) *Dajin Resources Corp.*

On February 4, 2004, Dajin Resources Corp. (“Dajin”), previously known as Windridge Technology Corp., signed an acquisition agreement with the Company whereby Dajin would acquire 100% of the Company’s rights in the Gou Gold Project through the purchase of 100% of the Company’s subsidiary, Victor Gold Ltd. Under the terms of the agreement, Dajin issued 2,000,000 (an interest of approximately 8%) of its common shares (received) to the Company at a market price of \$0.25 per share and reimbursed the Company the sum of US\$20,000 (received) for expenses previously incurred in relation to its acquisition of the Gou Property. The transaction was completed on January 19, 2005 and 2,000,000 shares of Dajin Resources Corp. have been received by the Company as consideration. A gain on disposal of the subsidiary of \$503,518 was recorded on the income statement for the eleven-month period ended March 31, 2005.

On June 22, 2006, the Company disposed of 1,000,000 shares of Dajin for a gross proceeds of \$237,600 resulting in a loss of \$12,400.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

11. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

Changes in outstanding common shares were as follows:

| | Number of Shares | Amount |
|--|-----------------------------|---------------|
| Balance, March 31, 2005 | 40,595,407 | \$ 27,211,096 |
| Exercise of options | | |
| Cash received | 1,189,250 | 516,575 |
| Transfer from contributed surplus | - | 278,209 |
| Exercise of warrants | | |
| Cash received | 1,477,500 | 3,806,500 |
| Transfer from contributed surplus | - | 57,500 |
| Issued for cash under private placement | 2,000,000 | 6,362,121 |
| Cancellation of shares | (200,000) | (101,091) |
| Balance, March 31, 2006 | 45,062,157 | \$ 38,130,910 |
| Exercise of options | | |
| Cash received | 307,064 | 198,094 |
| Transfer from contributed surplus | - | 147,251 |
| Issued for cash under private placement, net | 2,501,250 | 44,487,774 |
| Balance, June 30, 2006 | 47,870,471 | \$ 82,964,029 |

On April 26, 2006, the Company completed a short form prospectus financing which raised 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.

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. Purchases will be made at the discretion of the Directors at prevailing market prices, through the facilities of the TSX Exchange. The Company intends to hold all shares acquired under the issuer bid for cancellation.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006

(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

(b) Issued and outstanding (Continued)

As of June 30, 2006, the Company has not acquired any of its common shares under the Normal Course Issuer Bid.

(c) Share Purchase Warrants

The Company adopted the Residual Approach in valuing the share purchase warrants attached to private placement units issued. Under this approach, proceeds up to the Company's share market value are allocated to the shares and only the excess above the market value is allocated to the attached share purchase warrants. No value has been allocated to these warrants as determined under the Residual Approach.

The following is a summary of warrant transactions:

| Number of Warrants Outstanding as at March 31, 2005 | Issued during the year | Number of Warrants Expired/Exercised during the year | Balance of Warrants Outstanding as at March 31, 2006 | Exercised Price Per Warrant | Expiry Date |
|--|-------------------------------|---|---|------------------------------------|--------------------|
| 200,000 | - | (200,000) | - | \$ 1.05 | September 23, 2005 |
| 800,000 | - | (800,000) | - | 1.75 | February 23, 2006 |
| - | 1,000,000 | (477,500) | 522,500 | 4.60 | September 15, 2006 |
| 1,000,000 | 1,000,000 | (1,477,500) | 522,500 | | |

| Number of Warrants Outstanding as at March 31, 2006 | Issued during the period | Number of Warrants Expired/Exercised during the period | Balance of Warrants Outstanding as at June 30, 2006 | Exercised Price Per Warrant | Expiry Date |
|--|---------------------------------|---|--|------------------------------------|--------------------|
| 522,500 | - | - | 522,500 | \$ 4.60 | September 15, 2006 |
| - | 1,250,625 | - | 1,250,625 | 24.00 | October 25, 2007 |
| 522,500 | 1,250,625 | - | 1,773,125 | | |

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

(d) Stock Options

The Company is able to grant stock options to acquire up to 5,100,000 shares. The options are exercisable for a period of up to ten years from the date of grant, as determined by the Board of Directors. The exercise price cannot be less than the last price on the TSX Exchange immediately preceding the grant of the option. Options vest over a minimum period of eighteen months from the date of grant.

The following is a summary of option transactions:

| | Number of Shares | | Weighted Average Exercise Price Per Share |
|-------------------------|-----------------------------|----|--|
| Balance, March 31, 2005 | 3,416,375 | \$ | 0.59 |
| Options granted | 517,000 | | 2.64 |
| Options exercised | (1,189,250) | | 0.43 |
| Options cancelled | (107,500) | | 0.56 |
| Balance, March 31, 2006 | 2,636,625 | | 1.07 |
| Options exercised | (307,064) | | 0.65 |
| Options cancelled | (1,250) | | 1.00 |
| Balance, June 30, 2006 | 2,328,311 | \$ | 1.13 |

During the three-month period ended June 30, 2006, the Company did not grant any option.

For the three-month period ended June 30, 2006, \$135,286 (2005: \$419,912) has been recorded as stock-based compensation expense.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

11. SHARE CAPITAL (Continued)

(d) Stock Options (Continued)

The following table summarizes information about stock options outstanding at June 30, 2006:

| | Range of Exercise Prices | Number Outstanding at June 30, 2006 | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable at June 30, 2006 | Weighted Average Exercise Price |
|----|---------------------------------|--|--|--|--|--|
| \$ | 0.35 | 375,000 | 1.46 | \$ 0.35 | 375,000 | \$ 0.35 |
| | 0.40 | 112,625 | 1.23 | 0.40 | 112,625 | 0.40 |
| | 0.50 | 200,000 | 2.04 | 0.50 | 200,000 | 0.50 |
| | 0.55 | 800,000 | 3.32 | 0.55 | 800,000 | 0.55 |
| | 0.70 | 50,000 | 2.04 | 0.70 | 50,000 | 0.70 |
| | 1.00 | 3,750 | 2.53 | 1.00 | - | 1.00 |
| | 1.60 | 100,000 | 1.83 | 1.60 | 41,650 | 1.60 |
| | 1.90 | 300,000 | 3.67 | 1.90 | 262,500 | 1.90 |
| | 2.25 | 224,936 | 2.27 | 2.25 | 224,936 | 2.25 |
| | 3.90 | 150,000 | 2.43 | 3.90 | 37,485 | 3.90 |
| | 4.00 | 12,000 | 1.81 | 4.00 | 7,500 | 4.00 |
| | \$0.35 - \$4.00 | 2,328,311 | 2.59 | \$ 1.13 | 2,111,696 | \$ 0.94 |

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the financial statements, the Company had the following related party transactions during the period:

- (a) During the three-month period ended June 30, 2006, the Company:
- (i) incurred consulting fees of \$52,500 (2005 - \$40,500) payable to two officers and directors;
 - (ii) incurred legal fees of \$73,624 (2005 - \$13,747) payable to a law firm of which a director of the Company is the proprietor.
 - (iii) incurred management fees of \$34,203 (2005 - \$30,000) payable to an officer and director.
 - (iv) incurred accounting fees of \$31,797 (2005 - \$12,891) payable to an accounting firm of which an officer is a partner.
 - (v) through YJCJM, received income of \$64,514 (2005 - \$71,390) from Henan Found through providing geological survey services for the quarter ended June 30, 2006.
- (b) Included in accounts payable is an amount of nil (March 31, 2006 - \$22,085) due to a law firm of which a director of the Company is the proprietor.
- (c) Included in accounts payable is an amount of \$33,025 (March 31, 2006 - \$32,843) due to three directors for their services in June 2006.
- (d) Included in accounts payable is an amount of \$9,000 (March 31, 2006 - \$8,246) due to an accounting firm of which an officer is a partner.
- (e) Included in due to related party is an amount of \$1,355 (March 31, 2006 - \$5,812) due to two directors for expenses incurred on behalf of the Company.
- (f) Included in due to related party is an amount of \$15,902 (March 31, 2006 - \$31,329) due to two related companies by common director for expenses incurred on behalf of the Company.
- (g) Included in other receivables is an amount of \$20,145 (March 31, 2006 - \$2,906) due from an officer for travel advances for normal business courses.

The transactions with related parties during the period are conducted in the normal course of business and 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-interesting bearing and due on demand.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS

The fair values of the Company's cash and cash equivalents, short-term investments, accounts receivable, deposits paid to contractors, other receivables, accounts payable, deposits received from customers and amount due to related parties are estimated to approximate their carrying values. The fair value of the long-term investments is estimated using the market price as disclosed in Note 10.

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

Credit risks may potentially arise if a 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 Renminbi, 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 Renminbi is not freely convertible currency. At June 30, 2006, approximately \$4,055,823 (March 31, 2006: \$3,206,632) cash and short term deposits are held in Renminbi.

14. SEGMENTED INFORMATION

(a) Industry information

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

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

14. SEGMENTED INFORMATION (Continued)

(b) Geographic information

| | British Virgin Islands | China | Canada | Total |
|-------------------------------|-----------------------------------|--------------|---------------|--------------|
| As of June 30, 2006 | | | | |
| Mineral rights and properties | - | 4,886,539 | - | 4,886,539 |
| Property, plant and equipment | - | 2,144,819 | 41,721 | 2,186,540 |
| Investment at equity | 1,413,736 | - | - | 1,413,736 |
| Long term investments | 250,000 | - | - | 250,000 |
| As of March 31, 2006 | | | | |
| Mineral properties | - | 3,721,801 | - | 3,721,801 |
| Property, plant and equipment | - | 1,701,012 | 39,540 | 1,740,552 |
| Investment at equity | 855,079 | - | - | 855,079 |
| Long term investments | 500,000 | - | - | 500,000 |

15. SUBSEQUENT EVENTS

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 options granted were 8.33% vested on grant date and 8.33% of the options are vested every 3 months after the date of grant for 3 years while 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.

Up to August 9, 2006, the Company, the Company acquired on the open market under the Normal Course Issuer Bid (Note 11(b)) 115,500 shares of its common stock for a total cost of \$1,478,400.

SILVERCORP METALS INC.
Notes to the Consolidated Financial Statements
June 30, 2006
(Unaudited – prepared by management)
(Expressed in Canadian Dollars)

16. Commitments

- (a) Commitment on acquiring an additional exploration permits adjacent to the Ying Project - Note 8(b)
- (b) Commitments on HPG Silver-Gold-Lead Property - Note 8(c)
- (c) Commitment on acquiring a storey of an office building in Henan Province, China - Note 7
- (d) With respect to its leasehold obligations, the Company has commitments totaling \$852,530 over 6 years (2007: \$91,275, 2008 - 2011: \$162,153 per year, 2012: \$94,859).