

## **SILVERCORP METALS INC.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations Three and six months ended September 30, 2007 (Expressed in Canadian Dollars, except share, per share, and mining data)**

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#### **Date of Report – As at November 9, 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 and six months ended September 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](http://www.sedar.com), and the Company's website at [www.silvercorp.ca](http://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 geological data, fluctuating metal prices, the possibility of project cost 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; Total production cost per ounce; Total cash 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; Total recovery of mine and mill head grades; Run of mine head grade; Mill head grade; Mill recovery rates; Profit margin; Gross margin; Adjusted basic earnings per share; Adjusted diluted earnings per share; Adjusted weighted average number of shares outstanding - basic; Adjusted weighted average number of shares outstanding - diluted. 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 do not have a 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's common shares are included as a component of the S&P/TSX Composite, the S&P/TSX Global Gold, and the S&P/TSX Global Mining Indexes.

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The Company's mining operations are conducted at its Ying and HPG Projects, located in Henan Province, China. With the NZ gold (Au) mining permit acquisition, and the LM Silver Lead Mine acquisitions the Company will have four mining permits in Henan Province, China: the Ying, HPG, NZ, and LM 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.

On September 28, 2007, shareholders approved a three-for-one share stock split for its common shares. The record date for the stock split was set at the close of business on October 31, 2007. The common shares were posted for trading at the market open on October 29, 2007 on an ex-distribution basis. Except for the outstanding share data discussed in *Section 1.15*, all share and per share information included in this report is expressed on a pre-split basis.

#### **1.1 Date of Report - As above**

#### **1.2 Overall Performance**

##### *(a) Highlights*

For the three and six months ended September 30, 2007, the Company recorded consolidated net earnings of \$17,573,061 and \$33,460,557, equating to \$0.36 and \$0.68 per share or \$0.35 and \$0.66 per share fully diluted, respectively. For the three and six months ended September 30, 2007, the cash flows provided by operations were \$21,503,816 and \$42,238,171 with a profit margin of 57% and 61%, respectively.

Cash and cash equivalents plus short term investments, as at September 30, 2007, increased by \$21,937,824 to \$89,704,947 (March 31, 2007 - \$67,767,123). Short term investments are invested in high quality money market instruments.

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(a)(i) The following table summarizes the operating and financial data in respect to the Ying Silver Project and the HPG Project, on a consolidated basis.

<u>Consolidated</u>	Three months ended September 30,		Six months ended September 30	
	2007	2006	2007	2006
<b>Production Data</b>				
<b>Mine Data</b>				
<b>Ore Mined (tonne)</b>				
Direct Smelting Ores (tonne)	3,411	1,723	6,069	2,784
Stockpiled Ores (tonne)	71,306	38,802	139,464	68,461
	<u>74,717</u>	<u>40,525</u>	<u>145,533</u>	<u>71,245</u>
Ores Milled (tonne)	73,437	31,115	146,389	51,401
<b>Mining Cost and Milling Cost</b>				
Mining Cost per tonne of ore mined (\$)	55.95	39.00	52.94	41.00
Milling Cost per tonne of ore milled (\$)	12.61	21.00	12.23	20.00
<b>Average Production Cost</b>				
Silver (\$ per ounce)	2.19	2.19	2.38	2.15
Gold (\$ per ounce)	104.73	78.34	106.67	76.62
Lead (\$ per pound)	0.23	0.12	0.21	0.11
Zinc (\$ per pound)	0.22	0.25	0.24	0.24
<b>Production Cost and Cash Cost Per Ounce of Silver, Adjusted for By-Product Credits</b>				
Total production cost per ounce of Silver (\$)	(13.62)	(6.07)	(11.94)	(6.21)
Total cash cost per ounce of Silver (\$)	(15.18)	(6.57)	(13.12)	(6.72)
<b>Total Recovery of the Run of Mine Ores</b>				
Silver (%)	90.5	94.9	90.2	94.2
Lead (%)	94.8	98.3	95.1	98.3
Zinc (%)	77.0	67.4	75.3	70.1
<b>Head Grades of Run of Mine Ores</b>				
Silver (gram/tonne)	425.2	476.9	422.0	458.1
Lead (%)	7.1	8.8	7.5	8.2
Zinc (%)	3.4	3.4	3.4	3.4
<b>Sales Data</b>				
<b>Metal Sales</b>				
Silver (ounce)	1,001,992	527,502	1,872,600	736,647
Gold (ounce)	515	100	838	100
Lead (pound)	12,879,642	7,174,490	24,149,188	10,067,402
Zinc (pound)	4,744,258	1,739,148	8,593,531	2,639,410
<b>Metal Sales</b>				
Silver (\$)	10,761,522	5,080,776	21,136,416	7,115,939
Gold (\$)	264,307	34,504	424,644	34,504
Lead (\$)	14,428,950	3,669,954	23,568,428	4,998,877
Zinc (\$)	5,208,299	1,922,889	9,969,923	2,891,853
	<u>30,663,078</u>	<u>10,708,123</u>	<u>55,099,411</u>	<u>15,041,173</u>
<b>Average Selling Price, Net of Value Added Tax and Smelter Charges</b>				
Silver (\$ per ounce)	10.74	9.63	11.29	9.66
Gold (\$ per ounce)	513.22	345.04	506.74	345.80
Lead (\$ per pound)	1.12	0.51	0.98	0.50
Zinc (\$ per pound)	1.10	1.11	1.16	1.10

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(a)(ii) The following table summarizes the operating and financial data in respect to the Ying Silver Project on a non-consolidated basis.

<b>Ying Silver Property</b>	Three months ended September 30,		Six months ended September 30	
	<b>2007</b>	2006	<b>2007</b>	2006
<b>Production Data</b>				
<b>Mine Data</b>				
<b>Ore Mined (tonne)</b>				
<b>Direct Smelting Ores (tonne)</b>	<b>2,903</b>	1,723	<b>5,127</b>	2,784
<b>Stockpiled Ores (tonne)</b>	<b>59,923</b>	38,802	<b>115,961</b>	68,461
	<b>62,826</b>	40,525	<b>121,088</b>	71,245
<b>Ores Milled (tonne)</b>	<b>64,282</b>	31,115	<b>128,856</b>	51,401
<b>Mining Cost and Milling Cost</b>				
<b>Mining Cost per tonne of ore mined (\$)</b>	<b>54.00</b>	39.00	<b>53.00</b>	41.00
<b>Milling Cost per tonne of ore milled (\$)</b>	<b>12.00</b>	21.00	<b>11.00</b>	20.00
<b>Average Production Cost</b>				
<b>Silver (\$ per ounce)</b>	<b>1.87</b>	2.19	<b>2.11</b>	2.15
<b>Gold (\$ per ounce)</b>	<b>53.69</b>	78.34	<b>59.14</b>	76.62
<b>Lead (\$ per pound)</b>	<b>0.20</b>	0.12	<b>0.18</b>	0.11
<b>Zinc (\$ per pound)</b>	<b>0.19</b>	0.25	<b>0.22</b>	0.24
<b>Production Cost and Cash Cost Per Ounce of Silver, Adjusted for By-Product Credits</b>				
<b>Total production cost per ounce of Silver (\$)</b>	<b>(13.77)</b>	(6.07)	<b>(11.87)</b>	(6.21)
<b>Total cash cost per ounce of Silver (\$)</b>	<b>(14.27)</b>	(6.57)	<b>(12.38)</b>	(6.72)
<b>Total Recovery of the Run of Mine Ores</b>				
<b>Silver (%)</b>	<b>91.4</b>	94.9	<b>89.0</b>	94.2
<b>Lead (%)</b>	<b>95.8</b>	98.3	<b>95.4</b>	98.3
<b>Zinc (%)</b>	<b>74.1</b>	67.4	<b>75.3</b>	70.1
<b>Head Grades of Run of Mine Ores</b>				
<b>Silver (gram/tonne)</b>	<b>446.8</b>	476.9	<b>471.8</b>	458.1
<b>Lead (%)</b>	<b>7.0</b>	8.8	<b>7.5</b>	8.2
<b>Zinc (%)</b>	<b>3.9</b>	3.4	<b>3.8</b>	3.4
<b>Sales Data</b>				
<b>Metal Sales</b>				
<b>Silver (ounce)</b>	<b>923,033</b>	527,502	<b>1,759,432</b>	736,647
<b>Gold (ounce)</b>	<b>75</b>	100	<b>136</b>	100
<b>Lead (pound)</b>	<b>10,983,686</b>	7,174,490	<b>21,036,293</b>	10,067,402
<b>Zinc (pound)</b>	<b>4,614,186</b>	1,739,148	<b>8,322,365</b>	2,639,410
<b>Metal Sales</b>				
<b>Silver (\$)</b>	<b>9,918,312</b>	5,080,776	<b>19,910,127</b>	7,115,939
<b>Gold (\$)</b>	<b>23,184</b>	34,504	<b>43,207</b>	34,504
<b>Lead (\$)</b>	<b>12,373,295</b>	3,669,954	<b>20,510,682</b>	4,998,877
<b>Zinc (\$)</b>	<b>5,072,357</b>	1,922,889	<b>9,671,404</b>	2,891,853
	<b>27,387,148</b>	10,708,123	<b>50,135,420</b>	15,041,173
<b>Average Selling Price, Net of Value Added Tax and Smelter Charges</b>				
<b>Silver (\$ per ounce)</b>	<b>10.75</b>	9.63	<b>11.32</b>	9.66
<b>Gold (\$ per ounce)</b>	<b>309.12</b>	345.04	<b>317.70</b>	345.80
<b>Lead (\$ per pound)</b>	<b>1.13</b>	0.51	<b>0.98</b>	0.50
<b>Zinc (\$ per pound)</b>	<b>1.10</b>	1.11	<b>1.16</b>	1.10

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(a)(iii) The following table summarizes the operating and financial data in respect to the HPG Project on a non-consolidated basis.

<u>HPG Project</u>	<u>Three months ended</u> <u>September 30, 2007</u>	<u>Six month ended</u> <u>September 30, 2007</u>
<b>Production Data</b>		
<b>Mine Data</b>		
Ore Mined (tonne)		
Direct Smelting Ores (tonne)	508	942
Stockpiled Ores (tonne)	11,383	23,503
	<u>11,891</u>	<u>24,445</u>
Ores Milled (tonne)	9,155	17,533
<b>Mining Cost and Milling Cost</b>		
Mining Cost per tonne of ore mined (\$)	66.25	52.62
Milling Cost per tonne of ore milled (\$)	16.87	21.25
<b>Average Production Cost</b>		
Silver (\$ per ounce)	5.58	5.16
Gold (\$ per ounce)	286	258.77
Lead (\$ per pound)	0.57	0.47
Zinc (\$ per pound)	0.55	0.52
<b>Production Cost and Cash Cost Per Ounce of Silver, Adjusted for By-Product Credits</b>		
Total production cost per ounce of Silver (\$)	(9.14)	(12.14)
Total cash cost per ounce of Silver (\$)	(23.23)	(23.76)
<b>Total Recovery of the Run of Mine Ores</b>		
Silver (%)	82.1	80.3
Lead (%)	90.0	94.1
Zinc (%)	54.8	53.9
<b>Head Grades of Run of Mine Ores</b>		
Silver (gram/tonne)	259.3	221.5
Lead (%)	7.7	7.8
Zinc (%)	1.3	1.5
<b>Sales Data</b>		
<b>Metal Sales</b>		
Silver (ounce)	78,959	113,168
Gold (ounce)	440	702
Lead (pound)	1,895,956	3,112,895
Zinc (pound)	130,072	271,166
<b>Metal Sales</b>		
Silver (\$)	843,210	1,226,289
Gold (\$)	241,123	381,437
Lead (\$)	2,055,655	3,057,746
Zinc (\$)	135,942	298,519
	<u>3,275,930</u>	<u>4,963,991</u>
<b>Average Selling Price, Net of Value Added Tax and Smelter Charges</b>		
Silver (\$ per ounce)	10.68	10.84
Gold (\$ per ounce)	548.01	543.36
Lead (\$ per pound)	1.08	0.98
Zinc (\$ per pound)	1.05	1.10

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#### *(b) 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.

#### *(c) 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 Section 1.14, Financial Instruments.

### **1.3 Selected Annual Information**

#### **For the years ended March 31,**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Sales	\$ 45,290,340	\$ -	\$ -
Gross Profit	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	-	-	-

### **1.4 Results of Operations**

#### *(a) 2<sup>nd</sup> Quarter Results- Three months ended September 30, 2007*

##### *(i) Highlights*

Sales for three months ended September 30 2007 increased by \$19,945,955 or 186% to \$30,663,078, as compared to \$10,708,123 in the prior year period. Gross profit for the quarter amounted to \$24,405,908 with a gross margin of 80%, an increase of \$16,126,820 or 195% compared to a gross margin of 77% in the prior year period. Net income for the three months ended September 30 2007, increased by 228% to \$17,573,061, equating to \$0.36 per share or \$0.35 per share fully diluted compared to \$5,361,840 equating to \$0.11 per share basic and fully diluted.

The net income increase of \$12,211,221 over the prior year period is primarily attributed to the increased through-put capacity of the Ying Silver Mine, the commencement of production at the HPG Property since April 1, 2007, and strengthening commodity prices. Sales from the Ying Silver Mine increased by 156% to \$27,387,148 compared to \$10,708,123 in the prior year period. The HPG Mine, still in its first year of production, achieved second quarter sales of \$3,275,930.

The cash flows provided by operations were \$21,503,816 compared to \$7,516,975 in the prior year period.

*(ii) Sales:* During the three months ended September 30, 2007, the Company increased sales by 186% to \$30,663,078 (three months ended September 30, 2006 - \$10,708,123). This is primarily attributed to the

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Ying Silver Property two-fold increase in sales to \$27,387,148 (three months ended September 30, 2006 - \$10,708,123) and HPG Property sales of \$3,275,930 (three months ended September 30, 2006 - \$nil).

(iii) *Cost of Sales*: The total cost of sales, including milling costs, for the three months ended September 30, 2007 amounted to \$6,257,170 (three months ended September 30, 2006 - \$2,429,035), and are comprised of \$4,694,746 (three months ended September 30, 2006 - \$2,161,369) for the cash cost and \$1,562,424 (three months ended September 30, 2006 - \$267,666) for the depreciation charges.

(iv) *Accretion of asset retirement obligations*: For the three months ended September 30, 2007, the Company recognized \$15,400 (three months ended September 30, 2006 - \$nil) as accretion of asset retirement obligations. The Company's assets retirement obligations related to the reclamation cost of Ying property and was calculated using a credit-adjusted risk-free discount rate of 6.0%. The total undiscounted amount of cash flows required to settle the obligations is estimated at approximately \$1.56 million and is expected to be settled gradually over the estimated mine life, 6 years. These obligations will be funded from the Company's resources upon local government's fee payment requests.

(v) *Foreign exchange loss(gain)*: During the three months ended September 30, 2007, the Company recorded a foreign exchange loss of \$687,005 (three months ended September 30, 2006 - \$22,436) 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 (\$2,737,853) for the three months ended September 30, 2007.

(vi) *General exploration and property investigation expenses*: During the three months ended September 30, 2007, the Company incurred general exploration and property investigation expenses of \$336,407 (three months ended September 30, 2006 - \$312,512) representing an increase of \$23,886 as the Company actively pursues its strategy to grow through the exploration, development and production of advanced silver properties in China.

(vii) *Investor relations*: During the three months ended September 30, 2007, the Company incurred investor relation costs of \$78,733 (three months ended September 30, 2006 - \$124,934) representing a decrease of \$46,201 as compared to the same period in the prior year.

(viii) *Office, administration and miscellaneous*: During the three months ended September 30, 2007, the Company incurred office, administration and miscellaneous expenses of \$964,155 (three months ended September 30, 2006 - \$534,628) representing an increase of \$429,527 or 80%. 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.

(ix) *Professional fees*: During the three months ended September 30, 2007, the Company incurred professional fees of \$110,597 (three months ended September 30, 2006 - \$97,802) a \$12,795 or 13% increase as compared to the same period in the prior year.

(x) *Stock-based compensation expenses*: During the three months ended September 30, 2007, the Company recognized \$594,753 (three months ended September 30, 2006 - \$890,994) of non-cash stock-based compensation expenses for incentive stock options granted to directors, officers, employees, and consultants using the Black Scholes options pricing model, representing a decrease of 33% or \$296,241 over the same period in the prior year as a result of a reduction in options granted over the same period in the prior year.

(xi) *Equity income in investment*: During the three months ended September 30, 2007, the Company

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recorded equity income of \$20,800 (three months ended September 30, 2006 - equity loss of \$40,334) mainly due to an adjustment of \$75,469 made according to NUX's audited financial statements for the year ended June 30, 2007. The unadjusted equity loss for the three months ended September 30, 2007 amounted to \$54,669 and is solely attributed to the Company's investment in NUX.

(xii) *Mineral property option income*: During the three months ended September 30, 2007, the Company recorded mineral property option income of \$1,206,249 (three months ended September 30, 2006 - \$412,250) 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.

(xiii) *Interest income*: During the three months ended September 30, 2007, the Company recognized \$649,569 interest income (three months ended September 30, 2006 - \$536,194) representing an increase of \$113,375. The increase is attributed to additional cash provided by operating activities through the Ying and HPG operations and higher interest rates earned on funds held on deposit.

#### (b) *Six months ended September 30, 2007*

##### (i) *Highlights*

For the six months ended September 30 2007, the Company recorded consolidated net earnings of \$33,460,557 (six months ended September 30, 2006 - \$7,719,420), equating to \$0.68 (six months ended September 30, 2006 - \$0.16) per share or \$0.66 (six months ended September 30, 2006 - \$0.16) per share fully diluted. The cash flows provided from operations were \$42,238,171 with a profit margin of 61% (six months ended September 30, 2006 - 51%). The net income increase of \$25,741,137, over the comparable period in the prior year, is attributed to the increased through-put capacity of the Ying Silver Mine, the commencement of production at the HPG Property since April 1, 2007, and strengthening commodity prices. Sales from the Ying Silver Mine increased two-fold to \$50,135,420 over the prior comparable period. The HPG Mine achieved sales of \$4,963,991 in its first six months of operations.

During the six months ended September 30, 2007, gross profit amounted to \$43,500,817 (six months ended September 30, 2006 - \$11,691,802) representing a gross margin of 79% (six months ended September 30, 2006 - 78%) and is mainly attributable to increased sales of direct shipping ore, gold-silver-lead-zinc concentrates from the Company's Ying and HPG Project mining operations.

During the first quarter ended June 30, 2007, the 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 the quarter ended June 30, 2007.

(ii) *Sales*: During the six months ended September 30, 2007, the Company increased sales by 266% to \$55,099,411 (six months ended September 30, 2006 - \$15,041,173) compared to the prior year period. The increase is primarily attributed to the Ying Silver Property increase in sales to \$50,135,420 (six months ended September 30, 2006 - \$15,041,173) and HPG Property sales of \$4,963,991 (six months ended September 30, 2006 - \$nil).

(iii) *Cost of Sales*: The total cost of sales, including milling costs, for the six months ended September 30, 2007 amounted to \$11,598,594 (six months ended September 30, 2006 - \$3,349,371), and are comprised of \$9,392,625 (six months ended September 30, 2006 - \$2,976,040) for the cash cost and \$2,205,969 (six months ended September 30, 2006 - \$373,331) for the depreciation charges.

(iv) *Accretion of asset retirement obligations*: For the six months ended September 30, 2007, the Company recognized \$32,043 (six months ended September 30, 2006 - \$nil) as accretion of asset retirement obligations. The Company's assets retirement obligations related to the reclamation cost of Ying property and was calculated using a credit-adjusted risk-free discount rate of 6.0%. The total undiscounted amount

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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.

(v) *Foreign exchange loss(gain)*: During the six months ended September 30, 2007, the Company recorded a foreign exchange loss of \$1,138,218 (six months ended September 30, 2006 - \$62,143) or \$0.02 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 (\$5,070,170) for the six months ended September 30, 2007.

(vi) *General exploration and property investigation expenses*: During the six months ended September 30, 2007, the Company incurred general exploration and property investigation expenses of \$589,781 (six months ended September 30, 2006 - \$588,452) representing an increase of \$1,329 as the Company actively pursues its strategy to grow through the exploration, development and production of advanced silver properties in China.

(vii) *Investor relations*: During the six months ended September 30, 2007, the Company incurred investor relation costs of \$142,057 (six months ended September 30, 2006 - \$239,710) representing a decrease of \$97,653 as compared to the same period in the prior year.

(viii) *Office, administration and miscellaneous*: During the six months ended September 30, 2007, the Company incurred office, administration and miscellaneous expenses of \$1,822,540 (six months ended September 30, 2006 - \$1,077,435) representing an increase of \$745,105 or 69%. 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.

(ix) *Professional fees*: During the six months ended September 30, 2007, the Company incurred professional fees of \$215,293 (six months ended September 30, 2006 - \$267,193) a \$51,900 or 19% decrease as compared to the same period in the prior year.

(x) *Stock-based compensation expenses*: During the six months ended September 30, 2007, the Company recognized \$1,264,720 (six months ended September 30, 2006 - \$1,026,280) 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 23% or \$238,440 over the same period in the prior year as a result of the significant increase of the share price of the Company over the same period in the prior year.

(xi) *Equity income in investment*: During the six months ended September 30, 2007, the Company recorded equity loss of \$110,992 (six months ended September 30, 2006 - \$47,511) is solely attributed to the Company's investment in NUX.

(xii) *Mineral property option income*: During the six months ended September 30, 2007, the Company recorded mineral property option income of \$3,256,872 (six months ended September 30, 2006 - \$978,084) resulting from the receipt of shares issued by NUX pursuant to the Kang Dian Project Option Agreement along with the increase in NUX's market value upon the release of the escrow shares.

(xiii) *Interest income*: During the six months ended September 30, 2007, the Company recognized \$1,166,678 (six months ended September 30, 2006 - \$936,608) representing an increase of \$230,070. The increase is attributed to additional cash provided by operating activities through the Ying and HPG operations and higher interest rates earned on funds held on deposit.

**SILVERCORP METALS INC.****Management's Discussion and Analysis of Financial Condition and Results of Operations****Three and six months ended September 30, 2007****(Expressed in Canadian Dollars, except share, per share, and mining data)****1.5 Summary of Quarterly Results**

	<b>For the Quarters Ended</b>			
	<b>30-Sep-07</b>	<b>30-Jun-07</b>	<b>31-Mar-07</b>	<b>31-Dec-06</b>
Sales	\$ 30,663,078	\$ 24,436,333	\$ 15,517,529	\$ 14,731,638
Gross Profit	24,405,908	19,094,909	11,405,935	12,027,107
Gains and other income	1,892,469	2,383,673	2,693,415	1,559,528
Net income	17,573,061	15,887,496	8,050,571	9,338,817
Basic earnings per share	0.36	0.33	0.17	0.19
Diluted earnings per share	0.35	0.32	0.16	0.19
Total assets	149,248,291	125,639,525	108,546,948	91,189,927
Total long term liabilities	3,385,889	3,244,522	2,392,480	-
Cash dividends declared per share	0.15	-	-	-

  

	<b>For the Quarters Ended</b>			
	<b>30-Sep-06</b>	<b>30-Jun-06</b>	<b>31-Mar-06</b>	<b>31-Dec-05</b>
Sales	\$ 10,708,123	\$ 4,333,050	\$ -	\$ -
Gross Profit	8,279,088	3,412,714	-	-
Gains and other income	908,111	946,671	242,051	95,280
Net income (loss)	5,361,840	2,357,580	(1,556,317)	(1,446,857)
Basic earnings (loss) per share	0.11	0.05	(0.04)	(0.03)
Diluted earnings (loss) per share	0.11	0.05	(0.04)	(0.03)
Total assets	76,533,323	69,397,329	21,085,801	17,543,934
Total long term liabilities	-	-	-	-
Cash dividends declared per share	-	-	-	-

On September 17, 2007, the Company declared an annual dividend of \$0.15 per share payable to shareholders on record at the close of business on September 28, 2007.

On October 21, 2007, the Company paid its first annual dividend of \$0.15 per share to all shareholders on record at the close of business on September 28, 2007. The total dividend payment of \$7,383,039 is eligible for the enhanced federal and provincial dividend tax credits.

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

As at September 30, 2007, the Company had a working capital position of \$78,320,440 (March 31, 2007 - \$62,565,112) comprised mainly of cash and cash equivalents of \$50,710,665 (March 31, 2007 - \$61,484,697), short term investments of \$38,994,292 (March 31, 2007 - \$6,282,426), accounts receivable and prepaids of \$6,110,435 (March 31, 2007 - \$1,470,820), inventories of \$1,286,985 (March 31, 2007 - \$2,077,954), offset by current liabilities of \$18,781,927 (March 31, 2007 - \$8,750,785).

Working capital increased by \$15,755,328 since March 31, 2007 to \$78,320,440, primarily as the result of the cash provided from the Ying Silver-Lead-Zinc and the HPG Property operations.

## SILVERCORP METALS INC.

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

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

Cash and cash equivalents plus short term investments, as at September 30, 2007, increased by \$21,937,824 to \$89,704,947 (March 31, 2007 - \$67,767,123). Short term investments are invested in high quality money market instruments.

During the six months ended September 30, 2007, the Company's cash and cash equivalents decreased by \$10,774,042 to \$50,710,655 (March 31, 2007 - \$61,484,697) as a result of: cash provided by operating activities of \$42,238,171 (six months ended September 30, 2006 - \$9,378,324); cash used by investing activities of \$51,437,627 (six months ended September 30, 2006 - \$46,815,775) inclusive of the purchase of short term investments of \$33,874,820; offset by cash provided by financing activities of \$2,242,639 (six months ended September 30, 2006 - \$42,757,307), and negative effect of exchange rate changes on cash of \$3,817,225 (six months ended September 30, 2006 - \$5,473)

The Company does not invest in any asset backed commercial paper and therefore does not consider that it has any exposure to the current uncertainties in the marketplace.

#### *(c) Operating Activities*

During the six months ended September 30, 2007, the Company's net cash provided by operating activities of \$42,238,171 (six months ended September 30, 2006 - \$9,378,324) is comprised of: cash provided by net income of \$33,460,557 (six months ended September 30, 2006 - \$7,719,420); items not affecting cash of \$11,132,357 (six months ended September 30, 2006 - \$3,047,389); and, offset by the decrease in net changes of non-cash working capital of \$2,354,743 (six months ended September 30, 2006 - \$1,388,485).

#### *(d) Investing Activities*

During the six months ended September 30, 2007, the Company's net cash used in investing activities of \$51,437,627 (six months ended September 30, 2006 - \$46,815,775) is comprised primarily of: \$5,425,160 (six months ended September 30, 2006 - \$2,501,540) for the purchase of mineral rights and properties; \$2,351,718 (six months ended September 30, 2006 - \$1,349,166) for the purchase of property, plant and equipment; \$2,067,185 (six months ended September 30, 2006 - \$1,349,16) for the purchase of long term investments; \$33,874,820 (six months ended September 30, 2006 - \$41,902,000) for the purchase of short term investment; \$4,282,265 (six months ended September 30, 2006 - \$1,010,980) increase in long term prepaids; and, \$3,598,898 (six months ended September 30, 2006 - \$nil) distributed to a non-controlling subsidiary shareholder.

#### *(e) Financing Activities*

During the six months ended September 30, 2007, the Company's net cash provided by financing activities of \$2,242,639 (six months ended September 30, 2006 - \$42,757,307) is comprised primarily of: proceeds of \$1,348,676 (six months ended September 30, 2006 - \$47,249,689) from share subscriptions; loan arrangement of \$2,388,600 (six months ended September 30, 2006 - \$nil); and, offset by repayment of \$1,494,637 (six months ended September 30, 2006 - \$15,899) to related parties.

#### *(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

## SILVERCORP METALS INC.

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Mine.

On September 5, 2007, the joint venture agreement was amended with the incorporation of Luoyang Yongning Smelting Co. Ltd. ("Yongning") to hold the smelter project. Under the amended joint venture agreement, Henan Found can earn in 30% participation in the venture by contributing a total of \$10 million (RMB¥75 million) of the total investment in Yongning of RMB¥250 million, comprised of: \$20 million (RMB¥150 million) towards the registered capital with the balance of \$13.3 million (RMB¥100 million) for capital investment costs. For Henan Found to earn its 30% participation, the Company is to contribute \$2 million (RMB¥15 million) towards the registered capital of Yongning within five business days after the issuance of the business license and the remaining \$8 million (RMB¥60 million) comprised of: \$4 million (RMB¥30 million) towards the registered capital and \$4 million (RMB¥30 million) for capital investment costs, within one year after the issuance of the business license. On September 21, 2007, Yongning obtained approval from Chinese governmental authorities and the business license was issued.

As at September 30, 2007, Henan Found fulfilled its first phase registered capital requirement through a contribution of \$2 million (RMB¥15 million) (March 31, 2007 - \$67,095 (RMB¥450,000)) to Yongning, with the remaining commitment of approximately \$8 million (RMB¥60 million) due within one year from September 21, 2007. This investment is accounted by using the equity method.

- (ii) In June 2007, the Company, through its wholly owned subsidiary, Fortress Mining Inc., 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 will have 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 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. 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.

The Na-Bao Project and XG Project are collectively referred to as the Qinghai Project and are subject to receive final approvals from regulatory authorities.

In September 2007, a business license for Qinghai Found was issued upon approval by the Chinese governmental authorities. As at September 30, 2007, the Company has contributed \$1,318,250 (US\$1.25 million) towards its registered capital, and the transfer of the three Na-Bao permits to Qinghai Found is in process.

- (iii) In October 2007, the Company's 70% owned subsidiary, Huawei, entered into agreements to acquire 100% interest in a LM Silver-Lead Mine, which has a mining permit of 3.07 square kilometres located just southeast of the Ying silver project, through an acquisition of 100% interest of a private Chinese company. The total consideration of the acquisition is approximately \$3.25 million (RMB¥25 million). The acquisition is subject to governmental approval.
- (iv) 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 ("Huaiji Project") located in Guangdong Province, China.

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On January 25, 2007, NUX advanced \$1,461,092 (US\$1,240,000) to the Company to fund the Huajji Project. As at September 30, 2007, a total of \$1,007,839 of cash held in trust and the offsetting amount due to related party between the Company and NUX was derecognized from the consolidated balance sheets of the Company, as the parties mutually agreed the funds are held for the sole benefit of NUX and repayable upon demand. On October 16, 2007, this arrangement was formalized through a trust agreement

- (v) With respect to its leasehold obligations, the Company has commitments totaling \$889,248 over seven years (years ending March 31, 2008: \$113,710; 2009: \$228,003; 2010: \$229,752; 2011: \$162,188; 2012: \$68,182; 2013: \$69,930; and 2014: \$17,483).

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 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 and six months ended September 30, 2007, the Company incurred:*

- (i) consulting fees of \$46,500 (three months ended September 30, 2006 - \$45,000) and \$87,750 (six months ended September 30, 2006 - \$81,000) payable to a company owned by an officer and director of the Company and to an officer of the Company;
- (ii) legal fees of \$nil (three months ended September 30, 2006 - \$9,903) and \$nil (six months ended September 30, 2006 - \$83,527) payable to a law firm with a partner that is a director of the Company;

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- (iii) management fees of \$43,443 (three months ended September 30, 2006 - \$37,546) and \$85,989 (six months ended September 30, 2006 - \$71,759) 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 \$515 (three months ended September 30, 2006 - \$34,800) and \$515 (six months ended September 30, 2006 - \$66,597) payable to an accounting firm with a partner that is former officer of the Company;
- (v) directors' fees of \$38,210 (three months ended September 30, 2006 - \$nil) and \$55,000 (six months ended September 30, 2006 - \$nil); and,
- (vi) expenses recovered of \$38,090 (three months ended September 30, 2006 - \$nil) and \$222,626 (six months ended September 30, 2006 - \$nil) from NUX.

*(b) As at September 30, 2007, the related transaction balances included the following:*

- (i) \$47,850 (March 31, 2007 - \$39,750) due to a company controlled by a director of the Company for services provided;
- (ii) \$38,210 (March 31, 2007 - \$nil) due to directors for director fees;
- (iii) \$7,166 (March 31, 2007 - \$151,769) due to the joint venture partner of Huawei for services provided;
- (iv) \$10,760 (March 31, 2007 - \$32,660) due from a company related by common control; and,
- (v) \$40,381 (March 31, 2007 - \$nil) due from NUX for expenses incurred and recoverable under an inter-company services and cost allocation arrangement;
- (vi) \$nil (March 31, 2007 - \$1,377,863) due to NUX for funds advanced from NUX.

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 ("Huaiji Project") located in Guangdong Province, China.

On January 25, 2007, NUX advanced \$1,461,092 (US\$1,240,000) to the Company to fund the Huaiji Project. As at September 30, 2007, a total of \$998,838 of cash held in trust and the offsetting amount due to related party between the Company and NUX was derecognized from the consolidated balance sheets of the Company, as the parties mutually agreed the funds are held for the sole benefit of NUX and repayable upon demand. On October 16, 2007, this arrangement was formalized through a trust agreement.

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.

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### **Management's Discussion and Analysis of Financial Condition and Results of Operations Three and six months ended September 30, 2007 (Expressed in Canadian Dollars, except share, per share, and mining data)**

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#### **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 six months ended September 30, 2007.

#### **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 six months ended September 30, 2007, with the exception of several changes in accounting policy; which were retroactively adopted on April 1, 2007, without restatement of prior periods.

Following the update of the mineral resources on the Ying silver-lead-zinc and HPG gold-silver-lead projects in the national Instrument ("NI") 43-101 Technical Update Report dated August 16, 2007, the estimates used to amortize mineral rights and properties were applied prospectively.

##### *(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

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not included in net income (loss) until realized and foreign currency translation gains or losses arising from 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, and long term prepaids are classified as "Loans and Receivables". Held-to-maturity investments and loans and receivable are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest method. Interest income and amortized premium or discount is charged to net income.
- 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 investments in New Pacific Metals Corp. and Luoyang Yongning Smelting Co. Ltd. are excluded from Section 3855 as they are accounted for using the equity method.
- Accounts payable and accrued liabilities, deposits received from customers, loans payable, and dividends payable 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. Amortized premium or discount is charged to net income.

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 1, 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. The adoption of these new standards has no impact on the Company's cash flow.

In December 2006, the CICA issued Section 3862, "Financial Instruments - Disclosure" and Section 3863 "Financial Instruments - Presentation" to replace 3861 "Financial Instruments - Disclosure and Presentation". These new sections are effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2007, but may be adopted in place of Section 3861, before that date. Transitional provisions are complex and vary based on the type of the financial instruments under consideration. Therefore, the Company has not yet determined the effect of these new standards on its financial statements. The revised section is effective for the Company's financial year beginning April 1, 2008.

#### *(ii) Accounting changes*

On April 1, 2007, the Company adopted the CICA revised Section 1506, "Accounting Changes", which requires that: (a) a voluntary change in accounting principles can be made if, and only if, it is required by a 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 adoption of this standard has no impact on the company's financial statements for the period ended

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September 30, 2007.

#### *(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 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% in July 2005 and has let it rise another 5.3% since then in tightly controlled trading. Effective May 21, 2007, China's central bank widened the yuan's daily trading band to 0.5% from 0.3%.

As at September 30, 2007, approximately \$41 million and \$8 million (March 31, 2007 - approximately \$21 million and \$0.6 million ) of cash and cash equivalents and short term investments were held in RMB¥ and United States dollars, respectively.

The Company does not invest in any asset backed commercial paper and therefore does not consider that it has any exposure to the current uncertainties in the marketplace.

## SILVERCORP METALS INC.

### Management's Discussion and Analysis of Financial Condition and Results of Operations Three and six months ended September 30, 2007 (Expressed in Canadian Dollars, except share, per share, and mining data)

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#### 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 and six months ended September 30, 2007.

##### 1.15.2 Outstanding Share Data

On September 28, 2007, shareholders approved a three-for-one stock split for its common shares. The record date for the stock split was set at the close of business on October 31, 2007. The common shares were posted for trading at the market open on October 29, 2007 on a 3:1 split adjusted basis. All securities and exercise price below have been adjusted to reflect this stock split.

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

###### *(a) Share Capital*

Authorized - unlimited number of common shares without par value  
Issued and outstanding - 147,660,786 common shares with a recorded value of \$88,623,613.  
Shares subject to escrow or pooling agreements - nil

###### *(b) Warrants*

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

<u>Number of Warrant Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
3,751,869	\$ 8.00	October 26, 2008
<b>3,751,869</b>		

###### *(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>
600,000	0.17	July 14, 2008
62,625	0.75	October 6, 2008
1,500,000	0.18	October 24, 2009
900,000	0.63	February 28, 2010
559,800	4.32	July 23, 2011
66,108	4.47	August 14, 2011
231,000	4.43	August 28, 2011
782,700	6.74	April 10, 2012
135,000	6.95	October 1, 2012
<b>4,837,233</b>		

## **SILVERCORP METALS INC.**

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

**Three and six months ended September 30, 2007**

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

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#### **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 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 six months ended September 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

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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:

**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  
Lorne Waldman, Corporate Secretary

**1.17 Outlook**

The Company is well positioned to grow through consolidating the fragmented primary silver sector in China, starting with its foot-hold in Henan Province. With the encouragement of local government, the Company is expanding its Ying /HPG Silver Camp through extensive exploration and acquisition of neighbouring mines.