

SILVERCORP METALS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations For the three and nine month periods ended December 31, 2006 (Expressed in Canadian Dollars)

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three and nine months ended December 31, 2006 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 March 31, 2006 audited consolidated financial statements, the related annual Management's Discussion and Analysis, and 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., an exploration and development stage company, along with its subsidiary companies and joint ventures (collectively the "Company") are engaged in the acquisition, exploration, development, and mining of precious and base metal mineral properties in the People's Republic of China ("China"). Currently, Silvercorp's main mining operations are the Ying Silver-Lead-Zinc mine ("Ying Project") and the Hou-Ping Gou Silver-Gold-Lead-Zinc mine ("HPG Project"), owned through its 77.5% and 60% 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.

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 Henan Province, China by contributing \$4,445,121 (US\$3,670,000) to the joint venture company, Henan Found Mining Co. Ltd. ("Henan Found") 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.

On March 31, 2006, the Company, through its indirectly wholly owned subsidiary, Victor Resources Ltd.,

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signed a co-operative joint venture contract which followed an initial letter agreement with a private Chinese company to acquire a 60% interest in the HPG Project, located within the Ying Project area, 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. Under the joint venture contract, a joint venture company, Henan Huawei Mining Co. Ltd. ("Huawei"), will be established. The Company will have a 60% interest and the Chinese party will have a 40% interest in Huawei. The Chinese party will contribute the HPG mine assets and permits to Huawei and the Company will pay a total of RMB¥42,000,000 (approximately \$5,922,000 at the date of the agreement) 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 Huawei, and transfer of the exploration and mining permits to Huawei. 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.

In January 2007, the parties have agreed to increase the contributed capital of the company by RMB¥2 million to RMB¥14 million and as a result the total payments required by the Company total RMB¥43.2 million. In January 2007, the Company advanced a total of \$6,206,826 (US\$5,271,286 or RMB¥41.1 million) resulting in total advances of RMB¥45.3 million, under the HPG Project, of which RMB¥2.1 million will be returned to the Company. On January 15, 2007, the Company received all necessary government approvals, including approval from the Ministry of Commerce of China, to form a joint venture company to explore and develop the HPG. The business license for the joint venture company, Henan Huawei Mining Co. Ltd. (Huawei) has been issued. Silvercorp 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 mining licenses and exploration permit from the vendor to the Huawei are currently in process.

On November 7, 2006, the Company, through its 77.5% owned Chinese subsidiary company, Henan Found Mining Co. Ltd. ("Henan Found"), agreed to acquire a 100% interest in the NZ Gold-Silver project ("NZ" or "NZ Project"), through acquisition of a private Chinese company by paying the private owner RMB¥8,500,000 (approximately \$1,269,000 or US\$1,080,000), which was paid in full during the quarter ended December 31, 2006. The sole asset of the private company is a gold mining permit covering the NZ Project- an area of 3 kilometers (km) long by 0.8 km wide or 2.4 square km in size, approximately 135 km southeast of the Ying Silver Project. The agreement is subject to final approvals by relevant Chinese government agencies.

On December 8, 2006, the Company entered into a Declaration of Trust Agreement (the "Trust Agreement") with Yunnan Jin Chang Jiang Mining Co. Ltd. ("JCJM" and the "Trustee"), an indirectly wholly owned subsidiary of the Company, to hold in trust for New Pacific Metals Corp. ("NUX"), two exploration permits located in Guangdong Province, China ("Guangdong Project"). Pursuant to the NUX will pay the sum of US\$30,000 to the Trustee for the cost of the acquisition and is responsible for all costs in relation to the exploration permits.

On January 8, 2007, pursuant to the Trust Agreement, NUX paid \$35,331 (US\$30,000) to the Trustee for the cost of the acquisition. On January 25, 2007, NUX paid to the Trustee, \$1,461,092 (US\$1,240,000) on behalf of the Company for its capital contribution to JCJM. The Company will reimburse NUX through the indirect payments made by the Trustee on behalf of NUX to cover expenditures that will be incurred on the Guangdong Project pursuant to the "Trust Agreement". The loan is unsecured, non-interest bearing, and due on demand.

Currently, the Company's main operations are focused on its Ying and HPG Projects, located in Henan Province, China. With the NZ acquisition, the Company will have a total of 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).

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1.1 Date of Report – As at February 1, 2007

1.2 Overall Performance

(a)(i) Henan Found – Ying Project

Almost immediately upon receiving its mining permit for part of the Ying property on March 30th, 2006, the Company switched its focus at the Ying Property from exploration and development through gradual ramping up to achieve a full mining operation. During the quarter ended December 31, 2006, the Company has been continued its focus and efforts on expanding mining operation capacity, developing re-suing mining stopes, constructing the flotation mill and other facilities, as well as continued exploration through tunneling and underground drilling.

During the nine months ended December 31, 2006, an additional 26,960 meters of tunnels were completed, and a total of 54,534 meters of tunnel have been completed since August 2004. The construction of the 600 tonne per day mill and associated facilities, including the tailing dam, is on schedule and on budget. A test run of the new mill is scheduled for late February 2007, after the Chinese New Year. A barge with a 300 tonne loading capacity is built and is in operation since February 1, 2007. The barge is capable of transporting five to six 25-tonne trucks to ship ores from the Ying mine to the new mill.

Henan Found has acquired two additional exploration permits adjacent to the existing boundary of Ying Property. The first permit costing \$411,227 (RMB¥2,916,500) was paid and the title transfer completed during the second quarter ended September 30, 2006. The second permit costing \$253,800 (RMB¥1,800,000), of which \$204,450 was paid during the second quarter ended September 30, 2006 with the balance of \$49,350 paid and title transfer completed during the third quarter ended December 31, 2006.

(a)(ii) Henan Huawei – HPG Project

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. The mining licenses and exploration permit are in the process of transferring from the vendor to Huawei, and the parties have reviewed the current operating situation and have planned an extensive exploration and mining program with the intention of total organic growth for the project. As at the date of this report, no other activity has occurred.

(a)(iii) Henan Found – NZ Project

As at the date of this report, the project is pending approvals by relevant Chinese government agencies for the acquisition of the private Chinese company that holds the gold mining permit covering the NZ Project.

(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 to its mining operations, the Company generated gross revenue of \$14,731,638 and \$29,772,811 for the three month and nine month periods ended December 31, 2006, respectively, by the selling of the direct shipping ore and of silver-lead and zinc concentrates. This resulted in earnings from mine operations of \$12,027,107 and \$23,718,909 for the three month and nine month periods ended December 31, 2006 respectively.

During the three month and nine month periods ended December 31, 2006, the Company had net income of \$9,338,817 and \$17,058,237, respectively, resulting in basic earnings per share of \$0.19 and \$0.36 respectively and diluted earnings per share of \$0.19 and \$0.35. The net profit margin was 63% and 57%

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for the three month and nine month periods ended December 31, 2006 respectively.

During the three month and nine month periods ended December 31, 2005, the Company had a net loss of \$1,176,820 and \$4,737,245, respectively, resulting in a loss per share of \$0.03 and \$0.11 respectively.

Increase in net income for the three month and nine month periods ended December 31, 2006 as compared to the net loss for the same periods of the prior year was mainly due to the commencement of mine production at the Ying Property from April 1, 2006.

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 150% 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. Ore production using the re-suing mining method commenced from September 2006.

For the three month period ended December 31, 2006, 53,521 tonnes of ore were mined, of which 2,042 tonnes of direct shipping ore were hand-sorted for direct shipment to smelters, and 51,479 tonnes of ore were shipped or to be shipped to custom mills for treatment to recover silver-lead and zinc concentrates. These custom mills have achieved high recovery rates: 90.88% for silver, 94.98% for lead, and 74.91% for zinc. The total production cost for silver adjusted for lead and zinc credits is negative \$8.49 per ounce.

For the nine month period ended December 31, 2006, 124,765 tonnes of ores were mined, of which 4,825 tonnes of direct shipping ores were hand-sorted for direct shipment to smelters, and 119,940 tonnes of ores were shipped or to be shipped to custom mills for treatment to recover silver-lead and zinc concentrates. The custom mills have achieved high recovery rates: 90.27% for silver, 94.41% for lead, and 74.77% for zinc. The total production cost for silver adjusted for lead and zinc credit is negative \$7.20 per ounce.

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	Three months ended		Nine months ended	
	December 31, 2006		December 31, 2006	
Operating data				
Mine production (<i>expressed in tonnes</i>)				
Direct shipping ores		2,042		4,825
Silver-lead-zinc ores		51,479		119,940
		<u>53,521</u>		<u>124,765</u>
Direct shipping ores		2,042		4,825
Stockpile ores		7,028		24,088
Custom milled		44,451		95,852
		<u>53,521</u>		<u>124,765</u>
Metallurgical recovery				
Silver (Ag)		90.88%		90.27%
Lead (Pb)		94.98%		94.41%
Zinc (Zn)		74.91%		74.77%
Financial data				
Sales				
Silver (Ag) - ounces	605,829	\$ 6,627,287	1,342,477	\$ 13,743,226
Gold (Au) - ounces	76	\$ 19,829	176	\$ 54,334
Lead (Pb) - pound	7,823,309	\$ 5,174,365	17,890,711	\$ 10,173,242
Zinc (Zn) - pound	2,168,102	\$ 2,910,157	4,807,512	\$ 5,802,009
		<u>\$ 14,731,638</u>		<u>\$ 29,772,811</u>
Average selling price (net of Value Added Tax and smelter charges)				
Silver (Ag) - ounces		\$ 10.94		\$ 10.24
Gold (Au) - ounces		\$ 261.43		\$ 308.72
Lead (Pb) - pound		\$ 0.66		\$ 0.57
Zinc (Zn) - pound		\$ 1.34		\$ 1.21
Average production cost				
Silver (Ag) - ounces		\$ 2.20		\$ 2.00
Gold (Au) - ounces		\$ 52.26		\$ 60.21
Lead (Pb) - pound		\$ 0.13		\$ 0.11
Zinc (Zn) - pound		\$ 0.27		\$ 0.24
Average silver production cost adjusted for by-product credit				
Silver (Ag) - ounces		\$ (8.49)		\$ (7.20)

(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

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marginally higher prices than those quoted on the North American and European market places. Additional market information can be found through the Silver Institute at www.silverinstitute.org.

1.3 Selected Annual Information

	March 31, 2006	March 31, 2005	April 30, 2004
Gains and other income	\$ 483,310	\$ 1,156,194	\$ 73,475
Net loss	(6,259,255)	(817,242)	(3,704,319)
Basic and diluted loss per share	(0.15)	(0.02)	(0.13)
Total assets	21,085,801	12,107,387	9,250,248
Total long-term liabilities	-	-	-
Cash dividends	-	-	-

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 Gou Property of \$503,518 and the mineral property option income of \$529,406 after offsetting the stock-based compensation expenses of \$786,910. The net loss for 2004 was mainly due to stock-based compensation expenses of \$1,421,483 for stock options granted and the increase in operation activities of the Company.

1.4 Results of Operations

(a) Three months ended December 31, 2006

During the third quarter ended December 31, 2006, the Company realized net income of \$9,338,817 (Q3-2005 - (\$1,176,820)) resulting in earnings per share of \$0.19 (Q3-2005 - (\$0.03)) on weighted average number of shares outstanding of 48,351,306 (Q3-2005 - 41,531,766) and 50,001,624 (Q3-2005 - 41,531,766), basic and fully diluted, respectively. The net income increase of \$10,515,637, as compared to the prior year, is mainly attributed to the Ying Project sale of direct shipping ore and metal concentrates since April 1, 2006.

During the third quarter ended December 31, 2006, net income increased by \$3,976,977 or 74.17%, as compared to the second quarter of 2006, and is mainly attributable to an increase in sales of \$4,023,515 or 38% with a marginal increase in cost of sales of \$275,496 or 11%.

Sales: During the third quarter ended December 31, 2006, the Company recorded total sales of \$14,731,638 comprised of the following: 605,829 ounces of silver sold for \$6,627,287 at an average selling price of \$10.94 per ounce; 76 ounces of gold sold for \$19,829 at an average selling price of \$261.43 per ounce; 7,823,309 pounds of lead sold for \$5,174,365 at an average selling price of \$0.66 per pound; and, 2,168,102 pounds of zinc sold for \$2,910,157 at an average selling price of \$1.34 per pound. All prices are net of value added tax and smelter charges.

As compared to the second quarter of 2006, sales increased by \$4,023,515 or 38% to \$14,731,638 as a result of the following metal sales: silver increased by 78,327 ounces or 15%; gold decreased by 24 ounces or 24%; lead increased by 648,819 pounds or 9%; and, zinc increased by 428,954 pounds or 25%. Average selling prices, as compared to the second quarter of 2006 were as follows: silver increased by \$1.31 to

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\$10.94 per ounce; gold decreased by \$83.11 to \$261.43 per ounce; lead increased by \$0.15 to \$0.66 per pound, and zinc increased by \$0.24 to \$1.34 per pound.

Cost of Sales: The total cost of sales, including milling costs, for the third quarter ended December 31, 2006 amounted to \$2,704,531, and is comprised of \$2,487,942 for the cash cost of production and \$216,589 for the depreciation charges. The average silver production cost adjusted for by-product credit was (\$8.49) per ounce.

Earnings from mine operations: For the third quarter ended December 31, 2006, earnings from mine operations increased by \$3,748,019 or 45% to \$12,027,107 (Q2 -2006 \$8,279,088) representing a gross margin of 82% (Q2 - 2006 77.3%) and is mainly attributed to the increase in sales of \$4,023,515 and a marginal increase in cost of sales of \$275,496.

General exploration and property investigation expenses: During the third quarter ended December 31, 2006, the Company incurred general exploration and property investigation expenses of \$30,079 (Q3 - 2005 - \$239,530) representing a decrease of \$209,451 as the Company's focus is on its Ying property mining activities.

Office, administration and miscellaneous: During the third quarter ended December 31, 2006, the Company incurred office, administration and miscellaneous expenses of \$784,460 (Q3 - 2005 - \$510,426) representing an increase of \$274,034 or 54% mainly attributed 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.

Professional fees: During the third quarter ended December 31, 2006, the Company incurred professional fees of \$92,330 (Q3 - 2005 - \$55,762) an \$36,568 or 66% increase mainly attributed to the increase in corporate activities, accounting and audit fees associated with the business growth of the Company

Stock-based compensation expenses: During the third quarter ended December 31, 2006, the Company recognized \$659,905 (Q3 - 2005 - \$267,098) 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.

Mineral property option income : During the third quarter ended December 31, 2006, the Company recorded mineral property option income of \$1,045,416 (Q3 - 2005 - \$38,542) resulting from the receipt of shares issued by New Pacific Metals Corp. pursuant to the Kang Dian Project Option Agreement.

Interest income; During the third quarter ended December 31, 2006, the Company recognized \$504,120 (Q3 - 2005 - \$56,738) representing an increase of \$447,382 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.

(b) Nine months ended December 31, 2006

During the nine months ended December 31, 2006, the Company realized net income of \$17,058,237 (Q3-2005 - (\$4,737,245)) resulting in earnings per share of \$0.36 and \$0.35 (Q3-2005 - (\$0.11)) per share on weighted average number of shares outstanding of 47,763,270 (Q3-2005 - 41,925,027) and 49,424,105 (Q3-2005 - 41,925,027), basic and fully diluted, respectively. As of April 1, 2006, the Company, through its Ying Project, commenced sale of direct shipping ore and metal concentrates.

Sales: During the nine months ended December 31, 2006, the Company recorded total sales of \$29,772,811 comprised of the following: 1,342,477 ounces of silver sold for \$13,743,226 at an average selling price of \$10.24 per ounce; 176 ounces of gold sold for \$54,334 at an average selling price of \$308.72 per ounce;

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17,890,711 pounds of lead sold for \$10,173,242 at an average selling price of \$0.57 per pound; and, 4,807,512 pounds of zinc sold for \$5,802,009 at an average selling price of \$1.21 per pound. All prices are net of value added tax and smelter charges.

Cost of Sales: The total cost of sales, including milling cost, for the nine months ended December 31, 2006, amounted to \$6,053,902 and is comprised of \$5,463,982 for the cash cost of production and \$589,920 for the depreciation charges. The average silver production cost adjusted for by-product credit was (\$7.20) per ounce.

Earnings from mine operations: During the nine months ended December 31, 2006, earnings from mine operations amounted to \$23,718,909 (Q3 - 2005 - \$nil) representing a gross margin of 80% and is mainly attributed to the Ying Project.

General exploration and property investigation expenses: During the nine months ended December 31, 2006, the Company incurred general exploration and property investigation expenses of \$618,531 (Q3 - 2005 - \$485,741) representing an increase of \$132,790 or 27% mainly attributed to the consolidation of the financial activities of Henan Found and the Company's ongoing efforts on exploring new projects and opportunities in the People's Republic of China.

Office, administration and miscellaneous: During the nine months ended December 31, 2006, the Company incurred office, administration and miscellaneous expenses of \$1,861,895 (Q3 - 2005 - \$927,756) representing a two fold increase mainly attributed 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.

Professional fees: The Company incurred professional fees of \$359,523 (Q3 - 2005 - \$152,620) a \$206,903 or 136% increase mainly attributed to the increase in corporate activities, accounting and audit fees associated with the business growth of the Company.

Stock-based compensation expenses: During the nine months ended December 31, 2006, the Company recognized \$1,686,185 (Q3 - 2005 - \$983,749) 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.

Mineral property option income : During the nine months ended December 31, 2006, the Company recorded mineral property option income of \$2,023,500 (Q3 - 2005 - \$140,292) resulting from the receipt of shares issued by New Pacific Metals Corp. pursuant to the Kang Dian Project Option Agreement.

Interest income; During the nine months ended December 31, 2006, the Company recognized \$1,440,728 (Q3 - 2005 - \$103,159) representing an increase of \$1,337,569 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.

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	For the Quarters Ended			
	31-Dec-06	30-Sep-06	30-Jun-06	31-Mar-06
Sales	\$ 14,761,638	\$ 10,708,123	\$ 4,333,050	\$ -
Earnings from mine operations	12,027,107	8,279,088	3,412,714	-
Gains and other income	1,559,528	908,111	946,671	242,051
Net income (loss)	9,338,817	5,361,840	2,357,580	(2,030,911)
Basic earnings (loss) per share	0.19	0.11	0.05	(0.05)
Diluted earnings (loss) per share	0.19	0.11	0.05	(0.05)

	For the Quarters Ended			
	31-Dec-05	30-Sep-05	30-Jun-05	31-Mar-05
Sales	\$ -	\$ -	\$ -	\$ -
Earnings from mine operations	-	-	-	-
Gains and other income	95,280	111,227	153,184	121,044
Net income (loss)	(972,263)	(2,339,299)	(798,350)	(500,089)
Basic earnings (loss) per share	(0.02)	(0.06)	(0.02)	(0.01)
Diluted earnings (loss) per share	(0.02)	(0.06)	(0.02)	(0.01)

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

On December 31, 2006, the Company had a working capital position of \$68,464,198 comprised mainly of cash and cash equivalents of \$67,221,252, accounts receivable of \$1,234, interest receivable of \$35,575, inventories of \$2,016,255, prepaid expenses and deposits of \$1,303,866, deposits paid to contractors of \$2,326,348, offset by current liabilities of \$4,474,887 and holds no debt.

Working capital increased by \$56,659,426 to \$68,464,198, 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, 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 nine months ended December 31, 2006, 522,500 share purchase warrants were exercised at a price of \$4.60 per share for gross proceeds of \$2,403,500.

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.

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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 January 25, 2007, a total of 46,250 incentive stock options, for 15,625 shares and 30,625 shares at a strike price of \$2.25 and \$0.40 per share, respectively, were exercised for gross proceeds of \$47,406.

On June 13, 2006, the Company believed that prevailing market conditions have resulted in the Company's shares being undervalued relative to the immediate and long term value of the Company's Ying Silver-Lead-Zinc Property 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 CEO and Chairman at prevailing market prices, through the facilities of the TSX Exchange. The Company intends to hold for cancellation all shares acquired under the Normal Course Issuer Bid.

For the three month and nine month periods ended December 31, 2006, the Company acquired and cancelled 55,000 and 420,500 of its common shares under the Normal Course Issuer Bid at a cost of \$1,022,621 and \$5,499,104, respectively.

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

The Company had the following related party transactions during the period:

- (a) During the three month and nine month periods ended December 31, 2006, the Company incurred:
- (i) consulting fees of \$45,000 (2005 - \$42,000) payable to a company owned by an officer and director of the Company; and \$140,000 (2005 - \$123,000) payable to a company owned by an officer and director of the Company and to an officer of the Company;
 - (ii) legal fees of \$4,115 (2005 - \$16,697) and \$87,642 (2005 - \$53,945) payable to a law firm controlled by a director of the Company;

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(iii) management fees of \$37,546 (2005 - \$30,000) and \$109,305 (2005 - \$90,000) payable to a company owned by an officer and director of the Company, and to an officer and director of the Company;

(iv) accounting fees of \$20,369 (2005 - \$16,697) and \$86,966 (2005 - \$44,156) payable to an accounting firm controlled by a former officer of the Company; and,

(v) directors' fees of \$7,710 (2005 - \$nil) and \$7,710 (2005 - \$nil), respectively.

(b) As of December 31, 2006, the related transaction balances included the following:

(i) \$nil (March 31, 2006 - \$22,085) due to a law firm controlled by a director of the company;

(ii) \$nil (March 31, 2006 - \$32,843) due to three directors for their services provided;

(iii) \$28,333 (March 31, 2006 - \$8,246) due to an accounting firm controlled by a former officer of the Company; and,

(iv) \$62,888 (March 31, 2006 - \$31,329) due from a company with a director in common and for expenses incurred on behalf of the related party.

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-interest bearing, and due on demand.

On December 8, 2006, the Company entered into a Declaration of Trust Agreement (the "Trust Agreement") with Yunnan Jin Chang Jiang Mining Co. Ltd. ("JCJM" and the "Trustee"), an indirectly wholly owned subsidiary of the Company, to hold in trust for New Pacific Metals Corp. ("NUX"), two exploration permits ("Guangdong Project") located in Guangdong Province, China. Pursuant to the agreement, NUX will pay the sum of US\$30,000 to the Trustee for the cost of the acquisition and is responsible for all costs in relation to the exploration permits.

On January 8, 2007, pursuant to the Trust Agreement, NUX paid \$35,331 (US\$30,000) to the Trustee for the cost of the acquisition. On January 25, 2007, NUX paid to the Trustee, \$1,461,092 (US\$1,240,000) on behalf of the Company for its capital contribution to JCJM. The Company will reimburse NUX through the indirect payments made by the Trustee on behalf of NUX to cover expenditures that will be incurred on the Guangdong Project pursuant to the "Trust Agreement". The loan is unsecured, non-interest bearing, and due on demand.

1.10 Fourth Quarter

Not applicable.

1.11 Proposed Transactions

There are no proposed assets or business acquisitions or dispositions, other than those in the ordinary course, 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

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financial statements for the year ended March 31, 2006.

Management is required to make assumptions and estimates that affect the valuation of its mineral properties. The carrying value of each property in the exploration stage is evaluated as to the project's economics, including the timing of the exploration and/or development work, the work programs and the exploration results experienced by the Company or others. The review of the carrying value of each development property is 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 is made for the decline in value.

Direct exploration and development expenditures thereon are capitalized. When production is attained, the capitalized costs will be amortized using the unit of production method based upon estimated proven and probable recoverable resources. While there was no formal production at the Company's Ying Project, the ores extracted as by-products of exploration and development tunnels were sold. The Company capitalizes all exploration costs, net of incidental revenue.

The Company reviews the carrying value of each property that is in the exploration 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 is made by reference to the estimated future operating results and net cash flows. When the carrying value of a property exceeds its estimated net amount, provision is made for the decline in value. The recoverability of the amounts capitalized for the undeveloped mineral properties and deferred development 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 development and future profitable production or proceeds from the disposition thereof.

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry forwards and other deductions. The valuation of future income tax assets is reviewed yearly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The Company accounts for stock options granted using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to consultants is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options at the date of the grant or thereafter.

1.13 Change in Accounting Policies including Initial Adoption

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 and/or metals bearing concentrates passes to the customer and when collection is reasonably assured. The passing of title to the

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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.

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.

1.14 Financial Instruments and Other Instruments

The fair values of the Company's cash and cash equivalents, short term investments, accounts receivable, interest receivable, prepaid expenses and deposits, deposits paid to contractors, other receivables, accounts payable and accrued liabilities, 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 lower of carrying value or market price as disclosed in Note 9.

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 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¥"), 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. As at December 31, 2006, approximately \$18,247,576 (March 31, 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;

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- (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 year ended March 31, 2006 and unaudited interim consolidated financial statements for the nine months ended December 31, 2006.

1.15.2 Outstanding Share Data

As of 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 – 48,555,396 common shares with a recorded value of \$81,184,613.

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>
12,000	\$ 4.00	April 20, 2007
25,000	0.40	September 26, 2007
275,000	0.35	December 15, 2007
42,000	1.60	May 5, 2008
200,000	0.50	July 14, 2008
152,136	2.25	October 6, 2008
150,000	3.90	December 6, 2008
550,000	0.55	October 24, 2009
300,000	1.90	February 28, 2010
188,000	12.95	July 23, 2011
131,500	13.40	August 14, 2011
82,000	13.28	August 28, 2011
20,000	16.97	January 2, 2012
<u>2,127,636</u>		

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1.16 Disclosure 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 of the date of this report. 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 52-109 – 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) 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, 2006, the Board of Directors acted by consent resolutions on 19 occasions and by meeting in 2 occasions. The nature of the Company's assets being primarily in China, which results in the President and CEO spending considerable time in China, makes it difficult to schedule more regular face to face meetings. Board decisions are often carried out by telephone consensus, 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, 2006, two Board meetings were held. The table below shows the attendance record of each director for the Board meetings.

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Name of Director	Number of Board Meeting Attended in the Most Recently Completed Financial Year
Dr. Rui Feng	2 out of 2
Myles Gao	1 out of 2
Paul Simpson	2 out of 2
Michael Armstrong	2 out of 2
Greg Hall	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.

(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.

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

1.17 Outlook

Mine production commenced at relatively small capacity during the first quarter and it is expected to reach anticipated capacity through staged ramping up of operations. With a view towards further increasing the availability and reliability of local milling capacity, the Company is currently in the process of constructing a 600 tonne per day flotation mill; presently, two third party flotation mills with a combined capacity of about 400 tonnes per day are used to treat the ore from the Ying Property through custom milling contracts. When the 600 tonnes per day mill is completed by the end of March, 2007, the Company expects to be able to draw upon a combined milling capacity of 1,000 tonnes per day. The construction of the 600 tonne per day mill and associated facilities, including the tailing dam, is on schedule and on budget. A test run of the new mill is scheduled for late February 2007, after the Chinese New Year. This added capacity may offset the temporary closures at the Ying operation for the Chinese New Year.

A barge with a 300 tonne loading capacity is built and is in operation since February 1, 2007. The barge is capable of transporting five to six 25-tonne trucks to ship ores from the Ying mine to the new mill.

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 150% 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. Ore production using the re-suing mining method has commenced from September 2006 and it will improve the net income in future quarters.

During the nine months ended December 31, 2006, the company focused on recruiting key staff and implementing new systems and resources to support its rapid growth and expansion. In future quarters, the Company will focus on further promoting and enhancing its internal controls and corporate governance practices.

Regarding the HPG Project, the transfer of the mining licenses and exploration permit from the vendor to the Huawei are currently in process and the Company does not anticipate any delays. The Company has reviewed the current operating situation and has planned an extensive exploration and mining program. The Company plans to develop several levels of drift tunnels along the H15 and H17 vein and a series of cross-cut tunnels to explore other known veins. In order to increase the hoisting capacity and improve ventilation for mining on the H15 and H17 veins, a 120 metre deep vertical shaft is also planned from the 340-metre level to 460-metre level where the main decline can access the surface at 600-metre elevation. Currently, the existing 200 tonnes per day flotation mill recovers silver, gold and lead. Additional flotation cells will be added to recover zinc and copper which have been assayed as high as 7.84% zinc and 1.044% copper in the H17 vein on the 380-metre level. The mining production will first be reviewed early March 2007.

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Regarding the NZ Project, the Company anticipates its 77.5% owned Chinese subsidiary, Henan Found, will receive all necessary Chinese government approvals to acquire the private Chinese company that holds the gold mining permit covering the NZ Project. A full exploration program with limited start-up mining is expected to start in early March 2007. A custom mill will be contracted to process any ore extracted from exploration tunneling and from mining.