



**SILVERCORP METALS INC.**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE AND NINE MONTHS ENDED DECEMBER 31, 2007

(Unaudited - expressed in Canadian Dollars, unless otherwise stated)

**Notice to Reader of the Unaudited Interim Consolidated Financial Statements  
For the three and nine months ended December 31, 2007**

The unaudited interim consolidated financial statements of Silvercorp Metals Inc. (the “Company”) for the three and nine month periods ended December 31, 2007 (“Financial Statements”) have been prepared by management. The Financial Statements should be read in conjunction with the Company’s audited consolidated financial statements for the twelve months ended March 31, 2007 which are available at the SEDAR website at [www.sedar.com](http://www.sedar.com). The Financial Statements are stated in terms of Canadian dollars, unless otherwise indicated, and are prepared in accordance with Canadian generally accepted accounting principles.

**SILVERCORP METALS INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited - expressed in Canadian Dollars except for share figures)

	Notes	December 31, 2007	March 31, 2007
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	\$ 46,719,283	\$ 61,484,697
Short term investments	6	35,352,290	6,282,426
Accounts receivable and prepaids	7	3,136,831	1,470,820
Inventories	8	1,427,915	2,077,954
Amount due from related parties	17	26,177	-
		<b>86,662,496</b>	<b>71,315,897</b>
<b>Long term prepaids</b>	9	<b>5,650,462</b>	<b>1,769,852</b>
<b>Long term investments</b>	10	<b>16,063,982</b>	<b>7,557,083</b>
<b>Property, plant and equipment</b>	11	<b>10,376,666</b>	<b>9,071,817</b>
<b>Mineral rights and properties</b>	12	<b>45,166,318</b>	<b>18,822,299</b>
<b>Reclamation deposits</b>		<b>10,000</b>	<b>10,000</b>
		<b>\$ 163,929,924</b>	<b>\$ 108,546,948</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 4,618,253	\$ 3,599,126
Deposits received from customers		616,899	1,599,376
Loans payable		1,758,900	-
Income tax payable		-	1,678,446
Current portion of asset retirement obligation	13	77,325	337,115
Amounts due to related parties	17	-	1,536,722
		<b>7,071,377</b>	<b>8,750,785</b>
<b>Future income tax liabilities</b>		<b>2,608,725</b>	<b>1,620,042</b>
<b>Asset retirement obligation</b>	13	<b>807,722</b>	<b>772,438</b>
		<b>10,487,824</b>	<b>11,143,265</b>
<b>Non-controlling interests</b>	15	<b>20,118,594</b>	<b>8,010,333</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share capital</b>	14	<b>89,879,088</b>	<b>86,326,581</b>
<b>Contributed surplus</b>		<b>1,814,021</b>	<b>1,195,340</b>
<b>Reserves</b>	16	<b>2,365,587</b>	<b>-</b>
<b>Accumulated other comprehensive income (loss)</b>		<b>(2,586,993)</b>	<b>1,232,387</b>
<b>Retained earnings</b>		<b>41,851,803</b>	<b>639,042</b>
		<b>133,323,506</b>	<b>89,393,350</b>
		<b>\$ 163,929,924</b>	<b>\$ 108,546,948</b>
<b>Commitments and Contingencies</b>	12 and 19		

Approved on behalf of the Board:

(Signed) Greg Hall

Director

(Signed) Rui Feng

Director

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

**SILVERCORP METALS INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)**  
(Unaudited - expressed in Canadian Dollars except for share figures)

	Notes	Three months ended December 31,		Nine months ended December 31,	
		2007	2006	2007	2006
<b>Sales</b>	\$	<b>29,801,777</b>	\$ 14,731,638	<b>\$ 84,901,188</b>	\$ 29,772,811
<b>Cost of sales</b>		<b>4,829,829</b>	2,487,942	<b>14,222,454</b>	5,463,982
<b>Amortization and depletion</b>		<b>972,059</b>	216,589	<b>3,178,028</b>	589,920
		<b>5,801,888</b>	2,704,531	<b>17,400,482</b>	6,053,902
<b>Gross profit</b>		<b>23,999,889</b>	12,027,107	<b>67,500,706</b>	23,718,909
<b>Expenses</b>	17				
Accretion of asset retirement obligations	13	<b>14,051</b>	-	<b>46,094</b>	-
Amortization		<b>139,227</b>	21,480	<b>356,255</b>	63,779
Foreign exchange loss (gain)		<b>27,807</b>	(82,100)	<b>1,166,025</b>	(19,957)
General exploration and property investigation expenses		<b>221,135</b>	30,079	<b>810,916</b>	618,531
Investor relations		<b>81,390</b>	212,180	<b>223,447</b>	451,890
Office, administration and miscellaneous		<b>1,266,713</b>	784,460	<b>3,089,253</b>	1,861,895
Professional fees		<b>489,788</b>	92,330	<b>705,081</b>	359,523
Stock-based compensation expenses		<b>855,258</b>	659,905	<b>2,119,978</b>	1,686,185
		<b>3,095,369</b>	1,718,334	<b>8,517,049</b>	5,021,846
<b>Earnings before other income and expenses</b>		<b>20,904,520</b>	10,308,773	<b>58,983,657</b>	18,697,063
<b>Other income and expenses</b>					
Equity income (loss) in investment		<b>(67,761)</b>	(22,909)	<b>(178,753)</b>	(70,420)
Loss on disposal of property, plant and equipment		-	(4,988)	<b>(52,852)</b>	(4,988)
Loss on disposal of long term investments		-	-	-	(12,400)
Mineral property option income		<b>1,326,876</b>	1,045,416	<b>4,583,748</b>	2,023,500
Interest income		<b>803,844</b>	504,120	<b>1,970,522</b>	1,440,728
Other income		<b>72,952</b>	37,889	<b>89,388</b>	37,890
		<b>2,135,911</b>	1,559,528	<b>6,412,053</b>	3,414,310
<b>Income before income taxes and non-controlling interests</b>		<b>23,040,431</b>	11,868,301	<b>65,395,710</b>	22,111,373
<b>Income tax (expense) recovery</b>					
Current		-	-	<b>1,610,903</b>	-
Future		<b>(106)</b>	-	<b>(146,735)</b>	-
		<b>(106)</b>	-	<b>1,464,168</b>	-
<b>Income before non-controlling interests</b>		<b>23,040,325</b>	11,868,301	<b>66,859,878</b>	22,111,373
<b>Non-controlling interests</b>		<b>(5,539,495)</b>	(2,529,484)	<b>(15,898,491)</b>	(5,053,136)
<b>Net income</b>		<b>17,500,830</b>	9,338,817	<b>50,961,387</b>	17,058,237
<b>Retained earnings (deficit), beginning of period</b>		<b>24,350,973</b>	(22,112,186)	<b>639,042</b>	(24,469,766)
Appropriation to reserves		-	-	<b>(2,365,587)</b>	-
Cash dividends declared and distributed	14(c)	-	-	<b>(7,383,039)</b>	-
<b>Retained earnings (deficit), end of period</b>		<b>\$ 41,851,803</b>	\$ (12,773,369)	<b>\$ 41,851,803</b>	\$ (7,411,529)
<b>Basic earnings per share</b>		<b>\$ 0.12</b>	\$ 0.06	<b>\$ 0.35</b>	\$ 0.12
<b>Diluted earnings per share</b>		<b>\$ 0.12</b>	\$ 0.06	<b>\$ 0.34</b>	\$ 0.12
<b>Weighted Average Number of Shares Outstanding - Basic</b>		<b>148,088,464</b>	145,053,918	<b>147,237,094</b>	143,289,810
<b>Weighted Average Number of Shares Outstanding - Diluted</b>		<b>150,933,410</b>	150,004,872	<b>150,565,280</b>	148,272,315

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

**SILVERCORP METALS INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Unaudited - expressed in Canadian Dollars except for share figures)

	Three months ended December 31,		Nine months ended December 31,	
	2007	2006	2007	2006
<b>Net income for the period</b>	\$ 17,500,830	\$ 9,338,817	\$ 50,961,387	\$ 17,058,237
<b>Other comprehensive income (loss), net of tax:</b>				
Transition adjustment to the opening balance of investment in Dajin Resources Corp. as per the initial adoption of new standards (note 3(a))	-	-	10,000	-
Transition adjustment to reallocate cumulative foreign translation adjustment to other comprehensive income as initial adoption of new standards (note 3(a))	-	-	1,232,387	46,168
Unrealized gain (loss) on available for sale securities	90,000	-	100,000	-
Unrealized exchange gain (loss) on translation of self-sustaining foreign operations	1,140,790	-	(3,929,380)	(64,642)
<b>Other comprehensive income (loss)</b>	<b>1,230,790</b>	<b>-</b>	<b>(2,586,993)</b>	<b>(18,474)</b>
<b>Comprehensive income, end of period</b>	<b>\$ 18,731,620</b>	<b>\$ 9,338,817</b>	<b>\$ 48,374,394</b>	<b>\$ 17,039,763</b>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

**SILVERCORP METALS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited - expressed in Canadian Dollars except for share figures)

	Notes	Three months ended December 31,		Nine months ended December 31,	
		2007	2006	2007	2006
<b>Cash provided by (used for)</b>					
<b>Operating activities</b>					
Net income for the period		\$ 17,500,830	\$ 9,338,817	\$ 50,961,387	\$ 17,058,237
Add (deduct) items not affecting cash :					
Accretion of asset retirement obligations		14,051	-	46,094	-
Amortization		1,111,286	238,069	3,534,283	653,699
Equity investment loss		67,761	22,909	178,753	70,420
Future income tax		106	-	146,735	-
Loss on disposal of long term investments		-	-	-	12,400
Loss on disposal of property, plant, and equipment		-	4,988	52,852	4,988
Mineral property option income		(1,326,876)	(1,045,416)	(4,583,748)	(2,023,500)
Non-controlling interests		5,539,495	2,529,484	15,898,491	5,053,136
Stock-based compensation		855,258	659,905	2,119,978	1,686,185
		<b>23,761,911</b>	<b>11,748,756</b>	<b>68,354,825</b>	<b>22,515,565</b>
Net change in non-cash working capital					
Accounts receivable and prepaids		3,182,244	999,711	(1,662,608)	(468,604)
Inventory		(166,378)	(1,204,383)	658,496	(2,016,255)
Accounts payable and accrued liabilities		(2,633,547)	1,600,860	1,012,300	1,834,375
Asset retirement obligation discharged upon payment		(140,238)	-	(530,376)	-
Income tax payable		-	-	(1,678,446)	-
Deposits received from customers		(1,085,868)	226,278	(997,896)	884,465
<b>Cash provided by operating activities</b>		<b>22,918,124</b>	<b>13,371,222</b>	<b>65,156,295</b>	<b>22,749,546</b>
<b>Investing activities</b>					
Purchase of mineral rights and properties		(22,040,370)	(3,543,919)	(27,465,530)	(6,045,459)
Purchase of property, plant, and equipment		(1,223,874)	(2,927,207)	(3,575,592)	(4,276,373)
Purchase of long term investments		(1,998,594)	(67,185)	(4,065,779)	(67,185)
Purchase of short term investments		4,373,588	50,602,000	(29,501,232)	8,700,000
Increase in long term prepaids		362,346	(834,642)	(3,919,919)	(1,845,622)
Disposal of long term investments		-	-	-	237,600
Disposal of property, plant, and equipment		-	10,000	162,419	10,000
Distribution to non-controlling interest shareholder	15	-	-	(3,598,898)	-
Cash dividends declared and distributed	14 (c)	(7,383,039)	-	(7,383,039)	-
Advances to joint venture parties		-	289,689	-	-
<b>Cash provided by (used in) investing activities</b>		<b>(27,909,943)</b>	<b>43,528,736</b>	<b>(79,347,570)</b>	<b>(3,287,039)</b>
<b>Financing activities</b>					
Repayment from (advance to) related parties		(69,531)	252,034	(1,564,168)	236,135
Advance (repayment) under loans payable		(629,700)	-	1,758,900	-
Share subscriptions for cash, net of commission and expenses		702,534	716,710	2,051,210	47,966,399
Shares returned to treasury for cancellation		-	(1,022,621)	-	(5,499,104)
<b>Cash (used in) provided by financing activities</b>		<b>3,303</b>	<b>(53,877)</b>	<b>2,245,942</b>	<b>42,703,430</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>997,144</b>	<b>1,160,976</b>	<b>(2,820,081)</b>	<b>1,155,503</b>
<b>Increase (Decrease) in cash</b>		<b>(3,991,372)</b>	<b>58,007,057</b>	<b>(14,765,414)</b>	<b>63,321,440</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>50,710,655</b>	<b>9,214,195</b>	<b>61,484,697</b>	<b>3,899,812</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 46,719,283</b>	<b>\$ 67,221,252</b>	<b>\$ 46,719,283</b>	<b>\$ 67,221,252</b>
<b>Supplemental information:</b>					
Interest paid		\$ 13,545	\$ 45	\$ 31,245	\$ 45
Income tax paid		\$ -	\$ -	\$ -	\$ -
<b>Non-cash investing activities:</b>					
Common shares of New Pacific Metals Corp. received as partial consideration for the Option Agreement in relation to the Kang Dian Project		\$ 1,326,876	\$ 1,045,416	\$ 4,583,748	\$ 2,023,500

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

**SILVERCORP METALS INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Unaudited - expressed in Canadian Dollars except for share figures)

	Share capital				Reserves	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total shareholders' equity
	Notes	Number of shares	Amount	Contributed surplus				
Balances, March 31, 2006		135,186,471	\$ 38,130,910	\$ 4,886,735	\$ -	\$ 46,168	\$ (24,469,766)	\$ 18,594,047
Options exercised		2,961,717	889,160	-	-	-	-	889,160
Warrants exercised		1,567,500	2,403,500	-	-	-	-	2,403,500
Private placement, net of issuance cost		7,503,750	44,484,295	-	-	-	-	44,484,295
Value of options transferred upon exercised		-	1,151,459	(1,151,459)	-	-	-	-
Contributed surplus transferred as per share cancellation		-	4,766,361	(4,766,361)	-	-	-	-
Share cancellation under the Normal Course Issuer Bid		(1,261,500)	(5,499,104)	-	-	-	-	(5,499,104)
Stock based compensation		-	-	2,226,425	-	-	-	2,226,425
Earnings of the year		-	-	-	-	-	25,108,808	25,108,808
Unrealized loss on translation of self-sustaining operation		-	-	-	-	1,186,219	-	1,186,219
<b>Balance, March 31, 2007</b>		<b>145,957,938</b>	<b>86,326,581</b>	<b>1,195,340</b>	<b>-</b>	<b>1,232,387</b>	<b>639,042</b>	<b>89,393,350</b>
Transition adjustment to opening balance	3(a)	-	-	-	-	10,000	-	10,000
Options exercised		2,803,848	1,973,210	-	-	-	-	1,973,210
Warrants exercised		9,750	78,000	-	-	-	-	78,000
Cancellation of fraction shares		108	-	-	-	-	-	-
Value of options transferred upon exercised		-	1,501,297	(1,501,297)	-	-	-	-
Stock based compensation		-	-	2,119,978	-	-	-	2,119,978
Unrealized gain on available for sale securities		-	-	-	-	100,000	-	100,000
Appropriation to reserves	16	-	-	-	2,365,587	-	(2,365,587)	-
Cash dividends declared and distributed	14(c)	-	-	-	-	-	(7,383,039)	(7,383,039)
Earnings of the year		-	-	-	-	-	50,961,387	50,961,387
Unrealized loss on translation of self-sustaining operation		-	-	-	-	(3,929,380)	-	(3,929,380)
<b>Balance, December 31, 2007</b>		<b>148,771,644</b>	<b>\$ 89,879,088</b>	<b>\$ 1,814,021</b>	<b>\$ 2,365,587</b>	<b>\$ (2,586,993)</b>	<b>\$ 41,851,803</b>	<b>\$ 133,323,506</b>

## **SILVERCORP METALS INC.**

### **Notes to the Unaudited Interim Consolidated Financial Statements**

**For three and nine months ended December 31, 2007**

**(Expressed in Canadian dollars, unless otherwise stated)**

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#### **1. NATURE OF OPERATIONS**

Silvercorp Metals Inc. along with its subsidiary companies and joint ventures (collectively the “Company”) is 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.

The Company is a reporting issuer in British Columbia, Alberta, Ontario, Nova Scotia, New Brunswick, Manitoba, and Saskatchewan and trades on the TSX Exchange under the symbol “SVM”.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### *(a) Basis of presentation and principles of consolidation*

These interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), and presented in Canadian dollars, but they do not contain all disclosures required by Canadian GAAP for annual audited consolidated financial statements and, accordingly, they should be read in conjunction with the most recently prepared annual audited consolidated financial statements for the year ended March 31, 2007. They include the accounts of the Company and its directly and indirectly owned subsidiaries: Silvercorp Metals China Inc., Fortune Mining Limited, Fortune Copper Limited, Fortress Mining Inc., Fortune Gold Mining Limited, Lachlan Gold Ltd., Victor Resources Ltd., Victor Mining Ltd., Yunnan Jin Chang Jiang Mining Co. Ltd. (“YJCJM”), 82% owned subsidiary, Qinghai Found Mining Company Ltd. (“Qinghai Found”), 70% (March 31, 2007 - 60%) owned subsidiary, Henan Huawei Mining Co. Ltd. (“Henan Huawei”), and 77.5% owned subsidiary, Henan Found Mining Co. Ltd. (“Henan Found”).

These unaudited interim consolidated financial statements reflect, in the opinion of management, all adjustments necessary to present fairly the consolidated financial position as at December 31, 2007 and the consolidated statements of income and consolidated cash flows for the three and nine month periods presented. Operating results of the interim period are not necessarily indicative of the result that may be expected for the full fiscal year ending March 31, 2008.

All significant inter-company transactions and accounts have been eliminated upon consolidation.

##### *(b) Use of estimates*

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include assumptions and estimates relating to determining defined ore bodies, reserves value beyond proven and probable mine life, fair values for purposes of impairment analysis, reclamation obligations, non-cash stock-based compensation and warrants, valuation allowances for future income tax assets, and future income tax liabilities. Actual results could differ from these estimates.

## **SILVERCORP METALS INC.**

### **Notes to the Unaudited Interim Consolidated Financial Statements**

**For three and nine months ended December 31, 2007**

**(Expressed in Canadian dollars, unless otherwise stated)**

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#### *(c) Foreign currency translation*

All subsidiaries, except its 77.5% owned subsidiary Henan Found and 70% owned subsidiary Henan Huawei are considered to be integrated foreign operation and their financial statements are translated to Canadian dollars under temporal method. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at historical exchange rate. Revenues and expenses are translated at the average exchange rate in effect during the period. Realized and unrealized foreign exchange gains and losses are included in earnings.

Henan Found is considered to be a self-sustaining operation. Effective April 1, 2007, Henan Huawei was reclassified as self-sustaining operation from integrated foreign operation and its financial statements are translated using the current rate method from temporal method because of the significant changes in the economic facts and circumstances of Henan Huawei, such as mine production commenced since April 2007 and the cash generated from sales to the local Chinese customers is sufficient to cover its further exploration expenditure and other operation costs. The assets and liabilities of Henan Found and Henan Huawei, which are dominated in Chinese Yuan (“RMB¥”), are translated into Canadian dollars using the current rate method at period-end exchange rates and resulting translation adjustments are reflected in comprehensive income. Revenues and expenses of Henan Found and Henan Huawei are translated at average exchange rates for the period.

#### *(d) Comparative figures*

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

### **3. CHANGES IN ACCOUNTING POLICIES**

#### *(a) Financial instrument standards*

On April 1, 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

**SILVERCORP METALS INC.****Notes to the Unaudited Interim Consolidated Financial Statements****For three and nine months ended December 31, 2007****(Expressed in Canadian dollars, unless otherwise stated)**

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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 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.

## **SILVERCORP METALS INC.**

### **Notes to the Unaudited Interim Consolidated Financial Statements**

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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. 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.

#### *(b) 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

#### **4. CHANGES IN ESTIMATES**

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. The amortization of mineral rights and properties of Ying silver-lead-zinc project has been changed to be amortized over its seven years' mining life from previous five years' mining life using the unit of production method. The mineral rights and properties of HPG is amortized over its five years' mining life using the unit of production method. At the Ying silver-lead-zinc and HPG gold-silver-lead projects, exploration, development, and mining activities are concurrently undertaken, and any future change to estimates used to amortize the mineral rights and properties will be made upon receipt of reliable mineral resource updates.

#### **5. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as at December 31, 2007 of \$46,719,283 (March 31, 2007 - \$61,484,697) consist of cash, bank notes, and term deposits maturing within three months of the initial investment date. As at December 31, 2007, the Company holds bank discount notes with a market value of \$31,727,146 (March 31, 2007 - \$37,265,319) and a face value of \$31,941,261 (March 31, 2007 - \$37,403,000) yielding 4.62% (March 31, 2007 - 4.31%) per annum with maturity dates to March 3, 2008. The Company's term deposits total \$5,912,286 (RMB¥43,600,000) (March 31, 2007 -

**SILVERCORP METALS INC.****Notes to the Unaudited Interim Consolidated Financial Statements****For three and nine months ended December 31, 2007****(Expressed in Canadian dollars, unless otherwise stated)**

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\$8,851,017 (RMB¥59,362,955)), bearing interest rates ranging from 2.61% to 2.88% (March 31, 2007 - 1.80%) per annum, with maturity dates to January 27, 2008.

**6. SHORT TERM INVESTMENTS**

Short term investments as at December 31, 2007 of \$35,352,290 (March 31, 2007 - \$6,282,426) are made up of a bank note of \$6,305,680 (March 31, 2007 - \$nil) and term deposits of \$29,046,610 (RMB¥214,683,002) (March 31, 2007 - \$6,282,426 (RMB¥42,135,656)) with maturity dates beyond three months. The bank note face value of \$6,394,000 yielding 4.42% per annum to maturity on April 18, 2008. The term deposits bearing interest rates ranging from 2.43% to 3.87% (March 31, 2007 - 2.07% to 2.43%) with maturity dates to September 18, 2008.

**7. ACCOUNTS RECEIVABLE AND PREPAIDS**

Accounts receivable and prepaids consist of the following:

As at	December 31, 2007	March 31, 2007
Accounts receivable	\$ 345,598	\$ -
Interest receivable	277,851	45,818
Prepaid expenses and deposits	2,513,382	1,425,002
	<u>\$ 3,136,831</u>	<u>\$ 1,470,820</u>

**8. INVENTORIES**

Inventories consist of the following:

As at	December 31, 2007	March 31, 2007
Direct smelting ore and stockpiled ore	\$ 508,964	\$ 1,185,427
Concentrate inventory	180,495	603,064
Total stockpiled	689,459	1,788,491
Material and supplies	738,456	289,463
	<u>\$ 1,427,915</u>	<u>\$ 2,077,954</u>

**9. LONG TERM PREPAIDS**

Long term prepaids as at December 31, 2007 of \$5,650,462 (March 31, 2007 - \$1,769,852) is comprised of: \$1,925,160 (March 31, 2007 - \$1,250,002) of advances or loans to contractors to purchase equipment to work on the Ying and HPG Project or construct mill facilities for the Company and prepayments to suppliers to acquire property, plant and equipments; \$1,749,568 (March 31, 2007 - \$519,850) of advances to third parties to assist the Company in the exploration of potential mineral properties in China, and \$1,975,734 (March 31, 2007 - \$nil) of deposits paid to acquire land for an office in Henan Province and an office in Beijing, China.

**SILVERCORP METALS INC.****Notes to the Unaudited Interim Consolidated Financial Statements****For three and nine months ended December 31, 2007****(Expressed in Canadian dollars, unless otherwise stated)****10. LONG TERM INVESTMENTS**

As at	December 31, 2007	March 31, 2007
Dajin Resources Corp. (a)		
1,000,000 (March 31, 2007 - 1,000,000) common shares	\$ 360,000	\$ 250,000
New Pacific Metals Inc. (b)	11,644,982	7,239,988
Luoyang Yongning Smelting Co. Ltd. (c)	4,059,000	67,095
	<b>\$ 16,063,982</b>	<b>\$ 7,557,083</b>

*(a) Dajin Resources Corp.*

As a result of the adoption of CICA 3855 Financial Instruments - Recognition and Measurement on April 1, 2007, the Company's investment in Dajin Resources Corp., which was classified as available for sale securities, its carrying value was adjusted to \$260,000 with a credit of \$10,000 to the opening accumulated other comprehensive income. As at December 31, 2007, the investment is carried at its estimated fair value of \$360,000 by reference to market price and an unrealized gain of \$100,000 was recognized as other comprehensive income.

For the nine months ended December 31, 2007, shares disposed were nil (December 31, 2006 - 1,000,000) and no loss (December 31, 2006 - \$12,400) was recorded.

*(b) New Pacific Metals Inc.*

As at December 31, 2007, all of the 6,500,000 (March 31, 2007 - 4,087,501) NUX's common shares were released to the Company from escrow. The mineral property option income for the three and nine months ended December 31, 2007 totaled \$1,326,876 and \$4,583,748, respectively, representing the market value on 804,167 (three months ended December 31, 2006 - \$1,045,416 on 804,166 common shares) and 2,412,499 (nine months ended December 31, 2006 - \$2,023,500 on 1,612,500 common shares) common shares released from escrow, respectively.

For the three and nine months ended December 31, 2007, a total of \$67,761 and \$178,753 (three and nine months December 31, 2006 - \$22,909 and \$70,420), respectively, of equity loss had been recorded.

As at December 31, 2007, the Company owns 7,400,000 common shares of NUX and the following is the summary of the investment in NUX:

	December 31, 2007	March 31, 2007
Cost of 7,400,000 (March 31, 2007 - 4,987,501) shares of NUX	\$ 12,105,205	\$ 7,521,457
Equity in loss of investee company	(460,223)	(281,469)
Investment in NUX on equity basis	<b>\$ 11,644,982</b>	<b>\$ 7,239,988</b>

**SILVERCORP METALS INC.**

**Notes to the Unaudited Interim Consolidated Financial Statements**

**For three and nine months ended December 31, 2007**

**(Expressed in Canadian dollars, unless otherwise stated)**

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*(c) Luoyang Yongning Smelting Co. Ltd.*

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, would be \$6.71 million (RMB¥45 million) for the first phase.

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 December 31, 2007, Henan Found fulfilled its first phase registered capital requirement through a contribution of \$4 million (RMB¥30 million) (March 31, 2007 - \$67,095 (RMB¥450,000)) to Yongning, with the remaining commitment of approximately \$6 million (RMB¥45 million) due within one year from September 21, 2007. This investment is accounted by using the equity method.

**SILVERCORP METALS INC.****Notes to the Unaudited Interim Consolidated Financial Statements****For three and nine months ended December 31, 2007****(Expressed in Canadian dollars, unless otherwise stated)****11. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of:

As at	December 31, 2007			March 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Building	\$ 5,596,523	\$ 260,480	\$ 5,336,043	\$ 3,262,007	\$ 34,845	\$ 3,227,162
Computer equipment	532,544	159,028	373,516	330,149	114,113	216,036
Computer software	168,018	30,456	137,562	122,089	13,750	108,339
Equipment and furniture	709,717	105,819	603,898	480,571	38,130	442,441
Machinery	1,738,766	147,354	1,591,412	1,214,037	42,651	1,171,386
Mining equipment	492,105	150,197	341,908	492,106	116,981	375,125
Motor vehicle	1,124,157	231,123	893,034	968,586	123,479	845,107
Leasehold improvement	116,845	25,208	91,637	116,936	6,724	110,212
Construction in process	1,007,656	-	1,007,656	2,576,009	-	2,576,009
	\$ 11,486,331	\$ 1,109,665	\$ 10,376,666	\$ 9,562,490	\$ 490,673	\$ 9,071,817

During the nine months ended December 31, 2007, the Company disposed of motor vehicles with net book value of \$210,156 (RMB¥1,504,339) (December 31, 2006 - \$14,988) and a loss of \$52,852 (RMB¥369,339) (December 31, 2006 - \$4,988) was recorded. A total of \$1,381,182 construction in process was reclassified to mineral rights and properties during the nine months ended December 31, 2007.

**SILVERCORP METALS INC.****Notes to the Unaudited Interim Consolidated Financial Statements****For three and nine months ended December 31, 2007****(Expressed in Canadian dollars, unless otherwise stated)****12. MINERAL RIGHTS AND PROPERTIES**

Mineral rights and properties are comprised of the following:

	Ying	HPG	NZ	Qinghai	LM	TLP	Total
Balance, March 31, 2006	\$ 3,721,801	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,721,801
Additions during the year:							
Acquisition of mineral rights and properties	1,754,386	6,494,306	1,267,350	-	-	-	9,516,042
Future income tax on acquisition	1,124,452	-	495,590	-	-	-	1,620,042
Capitalized asset retirement obligation	1,300,000	-	-	-	-	-	1,300,000
Capitalized exploration and development costs							
Consulting and management fees	259,415	-	-	-	-	-	259,415
Drilling, assay fee and reporting	1,246,445	-	-	-	-	-	1,246,445
Office and miscellaneous	6,825	-	-	-	-	-	6,825
Tunnelling and trenching	2,452,885	-	-	-	-	-	2,452,885
Amortization	(1,301,156)	-	-	-	-	-	(1,301,156)
Balance, March 31, 2007	10,565,053	6,494,306	1,762,940	-	-	-	18,822,299
Additions during the period:							
Acquisition of mineral rights and properties	-	742,703	-	-	3,358,594	12,867,030	16,968,327
Future income taxes on acquisition	-	823,434	-	-	18,514	-	841,948
Capitalized asset retirement obligation	-	259,776	-	-	-	-	259,776
Capitalized exploration and development costs							
Drilling, assay fee and reporting	2,413,532	478,318	-	1,027,032	-	-	3,918,882
Tunnelling and trenching	2,847,775	1,703,389	131,192	-	774,618	-	5,456,974
Shaft development	2,316,509	-	-	-	-	-	2,316,509
Foreign exchange impact	(204,635)	(165,600)	(117,300)	-	-	-	(487,535)
Amortization	(1,380,412)	(1,550,449)	-	-	-	-	(2,930,861)
<b>Balance, December 31, 2007</b>	<b>\$ 16,557,821</b>	<b>\$ 8,785,877</b>	<b>\$ 1,776,832</b>	<b>\$ 1,027,032</b>	<b>\$ 4,151,726</b>	<b>\$ 12,867,030</b>	<b>\$ 45,166,318</b>

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

*(a) Ying Property*

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.

**SILVERCORP METALS INC.****Notes to the Unaudited Interim Consolidated Financial Statements****For three and nine months ended December 31, 2007****(Expressed in Canadian dollars, unless otherwise stated)**

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*(b) HPG Silver-Gold-Lead Property*

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 Henan Huawei, the joint venture holding 100% interest of HPG Silver-Gold-Lead Property ("HPG"), from the minority shareholders of Henan Huawei for a total consideration of \$1,983,030 (RMB¥13.3 million), of which 10% interest is on behalf of a minority shareholder and will be held in trust for that party.

As of September 30, 2007, the Company has paid approximately \$991,515 (RMB¥6.65 million) and received its additional 10% interest in HPG. A total of \$742,703 was capitalized as the acquisition cost of mineral rights and properties after offsetting against non-controlling interest. While the acquisition is pending the governmental approval, the Company is entitled to a 70% (March 31, 2007 - 60%) interest in any future profits and funding requirements of Henan Huawei.

*(c) NZ Property*

The Company's interest in the NZ Property is held in trust through a third party for the Company. As of December 31, 2007, the transferring of the ownership of the property from the third party to Henan Found is in process.

*(d) Qinghai Project*

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 by funding exploration and development. 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. Transferring of the three Na-Bao permits of about 320 square km in area (19 km by 16 km) into Qinghai Found from our Chinese partner has been approved by Chinese military, related city and provincial authorities. It is now waiting for the final approval from the Ministry of Land and Resources of China in Beijing. As at December 31, 2007, the Company has contributed \$1,318,250 (US\$1.25 million) towards its registered capital to fund its exploration activities.

**SILVERCORP METALS INC.****Notes to the Unaudited Interim Consolidated Financial Statements  
For three and nine months ended December 31, 2007  
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*(e) LM Silver-Lead Mine*

In October 2007, the Company's 70% owned subsidiary, Henan 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 \$3.4 million (RMB¥25 million), which was paid and capitalized as acquisition cost of mineral rights and properties.

As of December 31, 2007, the acquisition of LM silver-lead mine is pending governmental approval, and concurrently Huawei has taken control of LM Mine and exploration, mine development, and production at LM Mine has resumed.

*(f) TLP Silver-Lead Mine*

In December 2007, the Company's 77.5% owned subsidiary, Henan Found, successfully concluded contracts to acquire 100% interest of TLP Silver-Lead Mine ("TLP Mine") by paying approximately \$11 million (RMB¥80 million) to the shareholders of the TLP Mine and assuming debts, obligations, and winding down of certain leasing agreements. The total acquisition cost of TLP Mine is estimated at \$21 million (RMB¥157 million). As of December 31, 2007, a total of \$12.9 million (RMB¥95.1 million) was paid and capitalized as the acquisition cost of mineral rights and properties. The acquisition of TLP Mine is subject to Chinese governmental approval.

**13. ASSET RETIREMENT OBLIGATIONS**

The Company's assets retirement obligations related to the reclamation cost of the Ying property were 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 over the estimated mine life of 6 years. These obligations will be funded from the Company's resources upon local government's fee payment request.

As significant information was not available, the Company was not able to estimate the fair value of the assets retirement obligations on the HPG property over its mining life as at December 31, 2007, but a total of \$259,776 (RMB¥1.92 million) assets retirement obligation on HPG property was recorded and discharged upon payments to the local government during the nine months ended December 31, 2007.

**SILVERCORP METALS INC.****Notes to the Unaudited Interim Consolidated Financial Statements****For three and nine months ended December 31, 2007****(Expressed in Canadian dollars, unless otherwise stated)**

The following table presented the reconciliation of the beginning and ending obligations associated with the retirement of the properties:

	Current portion	Long term portion	Total
Balance, March 31, 2006	\$ -	\$ -	\$ -
Obligations incurred during the year	-	1,300,000	1,300,000
Obligations discharged upon payments to local government	-	(260,925)	(260,925)
Accretion of asset retirement obligations	-	70,478	70,478
Reclassification of current portion of the obligations	337,115	(337,115)	-
Balance, March 31, 2007	\$ 337,115	\$ 772,438	\$ 1,109,553
Obligations incurred during the period	259,776	-	259,776
Obligations discharged upon payments to local government	(530,376)	-	(530,376)
Accretion of asset retirement obligations	10,810	35,284	46,094
<b>Balance, December 31, 2007</b>	<b>\$ 77,325</b>	<b>\$ 807,722</b>	<b>\$ 885,047</b>

**14. SHARE CAPITAL***(a) Share Purchase Warrants*

The following is a summary of warrant transactions:

Warrant Shares Outstanding as at March 31, 2007	Issued during the period	Warrant Shares Exercised during the period	Warrant Shares Outstanding as at December 31, 2007	Price Per Warrant	Expiry Date
3,751,869	-	9,750	3,742,119	\$ 8.00	October 26, 2008

During the period ended September 30, 2007, the Company received approval from Toronto Stock Exchange to extend the expiry date of the share purchase warrants to acquire 3,751,869 common shares from October 26, 2007 to October 26, 2008. The exercise price of these warrants remains unchanged at \$8.00. Effective on September 10, 2007, these common share purchase warrants were listed on the Toronto Stock Exchange and trade under the symbol "SVM.WT".

**SILVERCORP METALS INC.****Notes to the Unaudited Interim Consolidated Financial Statements****For three and nine months ended December 31, 2007****(Expressed in Canadian dollars, unless otherwise stated)***(b) Stock Options*

The following is a summary of option transactions:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>
Balance, March 31, 2006	7,909,875	\$ 0.36
Options granted	1,300,500	4.44
Options exercised	(2,961,717)	0.30
Options cancelled	(78,750)	4.35
Balance, March 31, 2007	6,169,908	\$ 1.19
Options granted	917,700	6.77
Options exercised	(2,803,848)	0.70
Options forfeited	(547,527)	2.37
<b>Balance, December 31, 2007</b>	<b>3,736,233</b>	<b>\$ 2.76</b>

During the nine months ended December 31, 2007, a total of 917,700 options were granted to directors, officers, employees, and consultants exercisable at an average strike price of \$6.77 per share for five years, subject to a vesting schedule over a three year term with 8.333% options vested on each vesting date. During the nine months ended December 31, 2007 a total of 547,527 options were forfeited and cancelled.

The following is the summary assumptions to estimate the fair value of each option granted using the Black-Scholes option pricing model.

	<b>2007</b>	2006
Risk free interest rate	<b>3.74% to 4.65%</b>	4.06% to 4.19%
Expected life of options in years	<b>1 to 5 years</b>	1 to 5 years
Expected volatility	<b>45% to 108%</b>	65% to 68%
Expected dividend yield	<b>1%</b>	nil

The weighted average grant date fair value of options granted during the period was \$3.55. For the three and nine months ended December 31, 2007, a total of \$855,258 (three months ended December 31, 2006 - \$659,905) and \$2,119,978 (nine months ended December 31, 2006 - \$1,686,185) were recorded as stock-based compensation expenses on the consolidated statements of income, respectively.

**SILVERCORP METALS INC.****Notes to the Unaudited Interim Consolidated Financial Statements****For three and nine months ended December 31, 2007****(Expressed in Canadian dollars, unless otherwise stated)**

The following table summarizes information about stock options outstanding at December 31, 2007:

<b>Exercise Prices</b>	<b>Outstanding at December 31 2007</b>	<b>Remaining Contractual Life (Years)</b>	<b>Average Exercise Price</b>	<b>Exercisable at December 31 2007</b>	<b>Average Exercise Price</b>
0.17	30,000	0.54	0.17	30,000	0.17
0.18	1,500,000	1.79	0.18	1,500,000	0.18
0.63	450,000	2.16	0.63	450,000	0.63
0.75	31,875	0.43	0.75	20,875	0.75
4.32	524,799	3.54	4.32	238,299	4.32
4.43	216,999	3.66	4.43	94,500	4.43
4.47	66,108	3.62	4.47	10,983	4.47
6.74	781,452	4.28	6.74	63,969	6.74
6.95	135,000	4.76	6.95	7,500	6.95
<b>\$0.17 - \$6.95</b>	<b>3,736,233</b>	<b>2.83</b>	<b>\$ 2.76</b>	<b>2,416,126</b>	<b>\$ 1.06</b>

Subsequent to December 31, 2007, a total of 4,500 options were exercised at a strike price of \$4.32 per share and a total of 163,500 options were granted to employees exercisable at \$9.05 with a vesting period over three years and expiring January 16, 2013.

*(c) Cash Dividends Declared and Distributed*

During the period ended September 30, 2007, an eligible cash dividend of \$0.05 per share (March 31, 2007 - \$nil) was declared payable to shareholders of record at the close of business on September 28, 2007. The dividends are considered eligible dividends, which entitle Canadian resident individuals to claim the enhanced dividend tax credit for tax purposes.

On October 21, 2007, a total of \$7,383,039 cash dividends were distributed to shareholders.

*(d) Stock split*

On September 28, 2007, shareholders approved a three-for-one share 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.

On October 17, 2007, an aggregate of 108 (or 36 pre-split) common shares resulting from rounding of previous capital consolidations were returned to treasury to reduce the accumulated fractional shares held in the Company's trustee account in connection with the share split.

All share and per share information included in the consolidated financial statements and accompanying notes is presented on a post-split basis for all periods presented.

## **SILVERCORP METALS INC.**

### **Notes to the Unaudited Interim Consolidated Financial Statements**

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**(Expressed in Canadian dollars, unless otherwise stated)**

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#### **15. NON-CONTROLLING INTERESTS**

During the period ended September 30, 2007, Henan Found's Board of Directors declared a dividend of \$15,995,100 (RMB¥111,000,000) to its shareholders. The Company's wholly owned subsidiary, Victor Mining Ltd., received its share (77.5%) of dividend payment of \$12,396,202 (RMB¥86,025,000), and a total of \$3,598,898 (RMB¥24,975,000) was distributed to its non-controlling subsidiary shareholder.

#### **16. RESERVES**

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 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 period ended December 31, 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 sheet and expensed on the consolidated statement of income.

#### **17. RELATED PARTY TRANSACTIONS**

In addition to related party transactions disclosed elsewhere in the financial statements, the Company had the following related party transactions during the period:

*(a) During the three and nine months ended December 31, 2007, the Company incurred:*

- (i) consulting fees of \$75,000 (three months ended December 31, 2006 - \$45,000) and \$162,750 (nine months ended December 31, 2006 - \$140,000) 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 December 31, 2006 - \$4,115) and \$nil (nine months ended December 31, 2006 - \$87,642) payable to a law firm with a partner that is a director of the Company;*

**SILVERCORP METALS INC.**

**Notes to the Unaudited Interim Consolidated Financial Statements**

**For three and nine months ended December 31, 2007**

**(Expressed in Canadian dollars, unless otherwise stated)**

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- (iii) management fees of \$62,500 (three months ended December 31, 2006 - \$37,546) and \$148,489 (nine months ended December 31, 2006 - \$109,305) 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 \$nil (three months ended December 31, 2006 - \$20,369) and \$515 (nine months ended December 31, 2006 - \$86,966) payable to an accounting firm with a partner that is former officer of the Company;
- (v) directors' fees of \$21,250 (three months ended December 31, 2006 - \$7,710) and \$76,250 (nine months ended December 31, 2006 - \$7,170); and,
- (vi) expenses recovered of \$71,530 (three months ended December 31, 2006 - \$137,702) and \$294,156 (nine months ended December 31, 2006 - \$137,702) from New Pacific Metals Corp. ("NUX").

*(b) As at December 31, 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 services provided;
- (ii) \$11,267 (March 31, 2007 - \$151,769) due to the joint venture partner of Henan Huawei;
- (iii) \$10,971 (March 31, 2007 - \$32,660) due from a company related by common control;
- (iv) \$26,473 (March 31, 2007 - \$nil) due from NUX for expenses incurred and recoverable under an inter-company services and cost allocation arrangement; and,
- (v) \$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 December 31, 2007, a total of \$959,674 of cash held in trust by SVM for the sole benefit of NUX is repayable upon demand, pursuant to a trust agreement dated October 16, 2007.

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.

**SILVERCORP METALS INC.**
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For three and nine months ended December 31, 2007  
(Expressed in Canadian dollars, unless otherwise stated)**
**18. SEGMENTED INFORMATION**
*(a) Industry information*

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

*(b) Geographic information*

As at	December 31, 2007				March 31, 2007			
	Canada	China	BVI	Total	Canada	China	BVI	Total
<b>Balance sheet items:</b>								
Mineral rights and properties	\$ -	\$ 45,166,318	\$ -	\$ 45,166,318	\$ -	\$ 18,822,299	\$ -	\$ 18,822,299
Property, plant and equipment	403,609	9,973,057	-	10,376,666	375,934	8,695,883	-	9,071,817
Long term investments	4,747,748	4,059,000	7,257,234	16,063,982	250,000	67,095	7,239,988	7,557,083
<b>For the</b>	<b>Three months ended December 31, 2007</b>				<b>Nine months ended December 31, 2007</b>			
<b>Operation results:</b>	<b>Canada</b>	<b>China</b>	<b>BVI</b>	<b>Total</b>	<b>Canada</b>	<b>China</b>	<b>BVI</b>	<b>Total</b>
Sales	\$ -	\$ 29,801,777	\$ -	\$ 29,801,777	\$ -	\$ 84,901,188	\$ -	\$ 84,901,188
Cost of sales	-	(4,829,829)	-	(4,829,829)	-	(14,222,454)	-	(14,222,454)
Amortization and depletion	-	(972,059)	-	(972,059)	-	(3,178,028)	-	(3,178,028)
Gross Profit	-	23,999,889	-	23,999,889	-	67,500,706	-	67,500,706
Expenses	(2,017,316)	(1,149,173)	71,120	(3,095,369)	(5,114,941)	(3,052,610)	(349,498)	(8,517,049)
Interest, option & other income	480,694	394,154	1,328,824	2,203,672	1,344,970	704,839	4,593,849	6,643,658
Loss and other expenses	-	-	(67,761)	(67,761)	-	(52,852)	(178,753)	(231,605)
Non controlling interest	-	(5,539,495)	-	(5,539,495)	-	(15,898,491)	-	(15,898,491)
Income tax recovery (expenses)	-	(106)	-	(106)	-	1,464,168	-	1,464,168
<b>Net income (loss)</b>	<b>(\$ 1,536,622)</b>	<b>\$ 17,705,269</b>	<b>\$ 1,332,183</b>	<b>\$ 17,500,830</b>	<b>(\$ 3,769,971)</b>	<b>\$ 50,665,760</b>	<b>\$ 4,065,598</b>	<b>\$ 50,961,387</b>
<b>For the</b>	<b>Three months ended December 31, 2006</b>				<b>Nine months ended December 31, 2006</b>			
<b>Operation results:</b>	<b>Canada</b>	<b>China</b>	<b>BVI</b>	<b>Total</b>	<b>Canada</b>	<b>China</b>	<b>BVI</b>	<b>Total</b>
Sales	\$ -	\$ 14,731,638	\$ -	\$ 14,731,638	\$ -	\$ 29,772,811	\$ -	\$ 29,772,811
Cost of sales	-	(2,487,942)	-	(2,487,942)	-	(5,463,982)	-	(5,463,982)
Amortization and depletion	-	(216,589)	-	(216,589)	-	(589,920)	-	(589,920)
Gross Profit	-	12,027,107	-	12,027,107	-	23,718,909	-	23,718,909
Expenses	(2,356,225)	1,439,646	(801,755)	(1,718,334)	(4,290,243)	(342,313)	(389,290)	(5,021,846)
Interest, option & other income	1,561,410	25,723	292	1,587,425	2,461,233	61,958	978,927	3,502,118
Loss and other expenses	-	(4,988)	(22,909)	(27,897)	(12,400)	(4,988)	(70,420)	(87,808)
Non controlling interest	-	(2,529,484)	-	(2,529,484)	-	(5,053,136)	-	(5,053,136)
<b>Net income (loss)</b>	<b>(\$ 794,815)</b>	<b>\$ 10,958,004</b>	<b>(\$ 824,372)</b>	<b>\$ 9,338,817</b>	<b>(\$ 1,841,410)</b>	<b>\$ 18,380,430</b>	<b>\$ 519,217</b>	<b>\$ 17,058,237</b>

**19. COMMITMENTS**

The Company leasehold obligation commitments total \$1,054,732 over seven years (years ending March 31, 2008: \$65,257; 2009: \$261,776; 2010: \$264,019; 2011: \$264,019; 2012: \$87,492; 2013: \$89,735; and 2014: \$22,434).