

SILVERCORP METALS INC.

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

First quarter fiscal year 2008 ended June 30, 2007

(Expressed in Canadian Dollars, except share, per share, and mining data)

Date of Report – As at July 30, 2007

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 months ended June 30, 2007 and related notes thereto which have been prepared in accordance with Canadian generally accepted accounting principles. In addition, the following should be read in conjunction with the March 31, 2007 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.

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.

Non-GAAP Measurements

The following are non-GAAP measurements and investors are cautioned not to place undue reliance on it and are urged to read all GAAP accounting disclosures present in the unaudited interim consolidated financial statements and accompanying notes: Average selling price (net of Value Added tax and smelter charges); Average production cost per ounce; Average production cost per pound; Average production cost per ounce; Mining cost per tonne of ore mined; Milling cost per tonne of ore milled; Average silver production costs adjusted for by-product credit; and, Cash cost of production. These non-GAAP measures are used by the Company to manage and evaluate operating performance of the Company's mines and are widely reported in the silver mining industry as benchmarks for performance measurement, but does not have standardized meaning.

1.0 Preliminary Information

Silvercorp Metals Inc. 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"). The Company exited from the exploration stage effective April 1, 2006 pursuant to AcG-11 "Enterprises in the Development Stage". The Company is a reporting issuer in British Columbia, Alberta, Ontario, Nova Scotia, New Brunswick, Manitoba, Saskatchewan, and trades on the TSX Exchange under the symbol "SVM".

The Company is on the S&P/TSX Composite, the S&P/TSX Global Gold, and the S&P/TSX Global

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Mining Indexes.

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

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

Since the production of ore commenced on April 1, 2006, the Ying Property has become the major revenue and profit contributor of the Company.

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

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

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

Henan Found is in the process of completing construction of the Ying Mine according to its approved design plan, especially completing the connection of three mine shafts for safety reason. While government authorities allow Henan Found to test run the mill and mine, it is subject to final inspection by authorities for environmental and safety qualifications and it is subject to receive environmental and safety production permits.

The land usage right for Henan Found's mine and mill has been purchased from the local owners, rezoning of these lands from agricultural to industrial use has been approved by Henan Provincial government, and transfer of the land title to Henan Found's name has been submitted to the government authorities and is pending final approval.

During the 2007 fiscal year, Henan Found entered into a joint venture agreement, for a 22.5% participation interest, in a custom built 150,000-tonne/year lead-silver-gold smelter in Luoning County, Luoyang City, Henan Province, China. Henan Found's share, 22.5% of the cost, will be \$6.71 million (RMB¥45 million) for the first phase and is expected to be financed by cash flow from the Ying Silver Mine. The construction of the smelter has received preliminary approval from the Henan provincial government and is subject to further approval by related Chinese governmental authorities. As of June 30, 2007, Henan Found contributed installments of \$202,565 (RMB¥1,450,000) (March 31, 2007 - \$67,095 (RMB¥450,000)) to set up the joint venture.

See "Risk Factors" in the Company's 2007 Annual Information Form.

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(a)(ii) Henan Huawei – HPG Project

In May 2006, the Company, through its indirectly wholly owned subsidiary, Victor Resources Ltd., entered into an agreement to acquire a 60% interest of the HPG silver-gold-lead operating mine and property within the Ying Silver Project, Henan Province, China. The HPG gold-silver-lead property consists of two adjacent mining licenses surrounded by one exploration permit of approximately 6.4 square kilometers in total within the Ying Silver Project area in Henan, and a 200 tonne per day flotation mill and associated facilities. A joint venture company, Henan Huawei Mining Co. Ltd. ("Huawei"), was established with issuance of the business license on January 15, 2007. The Company has made all required payments to the vendor and has contributed the required investment to Huawei, to earn a 60% interest in Huawei, which is the operator and 100% interest holder of HPG properties. Transfer of the mining licenses and exploration permit from the vendor to the Huawei are currently in process.

In January 2007, the parties agreed to increase the contributed capital of Huawei by \$301,800 (RMB¥2 million) to \$2,112,600 (RMB¥14 million) and as a result the total payments required by the Company total \$6,522,493 (RMB¥43.2 million). In January 2007, the Company paid a total of \$6,206,826 (US\$5,271,286 or RMB¥41.1 million) resulting in total payment of \$6,839,600 (RMB¥45.3 million), under the HPG Project, of which an overpayment of \$317,107 (RMB¥2.1 million) was returned to the Company.

Since April 2007, mining operations have commenced with resulting sales of direct shipping Au-Ag-Pb ores and recovered concentrates.

On May 11, 2007, the Company, through its indirectly wholly owned subsidiary, Victor Resources Ltd., signed an agreement to acquire a further 20% interest in Huawei from the other party to the joint venture, in which 10% interest will be held in trust for a shareholder of the joint venture partner. Total consideration for the 20% interest is \$1,983,030 million (RMB¥13.3 million) with the Company's share of approximately \$991,515 (RMB¥6.65 million) paid in full. While government approval is expected to be received shortly, the Company is entitled to a 70% (March 31, 2007: 60%) interest in any future profits and funding requirements of Huawei.

(a)(iii) Henan Found – NZ Project

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

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

(a)(iv) Fortress – Qinghai Project

On June 30, 2007, the Company entered into a joint venture contract with a Chinese party to form Qinghai Found Mining Company Ltd. ("Qinghai Found"), a Sino-foreign cooperate joint venture company, to explore and develop the Na-Bao silver-polymetallic Project ("Na-Bao Project") in Qinghai Province, China. Under the joint venture contract, the Company can earn an 82% interest in Qinghai Found by investing approximately US\$4.0 million. The Chinese party will retain an 18% interest in Qinghai Found in exchange for transferring the three Na-Bao permits to Qinghai Found.

The Company has also signed a letter of intent with the same Chinese party to jointly explore the XG silver polymetallic project ("XG Project"), which consists of two exploration permits (the XGE and XR Permits) owned by the Chinese party and totaling about 161 square km, 460 km southeastern of the Na-Bao Project. With the establishment of Qinghai Found, the XG project permits will also be transferred to Qinghai Found

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in exchange for a cash payment to the Chinese party. Golder Association Consulting Ltd. of Australia ("Golder") completed a NI 43-101 technical report on the XG Project in November 2006. The Na-Ba Project and XG Project are collectively referred to as the Qinghai Project.

Both Na-Bao and XG Projects are subject to receive final approvals from regulatory authorities.

1.1 Date of Report – As above

1.2 Overall Performance

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

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

As at April 12, 2007, the 600 tonnes per day flotation mill and associated tailing dam facilities for the Ying Silver Mine is complete and has been in a test run since mid-March 2007. The mill has reached a capacity of about 750 tonnes per day since April 1, 2007.

During the first quarter ended June 30, 2007, an additional 9,456 meters of tunneling were completed, resulting in a total of 70,158 meters of tunneling completed since August 2004.

This is the second fiscal year of mining operations for the Ying Property and the first full fiscal year of operations for the custom flotation mill and associated tailing dam facilities for the Ying Silver Mine.

(a)(ii) Henan Huawei – HPG Project

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

After several months of preparation, mining and milling operations have commenced at the HPG Property since April 2007. Currently, the mining capacity at HPG has achieved approximately 200 tonnes per day, while the mill is operating at a capacity of about 250 tonnes per day to produce gold-silver-lead and zinc concentrates. Sales of direct shipping gold-silver-lead ores and recovered concentrates, since April 2007, indicates a positive cash flow that is more than enough to cover all the cost of mining expansion and exploration program for the remainder of fiscal year 2008 at current mining and milling rates.

(a)(iii) Henan Found – NZ Project

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

(b) Operation Results

The Ying Property is now in mine production for the second fiscal year and the first fiscal year of operations for the custom flotation mill and associated tailing dam facilities for the Ying Silver Mine. In addition, this will be the first fiscal year of operations for the HPG Property which has commenced mining and milling operations to achieve sales of direct shipping gold-silver-lead ores and recovered concentrates

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since April 2007.

For the first quarter ended June 30, 2007, the Company recorded consolidated net earnings of \$15,887,496, equating to \$0.33 per share or \$0.32 per share fully diluted. The cash flows provided from operations were \$20,734,355 with a record profit margin of 65.02% (2007- 54.41%).

During the quarter ended June 30, 2007, the Company received a notification from the Chinese tax authorities which confirms that the Company's 77.5% subsidiary company, Henan Found Mining Co. Ltd. ("Henan Found"), is a qualified Foreign Investment Enterprise that can enjoy a zero income tax rate for its first two years from its first year of recording a profit, and a 15% income tax rate for the 3rd to 5th year.

The Chinese tax authorities have also accepted the annual income tax filing by Henan Found that 2006 calendar year is the first year of its profitability. Accordingly, Henan Found's income tax holiday starts from the 2006 calendar year, instead of 2005 calendar year as the Company had conservatively provided for in its Audited Annual Financial Statement for the fiscal year ended March 31, 2007.

As Henan Found's 2007 calendar year will be the second year of zero income tax and therefore no income tax provision on this operation will be required for the Company's first to third quarters financial statements of fiscal year ending March 31, 2008.

As a result, the \$1,623,286 income tax provision recorded for the Company's fourth quarter in the Audited Financial Statement for the year ended March 31, 2007 has been adjusted as a credit in the Company's first quarter financial statement ending June 30, 2007 for fiscal year ending March 31, 2008.

The following tables summarize the operating and financial data in respect to the Ying Silver Project at the Ying Properties and the HPG Project. The Company operates in one geographical region and has two producing properties, the Ying Silver Project and the HPG Project. The Results of Operations for the Company are reported in Section 1.4 below

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<u>Ying Silver Property</u>	<u>Three months ended June 30, 2007</u>			<u>Three months ended June 30, 2006</u>		
<u>Operating data (expressed in tonnes)</u>						
<u>Ores mined</u>						
Direct shipping ores		2,224			1,061	
Silver-lead-zinc ores		56,038			29,658	
		<u>58,262</u>			<u>30,719</u>	
<u>Ores milled</u>		64,574			20,286	
<u>Concentrates produced</u>						
Lead-silver concentrates		5,251			1,686	
Zinc concentrates		3,603			822	
<u>Metallurgical recovery*</u>	<u>Silver</u>	<u>Lead</u>	<u>Zinc</u>	<u>Silver</u>	<u>Lead</u>	<u>Zinc</u>
	88.58%	93.32%	79.05%	91.44%	97.06%	81.21%
<u>Financial data</u>						
<u>Sales by products</u>						
		<u>Weight</u>	<u>\$</u>	<u>Weight</u>	<u>\$</u>	
Direct shipping ore (tonnes)		1,803	\$ 3,520,115	510	\$ 563,414	
Lead-silver concentrate (tonnes)		5,073	\$ 14,629,110	1,500	\$ 2,898,489	
Zinc concentrate (tonnes)		3,440	\$ 4,599,047	817	\$ 871,147	
			<u>\$ 22,748,272</u>		<u>\$ 4,333,050</u>	
<u>Sales by metals</u>						
Silver (Ag) - ounces		836,399	\$ 9,991,815	209,145	\$ 2,035,164	
Gold (Au) - ounces		61	\$ 20,023	-	\$ -	
Lead (Pb) - pounds		10,052,607	\$ 8,137,387	2,892,912	\$ 1,328,922	
Zinc (Zn) - pounds		3,708,179	\$ 4,599,047	900,262	\$ 968,964	
			<u>\$ 22,748,272</u>		<u>\$ 4,333,050</u>	
<u>Average selling price (net of Value Added Tax and smelter charges)**</u>						
Silver (Ag) - ounces			\$ 11.95		\$ 9.73	
Gold (Au) - ounces			\$ 328.25		\$ -	
Lead (Pb) - pounds			\$ 0.81		\$ 0.46	
Zinc (Zn) - pounds			\$ 1.24		\$ 1.08	
<u>Average production cost**</u>						
Silver (Ag) - ounces			\$ 2.47		\$ 2.07	
Gold (Au) - ounces			\$ 67.88		\$ -	
Lead (Pb) - pounds			\$ 0.17		\$ 0.10	
Zinc (Zn) - pounds			\$ 0.26		\$ 0.23	
Mining cost per tonne of ore mined**			\$ 51.97		\$ 43.44	
Milling cost per tonne of ore milled**			\$ 11.40		\$ 18.56	
<u>Average silver production cost adjusted for by-product credit**</u>						
Silver (Ag) - ounces			\$ (9.63)		\$ (6.59)	

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

SILVERCORP METALS INC.**Management's Discussion and Analysis of Financial Condition and Results of Operations****First quarter fiscal year 2008 ended June 30, 2007****(Expressed in Canadian Dollars, except share, per share, and mining data)***(b)(ii) Henan Huawei- HPG Project***HPG Property*****Three months ended June 30, 2007****Operating data (expressed in tonnes)**Ores mined

Direct shipping ores	434
Silver-lead-zinc ores	12,120
	<u>12,554</u>

Ores milled

8,378

Concentrates produced

Lead-silver concentrates	814
Zinc concentrates	186

Financial dataSales by products

	Weight	\$
Direct shipping ore (tonnes)	295	\$ 378,818
Lead-silver concentrate (tonnes)	623	\$ 1,146,666
Zinc concentrate (tonnes)	143	\$ 162,577
		<u>\$ 1,688,061</u>

Sales by metals

Silver (Ag) - ounces	34,209	\$ 383,079
Gold (Au) - ounces	262	\$ 140,314
Lead (Pb) - pounds	1,216,939	\$ 1,002,091
Zinc (Zn) - pounds	141,094	\$ 162,577
		<u>\$ 1,688,061</u>

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

Silver (Ag) - ounces	\$ 11.20
Gold (Au) - ounces	\$ 535.55
Lead (Pb) - pounds	\$ 0.82
Zinc (Zn) - pounds	\$ 1.15

Average production cost**

Silver (Ag) - ounces	\$ 4.33
Gold (Au) - ounces	\$ 207.21
Lead (Pb) - pounds	\$ 0.32
Zinc (Zn) - pounds	\$ 0.45

Mining cost per tonne of ore mined** \$ 39.97

Milling cost per tonne of ore milled** \$ 26.37

Average silver production cost adjusted for by-product credit**

Silver (Ag) - ounces \$ (19.05)

For fiscal year 2007, no comparative data, as mine operations commenced April, 2007.**Non-GAAP Measurements*

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(b)(iii) *Consolidated*

<u>Consolidated*</u>	<u>Three months ended June 30, 2007</u>		<u>Three months ended June 30, 2006</u>	
<u>Operating data (expressed in tonnes)</u>				
<u>Ores mined</u>				
Direct shipping ores		2,658		1,061
Silver-lead-zinc ores		68,158		29,658
		<u>70,816</u>		<u>30,719</u>
<u>Ores milled</u>		72,952		20,286
<u>Concentrates produced</u>				
Lead-silver concentrates		6,065		1,686
Zinc concentrates		3,789		822
 <u>Financial data</u>				
<u>Sales by products</u>				
	<u>Weight</u>	<u>\$</u>	<u>Weight</u>	<u>\$</u>
Direct shipping ore (tonnes)	2,098	\$ 3,898,933	510	\$ 563,414
Lead-silver concentrate (tonnes)	5,696	\$ 15,775,776	1,500	\$ 2,898,489
Zinc concentrate (tonnes)	3,583	\$ 4,761,624	817	\$ 871,147
		<u>\$ 24,436,333</u>		<u>\$ 4,333,050</u>
<u>Sales by metals</u>				
Silver (Ag) - ounces	870,608	\$ 10,374,894	209,145	\$ 2,035,164
Gold (Au) - ounces	323	\$ 160,337	-	\$ -
Lead (Pb) - pounds	11,269,546	\$ 9,139,478	2,892,912	\$ 1,328,922
Zinc (Zn) - pounds	3,849,273	\$ 4,761,624	900,262	\$ 968,964
		<u>\$ 24,436,333</u>		<u>\$ 4,333,050</u>
 <u>Average selling price (net of Value Added Tax and smelter charges)**</u>				
Silver (Ag) - ounces		\$ 11.92		\$ 9.73
Gold (Au) - ounces		\$ 496.40		\$ -
Lead (Pb) - pounds		\$ 0.81		\$ 0.46
Zinc (Zn) - pounds		\$ 1.24		\$ 1.08
 <u>Average production cost**</u>				
Silver (Ag) - ounces		\$ 2.61		\$ 2.07
Gold (Au) - ounces		\$ 108.83		\$ -
Lead (Pb) - pounds		\$ 0.18		\$ 0.10
Zinc (Zn) - pounds		\$ 0.27		\$ 0.23
Mining cost per tonne of ore mined**		\$ 49.84		\$ 43.44
Milling cost per tonne of ore milled**		\$ 13.12		\$ 18.56
<u>Average silver production cost adjusted for by-product credit**</u>				
Silver (Ag) - ounces		\$ (10.00)		\$ (6.59)

*Includes the results of Ying Silver Property since April 1, 2006 and HPG Property since April 1, 2007

**Non-GAAP Measurements

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(c) Economic factors affecting the industry

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

(d) Risk Factors

The Company is subject to numerous risks which are outlined in the Annual Information Form 51-102F2, Short Form Prospectus, and the NI 43-101 Technical Reports, which are available on SEDAR at www.sedar.com. In addition, please refer to the below Section 1.14 Financial Instruments.

1.3 Selected Annual Information

For the years ended March 31,

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

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

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

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

1.4 Results of Operations

(i) Overall – 3 months

For the first quarter ended June 30, 2007, the Company recorded consolidated net earnings of \$15,887,496, equating to \$0.33 per share or \$0.32 per share fully diluted. The cash flows provided from operations were \$20,734,355 with a record profit margin of 65.02% (2007- 54.41%).

During the first quarter ended June 30, 2007, earnings from mine operations amounted to \$19,094,909

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(2007 - \$3,412,714) representing a gross margin of 78.14% (2007 - 78.76%). The net income realized was \$15,887,496 (2007 - \$2,357,580) with a record profit margin of 65.02% (2007 - 54.41%). The net earnings are \$0.33 (2007 - \$0.05) per basic share or \$0.32 (2007 - \$0.05) per fully diluted share. The net income increase of \$13,529,916, over the comparable period in the prior year, is attributed to the increased through-put capacity of the Ying Silver Mine and the commencement of production at the HPG Property since April 1, 2007. Sales from the Ying Silver Mine increased four-fold to \$22,748,272 over the prior comparable period. The HPG Mine achieved sales of \$1,688,061 in its first quarter of operations.

During the first quarter, our operating subsidiary, Henan Found received a favorable ruling from the local Chinese tax authorities on its tax exemption application. Accordingly, the Company adjusted the income tax provision of \$1,623,286 recorded for the fourth quarter ended March 31, 2007 and an income tax recovery of \$1,610,903 was recorded for this quarter.

During the first quarter ended June 30, 2007, the Company increased its net income by five fold or \$13,529,916 to achieve net income of \$15,887,496 (2007 - \$2,357,580), which is mainly attributable to earnings from mine operations from the Ying and HPG Projects of \$19,094,909 (2007 - \$3,412,714).

During the first quarter ended June 30, 2007, the Company's cash and cash equivalents decreased by \$8,051,962 (2007 - (\$6,865,237)) to \$53,432,735 (2007 - \$10,765,049) as a result of: cash provided by operating activities of \$20,734,355 (2007 - \$1,861,349); cash used by investing activities of \$27,930,691 (2007 - \$39,288,517) inclusive of the purchase of short term investments of \$17,610,39; offset by cash provided by financing activities of \$618,052 (2007 - \$44,396,179), and negative effect of exchange rate changes on cash of \$1,473,678 (2007 - \$103,774).

(ii) Sales: During the first quarter ended June 30, 2007, the Company increased sales by five fold to \$24,436,333 (2007 - \$4,333,050) as compared to the comparable period in the prior year and is primarily attributed to the Ying Silver Property four fold increase in sales to \$22,748,272 (2007 - \$4,333,05) and HPG Property sales of \$1,688,061 (2007 - \$nil).

Total sales, for the first quarter ended June 30, 2007, are comprised of the following: 870,608 ounces of silver sold for \$10,374,894 at an average selling price of \$11.92 per ounce; 323 ounces of gold sold for \$160,337 at an average selling price of \$496.40 per ounce; 11,269,546 pounds of lead sold for \$9,139,478 at an average selling price of \$0.81 per pound; and, 3,849,273 pounds of zinc sold for \$4,761,624 at an average selling price of \$1.24 per pound. All prices are net of value added tax and smelter charges.

(iii) Cost of Sales: The total cost of sales, including milling costs, for the first quarter ended June 30, 2007 amounted to \$5,341,424 (2007 - \$920,336), and are comprised of \$4,697,879 (2007 - \$814,671) for the cash cost of production and \$643,545 (2007 - \$105,665) for the depreciation charges.

For this quarter, 70,816 (2007 - 30,719) tonnes of ores were mined, from which 2,658 (2007 - 1,061) tonnes of direct shipping ores were hand sorted for direct shipment to smelter, and 68,158 (2007 - 29,658) tonnes of ores were shipped to mills for treatment to recover silver-lead and zinc concentrates. The average mining cost is \$49.84 (2007 - \$43.44) per tonne of ore and average milling cost is \$13.12 (2007 - \$18.56) per tonne of ore.

The average mining is \$49.84 (2007 - \$43.44) per tonne of ore and average milling cost is \$13.12 (2007 - \$18.56) per tonne of ore for the first quarter ended June 30, 2007. The mills continue to achieve high recovery rates from the Ying Silver Property ores: 88.58% (2007 - 91.44%) for silver; 93.32% (2007 - 97.06%) for lead; and, 79.05% (2007 - 81.21%) for zinc.

The average production cost recorded per metals is: \$2.61 (2007 - \$2.07) per ounce for silver, \$108.83 (2007 - \$nil) per ounce for gold, \$0.18 (2007 - \$0.10) per pound for lead, and \$0.27 (2007 - \$0.23) per pound for zinc. The average silver production cost adjusted for by-product credit is negative \$10.00 (2007

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- negative \$6.59) per ounce.

(iv) Earnings from mine operations: For the first quarter ended June 30, 2007, earnings from mine operations amounted to \$19,094,909 (2007 - \$3,412,714) representing a gross margin of 78.14% (2007 - 78.76%) and is mainly attributable to sales of direct shipping ore, gold-silver-lead zinc concentrates from the Company's Ying and HPG Project mining operations.

(v) Accretion of asset retirement obligations: For the first quarter ended June 30, 2007, the Company recognized \$16,643 (2007 - \$nil) as accretion of asset retirement obligations. The Company's assets retirement obligations related to the reclamation cost of Ying property and was calculated using a credit-adjusted risk-free discount rate of 6.0%. The total undiscounted amount of cash flows required to settle the obligations is estimated at approximately \$1.56 million and is expected to be settled gradually over the estimated mine life, 6 years. These obligations will be funded from the Company's resources upon local government's fee payment requests.

(vi) Foreign exchange loss(gain): During the first quarter ended June 30, 2007, the Company realized a foreign exchange loss of \$451,213 (2007 - \$39,707) or \$0.01 per share reflecting the impact of foreign currency transactions and integrated foreign operations.

The Company's operating subsidiaries, Henan Found and Henan Huawei, are considered to be self-sustaining operations and the cumulative effects of foreign currency translations are reflected as part of accumulated comprehensive income (loss), a component of shareholders' equity, and amounted to (\$2,332,317) for the first quarter ended June 30, 2007.

(vii) General exploration and property investigation expenses: During the three months ended June 30, 2007, the Company incurred general exploration and property investigation expenses of \$253,374 (2007 - \$275,931) representing an decrease of \$22,557 as the Company actively pursues its growth strategy to grow through the exploration, development and production of advanced silver properties in China.

(viii) Investor relations: During the first quarter ended June 30, 2007, the Company incurred investor relation costs of \$63,324 (2007 - \$114,776) representing a decrease of \$51,452 as compared to the same period in the prior year.

(ix) Office, administration and miscellaneous: During the first quarter ended June 30, 2007, the Company incurred office, administration and miscellaneous expenses of \$858,385 (2007 - \$542,807) representing an increase of \$315,578 or 58%. The increase is mainly attributable to further enhancements of the corporate and operating infrastructure to effectively manage the continual growth and increase of business activities.

(xi) Professional fees: During the first quarter ended June 30, 2007, the Company incurred professional fees of \$104,696 (2007 - \$169,391) a \$64,695 or 38% decrease as compared to the same period in the prior year. The decrease is mainly attributed to the internalization of key positions and responsibilities through the recruitment of key personnel.

(xii) Stock-based compensation expenses: During the first quarter ended June 30, 2007, the Company recognized \$669,967 (2007 - \$135,286) of non-cash stock-based compensation expenses for incentive stock options granted to directors, officers, employees, and consultants using the Black Scholes options pricing model, representing an increase of 395% or \$534,681 over the same period in the prior year as a result in the of additional grants and increased share price of the Company.

(xiii) Equity loss in investment: During the first quarter ended June 30, 2007, the Company recognized \$131,792 (2007 - \$7,177) of equity loss mainly attributed to the Company's investment in NUX.

(xiv) Mineral property option income: During the first quarter ended June 30, 2007, the Company recorded

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mineral property option income of \$2,050,623 (2007 - \$565,834) resulting from the receipt of shares issued by NUX pursuant to the Kang Dian Project Option Agreement along with the increase in NUX's market value upon the release of the escrow shares.

(xv) *Interest income*: During the first quarter ended June 30, 2007, the Company recognized \$517,109 (2007 - \$400,414) representing an increase of \$116,695 and is mainly attributed to the short form prospectus financing completed in fiscal year 2007 along with cash provided by operating activities through the Ying and HPG operations through a period of rising interest rates for funds held on deposit.

1.5 Summary of Quarterly Results

	For the Quarters Ended			
	30-Jun-07	31-Mar-07	31-Dec-06	30-Sep-06
Sales	\$ 24,436,333	\$ 15,517,529	\$ 14,731,638	\$ 10,708,123
Earnings from mine operations	19,094,909	11,405,935	12,027,107	8,279,088
Gains and other income	2,383,673	2,693,415	1,559,528	908,111
Net income	15,887,496	8,050,571	9,338,817	5,361,840
Basic earnings per share	0.33	0.17	0.19	0.11
Diluted earnings per share	0.32	0.16	0.19	0.11
Total assets	125,639,525	108,546,948	91,189,927	76,533,323
Total long-term liabilities	3,244,522	2,392,480	-	-
Cash dividends declared per share	-	-	-	-
	For the Quarters Ended			
	30-Jun-06	31-Mar-06	31-Dec-05	30-Sep-05
Sales	\$ 4,333,050	\$ -	\$ -	\$ -
Earnings from mine operations	3,412,714	-	-	-
Gains and other income	946,671	242,051	95,280	111,227
Net income (loss)	2,357,580	(1,556,317)	(1,446,857)	(2,339,299)
Basic earnings (loss) per share	0.05	(0.04)	(0.03)	(0.06)
Diluted earnings (loss) per share	0.05	(0.04)	(0.03)	(0.06)
Total assets	69,397,329	21,085,801	17,543,934	18,566,011
Total long-term liabilities	-	-	-	-
Cash dividends declared per share	-	-	-	-

The Company has not yet paid any distributions to its shareholders.

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

As at June 30, 2007, the Company had a working capital position of \$71,857,627 (2007 - \$62,565,112) comprised mainly of cash and cash equivalents of \$53,432,735 (2007 - \$61,484,697), short term investments of \$23,807,704 (2007 - \$6,282,426), accounts receivable and prepaids of \$1,974,174 (2007 - \$1,470,820), inventories of \$1,550,885 (2007 - \$2,077,954), offset by current liabilities of \$8,907,871 (2007 - \$8,750,785) and holds no debt.

Working capital increased by \$9,292,515 to \$71,857,627, primarily as results of the successful operation of

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Ying Silver-Lead-Zinc Property and the HPG Property.

The Company completed 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. No share purchase warrants were exercised under this financing during the period ended June 30, 2007.

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

During the first quarter ended June 30, 2007, the Company's cash and cash equivalents decreased by \$8,051,962 (2007 - (\$6,865,237)) to \$53,432,735 (2007 - \$10,765,049) as a result of: cash provided by operating activities of \$20,734,355 (2007 - \$1,861,349); cash used by investing activities of \$27,930,691 (2007 - \$39,288,517) inclusive of the purchase of short term investments of \$17,610,39; offset by cash provided by financing activities of \$618,052 (2007 - \$44,396,179), and negative effect of exchange rate changes on cash of \$1,473,678 (2007 - \$103,774).

Cash and cash equivalents plus short term investments, as at June 30, 2007, are unencumbered and increased by \$9,473,316 to \$77,240,439 (2007 - \$67,767,123). Short term investments are invested in high quality money market instruments.

(c) Operating Activities

During the first quarter ended June 30, 2007, the Company's net cash provided by operating activities of \$20,734,355 is comprised of cash provided by net income of \$15,887,496, items not affecting cash of \$4,248,563, and \$598,296 of net change in non-cash working capital.

(d) Investing Activities

During the first quarter ended June 30, 2007, the Company's net cash used in investing activities of \$27,930,691 is comprised primarily of: \$3,101,238 for the purchase of mineral rights and properties; \$1,579,248 for the purchase of property, plant and equipment; \$17,610,039 for purchase of short term investment; \$3,598,898 distributed to a non-controlling subsidiary shareholder; and a \$1,659,265 increased in long term receivable.

(e) Financing Activities

During the first quarter ended June 30, 2007, the Company's net cash provided by financing activities of \$618,052 is comprised primarily of proceeds of \$1,019,374 from 292,628 options exercised at an average strike price of \$3.48 for the period ended June 30, 2007 offset by advances of \$401,322 to related parties.

For the first quarter ended June 30, 2007, the Company did not acquire or cancel any of its common shares under the Normal Course Issuer Bid of which expired during the quarter ended June 30, 2007.

During the first quarter ended June 30, 2007, a total of 260,900 options were granted to directors, officers, employees, and consultants exercisable at \$20.21 per share for five years with a vesting period of: 8.333% of options are vested in six months from the grant date and 8.333% of options are vested every three months thereafter for three years. A total of 162,509 options were forfeited during the first quarter ended June 30, 2007.

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Subsequent to June 30, 2007, a total of 8,824 options were exercised at strike prices of \$2.25 for total proceeds of \$19,854.

On June 13, 2006, the Board of Directors approved a Normal Course Issuer Bid to acquire up to 1,000,000 of its Common Shares (being approximately 2% of the currently issued and outstanding), over a one year period through the facilities of the TSX Exchange. The Company has cancelled all shares acquired under the Normal Course Issuer Bid and the Normal Course Issuer Bid has expired during the first quarter ended June 30, 2007.

(f) Commitments, Contingencies, Contractual Obligations

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

- (i) During the 2007 fiscal year, Henan Found entered into a joint venture agreement, for a 22.5% participation interest, in a custom built 150,000-tonne/year lead-silver-gold smelter in Luoning County, Luoyang City, Henan Province, China. Henan Found's share, 22.5% of the cost, will be \$6.71 million (RMB¥45 million) for the first phase and is expected to be financed by cash flow from its Ying Silver Mine. As of June 30, 2007, Henan Found contributed \$202,565 (RMB¥1,450,000) to set up the joint venture.
- (ii) On June 30, 2007, the Company entered into a joint venture contract with a Chinese party to form Qinghai Found Mining Company Ltd. ("Qinghai Found"), a Sino-foreign cooperate joint venture company, to explore and develop the Na-Bao silver-polymetallic Project ("Na-Bao Project") in Qinghai Province, China. Under the joint venture contract, the Company can earn an 82% interest in Qinghai Found by investing approximately US\$4.0 million. The Chinese party will retain an 18% carried interest in Qinghai Found in exchange for transferring the three Na-Bao permits to Qinghai Found.

The Company has also signed a letter of intent with the Chinese party to jointly explore the XG silver polymetallic project ("XG Project"), which consists of two exploration permits (the XGE and XR Permits) owned by the Chinese party. With the establishment of Qinghai Found, the XG project permits will also be transferred to Qinghai Found in exchange for a cash payment to the Chinese party.

- (iii) With respect to its leasehold obligations, the Company has commitments totaling \$540,510 over 5 years (years ending March 31st, 2008: \$121,615; 2009 - 2011: \$162,153 per year; 2012: \$94,589).

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

(g) Available sources of funding

The Company does not have unlimited resources and its future capital requirements will depend on many factors, including, among others, cash flow from operations. To the extent that existing resources and the funds generated by future income are insufficient to fund the Company's operations, the Company may need to raise additional funds through public or private debt or equity financing. If additional funds are raised through the issuance of equity securities, the percentage ownership of current shareholders will be reduced and such equity securities may have rights, preferences, or privileges senior to those of the holders of the Company's common stock. No assurance can be given that additional financing will be available or that, if available, can be obtained on terms favourable to the Company and its shareholders. If adequate

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funds are not available, the Company may be required to delay, limit, or eliminate some or all of its proposed operations. The Company believes it has sufficient capital to meet its cash needs for the next 12 months, including the costs of compliance with the continuing reporting requirements.

1.7 Capital Resources

Item 1.6 provides further details.

1.8 Off-Balance Sheet Arrangements

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

1.9 Transaction with Related Parties

(a) During the three months ended June 30, 2007, the Company incurred:

- (i) consulting fees of \$41,250 (three months ended June 30, 2006 - \$52,500) payable to a company owned by an officer and director of the Company and to an officer of the Company;
- (ii) legal fees of \$nil (three months ended June 30, 2006 - \$73,624) payable to a law firm controlled by a director of the Company;
- (iii) management fees of \$42,546 (three months ended June 30, 2006 - \$34,203) payable to company owned by an officer and director of the Company, and to an officer and director of the Company;
- (iv) accounting fees of \$nil (three months ended June 30, 2006 - \$31,797) payable to an accounting firm controlled by a former officer of the Company;
- (v) directors' fees of \$16,970 (three months ended June 30, 2006 - \$nil); and,
- (vi) expenses and exploration costs recovery of \$285,593 (three months ended June 30, 2006 - \$nil) from NUX.

(b) As of June 30, 2007, the related transaction balances included the following:

- (i) \$nil (March 31, 2007 - \$39,750) due to a company controlled by a director of the Company for its services provided;
- (ii) \$11,667 (March 31, 2007 - \$nil) due to a company controlled by a director of the Company and the director for services provided;
- (iii) \$4,290 (March 31, 2007 - \$nil) due to a director as his director fee for the period;
- (iv) \$12,091 due from the joint venture partner of Huawei for funds advanced to the partner for services provided. As at March 31, 2007, the Company has a balance of \$151,769 due to the joint venture partner;
- (v) \$33,564 (March 31, 2007 - \$32,660) due from a Chinese company related by common control; and
- (vi) \$1,165,098 (March 31, 2007 - \$1,377,863) due to NUX for funds advanced from NUX and services rendered and costs incurred on behalf of NUX by the Company.

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

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

On March 15, 2007, the Company participated in NUX's private placement and acquired 900,000 units at \$2.50 per unit with warrants to acquire a further 450,000 units at \$3.00 per unit per a period of one year to expire on March 15, 2008. As at June 30, 2007, the Company owns 5,791,667 common shares of NUX representing an equity interest of 19.4%.

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

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

1.10 Fourth Quarter

Not applicable.

1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates

A detailed summary of the Company's significant accounting policies is included in Note 2 to the annual audited consolidated financial statements for the year ended March 31, 2007 and in Note 2 to the interim consolidated financial statements for the three months ended June 30, 2007

(a) Mineral rights and properties

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

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

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

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Company decides to abandon the property.

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

(b) Asset retirement obligations

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

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

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

(c) Income taxes

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

(d) Stock-based compensation

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

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

(e) Reserve Fund, Employee Welfare, and Enterprise Expansion Funds

Pursuant to Chinese regulations, Henan Found may make appropriations to reserves funds, comprising the Enterprise Reserve Fund, Enterprise Expansion Fund, and Employee Welfare Fund at a percentage, at the discretion of the Board of Directors of Henan Found, of its after tax net income.

The Enterprise Reserve Fund is established for covering potential losses and could be used to increase the

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registered capital if approved by the relevant Chinese authorities. The Enterprise Expansion Fund is for expanding business operation. Both Enterprise Reserve Fund and Enterprise Expansion Fund are recorded as part of shareholders' equity but are not available for distribution to shareholders other than in liquidation. Employee Welfare Fund is established for the purpose of providing employee facilities and other collective benefits to employees and is recorded as an expense.

During the three months ended June 30, 2007, the Board of Directors of Henan Found appropriated reserves of \$2,365,587 (RMB¥16,418,499) from its retained earning for the calendar year ended December 31, 2006. Of the reserves, a total of \$473,181 (RMB¥3,283,700) was appropriated as Enterprise Reserve Fund and \$1,892,406 (RMB¥13,134,799) as Enterprise Expansion Fund. Henan Found also contributed a total of \$18,349 (RMB¥131,348) to the Employee Welfare Fund. The contribution to Employee Welfare Fund was recorded as accrued liabilities on the consolidated balance sheets and expensed on the consolidated statements of income.

1.13 Change in Accounting Policies and Initial Adoption

The significant accounting policies outlined within the Audited Consolidated Financial Statements of the Company for the year ended March 31, 2007 have been applied consistently for the three months ended June 30, 2007, with the exception of several changes in accounting policy; which were retroactively adopted on April 1, 2007, without restatement of prior periods.

(i) Financial instrument standards

On April 01, 2007, the Company retroactively adopted the recommendations included in the following Sections of the Canadian Institute of Chartered Accountants Handbook: Section 1530, "Comprehensive Income"; Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3865, "Hedges"; Section 3861, "Financial Instruments – Disclosure and Presentation", and Section 3251, "Equity". As we have not previously undertaken hedging activities, adoption of Section 3865 currently has no impact on us.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial assets and financial liabilities are financial assets and financial liabilities which are acquired for resale prior to maturity or are financial assets and liabilities designated as such by the Company. Held-to-maturity financial assets are non-derivative financial assets with a fixed maturity which the Company intends to hold until maturity. Available-for-sale financial assets are those non-derivative financial assets which are so designated by the Company or that do not fall into another category.

CICA 3855 requires that all financial assets, except those classified as held to maturity, and loans and receivables, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held-for trading; otherwise, they are measured at amortized cost. Investments classified as available-for-sale are reported at fair market value based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Those instruments classified as held-for-trading, have gains or losses included in earnings in the period in which they arise.

Comprehensive income is the change in our net assets that results from transactions, events and circumstances from sources other than our shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding of gains and losses from available-for-sale securities which are not included in net income (loss) until realized and foreign currency translation gains or losses arising from

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the translation of the Company's self-sustaining foreign operations.

The Company has made the following classifications:

- Term deposits and bank notes, which are included in cash and cash equivalents and short term investments, are classified as held-to-maturity investments. Accounts receivable and prepaids long term prepaids, and long term investment in Luoning Smelter are classified as "Loans and Receivables". Held-to-maturity investments and loans and receivable are initially measured at fair value.
- The long term investment in the common shares of Dajin Resources Corp. is classified as "Available for sale securities". Available for sale securities are initially recorded at cost, which upon their initial measurement is equal to their fair value by reference to market price. Subsequent changes in the market value of securities are recorded as changes to other comprehensive income (loss). The investment in New Pacific Metals Corp. is excluded from Section 3855 as it is accounted for using the equity method.
- Accounts payable and accrued liabilities as well as deposits received from customers are classified as other financial liabilities. They are initially measured at their fair value and subsequent measurements are recorded at amortized cost using the effective interest method.

Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred.

Section 3855 also requires that the embedded derivatives to be identified and separated from the related host contract and be measured at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statement of operations in the period the change occurs.

Upon the adoption of these new standards as at April 01, 2007, the Company remeasured its financial assets and liabilities. The investment in Dajin Resources Corp. was classified as available for sale securities and its carrying value was adjusted to \$260,000 with a credit of \$10,000 to the opening accumulated other comprehensive income. The cumulative foreign translation adjustment of \$1,232,387 for the year ended March 31, 2007 was restated as a component of accumulated other comprehensive income. For the three months ended June 30, 2007, the unrealized gain on the available for sale securities was \$80,000 and the unrealized loss on the translation of self-sustaining foreign operation was \$2,332,317. The adoption of these new standards has no impact on the Company's cash flow.

(ii) Accounting changes

In July 2006, the CICA revised Section 1506, "Accounting Changes", which now requires that: (a) a voluntary change in accounting principles can be made if, and only if, it is required by primary source of GAAP or the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (c) for changes in estimates, the nature and amount of the change should be disclosed. The revised section is effective for the Company's financial year beginning April 1, 2007 for fiscal year 2008.

(iii) Inventories

In June 2007, CICA issued Handbook Section 3031 "Inventories" which replaces Section 3030 "Inventories". Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section contains guidance on the determination of cost and also requires the reversal of any write-downs previously recognized. Certain minimum disclosures are required, including the accounting policies used, carrying amounts, amounts recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses. The new standard will become effective on April 1st, 2008 for the Company. The Company is currently evaluating the impact of the adoption of this new section

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First quarter fiscal year 2008 ended June 30, 2007

(Expressed in Canadian Dollars, except share, per share, and mining data)

on the consolidated financial statements.

(iv) Capital Disclosures

As of April 1st, 2008, the Company will be required to adopt CICA Section 1535 "Capital Disclosures", which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Company is assessing the impact on its Consolidated Financial Statements.

(v) Convergence with IFRS

In January 2006, CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

1.14 Financial Instruments and Other Instruments

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

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

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

As at June 30, 2007, approximately \$25,404,577 (March 31, 2007 - \$21,405,140) of cash and cash equivalents, and short term investments were held in RMB¥.

1.15 Other MD&A Requirements

1.15.1 Additional Information in relation to the Company

Additional information relating to the Company:

- (a) may be found on SEDAR at www.sedar.com;
- (b) may be found at the Company's web-site www.silvercorp.ca;
- (c) may be found in the Company's annual information form; and,
- (d) is also provided in the Company's annual audited consolidated financial statements for the years ended March 31, 2007 and 2006; and unaudited interim consolidated financial statements for the three months ended June 30, 2007.

1.15.2 Outstanding Share Data

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

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(a) Share Capital

Authorized - unlimited number of common shares without par value

Issued and outstanding – 48,954,098 common shares with a recorded value of \$88,035,248.

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>
20,000	0.40	September 26, 2007
200,000	0.35	December 15, 2007
200,000	0.50	July 14, 2008
20,875	2.25	October 6, 2008
550,000	0.55	October 24, 2009
300,000	1.90	February 28, 2010
195,600	12.95	July 23, 2011
24,200	13.40	August 14, 2011
82,000	13.28	August 28, 2011
260,900	20.21	April 10, 2012
<u>1,853,575</u>		

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as at June 30, 2007. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – 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

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evaluation, nor were there any significant deficiencies of material weaknesses in the Company's internal controls requiring corrective actions.

(b) Internal Controls over Financial Reporting

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

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

The Company has a limited number of staff and it is not always possible to achieve a complete segregation of incompatible duties. Management attempts to mitigate the risk of any material misstatement occurring through compensating controls and the "hands-on" involvement and knowledge of the senior management, however, a control system, no matter how well designed and functioning, can only provide reasonable, not absolute assurance the objectives of the control system are met. Management noted some areas that need improvement in the financial reporting process during a review and evaluation of the effectiveness of its internal controls over financial reporting of the Company's operations in China.

There has been no change in the Company's internal control over financial reporting during the Company's 3 months ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(c) Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

(d) Directors and Officers

As at the date of this report, the Company's Directors and Officers are as follows:

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Directors

Dr. Rui Feng, Director, Chairman & CEO
Myles J. Gao, Director, President & COO
YiKang Liu, Director
Earl Drake, Director
Paul Simpson, Director
Greg Hall, Director

Officers

Dr. Rui Feng, Director, Chairman & CEO
Myles J. Gao, Director, President & COO
Grace Soo, Chief Financial Officer

1.17 Outlook

(a) Henan Found – Ying Silver Project

The Company anticipates ore production and milling through-put to be stable for the 2008 fiscal year; therefore, the Company's revenue and net profit from this operation should increase substantially over the 2007 fiscal year.

(b) Henan Huawei – HPG Project

Since April 2007, mining and milling operations have commenced on the HPG project with approximately 200 tonnes of ore being mined per day and about 250 tonnes per day being milled. The Company anticipates that the HPG operation will add to the 2008 fiscal year's revenue and net profit.

(c) Overall Strategy

The company will continue to focus its effort in China:

- acquiring additional projects through our intensive program of reviewing advanced silver-related exploration and producing projects in China;
- once a discovery is made with limited drilling, quickly develop mining operations to generate cash flow even before its full potential is drilled off; and,
- keep expanding resources through drilling while expanding the mining operation through cash flow from initial mining operations.