Date of Report - As at November 13, 2008

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, 2008 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, 2008 audited consolidated financial statements, the related annual Management's Discussion and Analysis, and the Annual Information Form as well as other information relating to Silvercorp Metals Inc. (the "Company") on file with the Canadian provincial securities regulatory authorities, on SEDAR at www.sedar.com, and the Company's website at www.silvercorp.ca. This Management's Discussion and Analysis contains "forward looking" statements that are subject to risk factors set out in the cautionary note contained herein.

The Company's consolidated financial statements which have been prepared in accordance with Canadian generally accepted accounting principles, and all financial data derived therefrom in this report are expressed in United States ("US") 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, currency fluctuations, 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. Except in accordance with applicable securities laws, the Company expressly disclaims any obligation to update any forward-looking statements or forward-looking statements that are incorporated by reference herein.

Non-GAAP Measurements

The Company has included non-GAAP performance measures, total production costs and total cash costs per silver ounce, throughout this document. The Company reports total production costs and total cash costs on a sales basis. In the silver mining industry, this is a common performance measure but does not have any standardized meaning, and are non-GAAP measures. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, the Company and certain investors use this information to evaluate the Company's performance and ability to generate cash follow and profits. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance GAAP. Refer to section 1.2(b)(vi) on page 10 and 11 for a reconciliation of the total cash costs and total production costs to reported to costs of sales and total cost of goods sold.

1.0 Preliminary Information

Silvercorp Metals Inc., China's largest primary silver producer, is engaged in the acquisition, exploration, and development of silver related mineral properties focusing in the People's Republic of China ("China"). Silvercorp Metals Inc. is operating and developing four Silver-Lead-Zinc mines at the highly profitable

Ying Mining Camp, Henan Province, China. Silvercorp is also applying for a mining permit for the newly acquired 95% owned GC/SMT property to profitably mine and produce silver, lead and zinc metals in Guangdong Province, China. In addition, Silvercorp owns an 82% interest in the Na-Bao Polymetallic Exploration Project in Qinghai Province, China.

The Company's common shares are included as a component of the S&P/TSX Composite and the S&P/TSX Global Mining Indexes.

1.1 Date of Report - As above

1.2 Overall Performance

(a) Financial – three and six months ended September 30, 2008

For the three months ended September 30, 2008, the Company achieved sales of $20.1 million, down 31% compared to $29.2 million for the same period last year. Gross profit from operations amounted to $10.2 million (three months ended September 30, 2007 - $23.2 million), a decrease of 56% and representing a gross margin of 51% (2007 - 80%). Earnings before other income and expenses decreased 58% to $8.6 million (three months ended September 30, 2007 - $20.5 million). The net income was $4.9 million (three months ended September 30, 2007 - $16.8 million) with a net profit margin of 24% (three months ended September 30, 2007 - 57 %). Net earnings of $0.03 per share decreased $0.08 from $0.11 per share for the same period last year.

Although the Company achieved higher production levels in terms of tones of ore mined and milled compared to the same period last year, both revenues and earnings decreased mainly due to the following: (i) the Company mined low grade areas during the first two months of the quarter and resulting in less metals produced and higher unit production costs; (ii) TLP Mine and LM Mine are still in the early stages of mining and therefore experiencing higher operating costs; (iii) there was a significant drop in the selling price of lead (from $1.05 to $0.81 per pound) and zinc (from $1.03 to $0.41 per pound); (iv) there was a $1.2 million equity loss in investment due to an equity pickup of an impairment loss of $7.3 million of New Pacific Metals Corp.; (v) professional fees increased $0.7 million to improve the internal control to comply with the requirements of Sarbanes Oxley Act; (vi) no option income was recorded this quarter while $1.1 million in option income was recorded during the same period last year; and (vii) the Company's subsidiary, Henan Found Mining Company Ltd. ("Henan Found"), is now subject to 12.5% income tax rate.

Cash provided by operating activities were $11.7 million for the three months ended September 30, 2008, a decrease of 43% compared to $20.5 million during the same period last year. The Company ended the quarter with $48.6 million in cash and short term investments.

For the six months ended September 30, 2008, the Company achieved sales of $51.0 million, compared to $51.4 million for the same period last year. This represents a decrease of 0.8% in sales revenue. Gross profit from operations amounted to $31.6 million (six months ended September 30, 2007 - $40.6 million), a decrease of 22% and representing a gross margin of 62% (six months ended September 30, 2007 - 79%). Earnings before other income and expenses decreased 29% to $25.7 million (six months ended September 30, 2007 - $35.6 million). The net income was $16.5 million (six months ended September 30, 2007 - $31.3 million) with a net profit margin of 32% (six months ended September 30, 2007 - 61 %). Net earnings of $0.11 per share decreased $0.10 compared to $0.21 per share for the same period last year.

Cash provided by operating activities were $26.9 million for the six months ended September 30, 2008, a decrease of 32% compared to $39.4 million over the same period last year.

Capital expenditures during the six months ended September 30, 2008 amounted to $44.0 million (six months ended September 30, 2007- $7.3 million) representing the purchase of mineral rights and properties and deferred exploration costs totalling $35.4 million (six months ended September 30, 2007 - $5.1 million) and the purchase of equipment and construction of the new mill of $8.6 million (six months ended September 30, 2007 - $2.2 million).

(b) <u>Operation – three and six months ended September 30, 2008</u>

With the limited test production at LM Mine and TLP Mine commencing in April 2008, mine production has increased 66% and 79% reaching 124,534 and 260,478 tonnes of ores mined, respectively, for the three and six months ended September 30, 2008 compared to the respective prior year periods.

Total sales and realized prices net of value added tax and smelter charges for the three and six months ended September 30, 2008, respectively, are comprised of the following:

- 849,245 and 2,062,956 ounces of silver sold for $10.1 million and $25.6 million at an average selling price of $11.99 and $12.40 per ounce;
- 448 and 1,024 ounces of gold sold for $0.3 million and $0.6 million at an average selling price of $620.76 and $610.95 per ounce;
- 10,664,570 and 25,092,432 pounds of lead sold for $8.7 million and $21.5 million at an average selling price of $0.81 and $0.86 per pound; and
- 2,354,083 and 6,519,277 pounds of zinc sold for $1.0 million and $3.2 million at an average selling price of $0.41 and $0.50 per pound.

For the three and six months ended September 30, 2008, the unit mining cost were $69.94 and $72.99 per tonne of ore, which comprised of cash unit mining cost of $52.33 and $56.50 and non-cash unit mining cost of $17.61 and $16.49 per tonne of ore, respectively. The majority component of cash mining cost for the three and six months ended September 30, 2008, respectively, were: 23% and 23% for raw material, 15% and 12% for labour costs, 34% and 31% for mining contractor costs, 5% and 11% for drilling costs, 8% and 7% for utilities, and 15% and 16% for other various miscellaneous costs.

For the three and six months ended September 30, 2008, the unit milling cost were $12.45 and $12.92 per tonne of ore, which comprised of cash unit milling cost of $11.55 and $11.96 and non-cash unit milling cost of $0.91 and $0.96, respectively. The major components of cash mining costs for the three and six months ended September 30, 2008, respectively, were: 31% and 30% for raw material, 20% and 17% for labour costs, 16% and 16% for mineral resources tax, 24% and 22% for utilities, and 9% and 15% for other various miscellaneous costs.

The Company continues to achieve industry leading low total production costs per ounce of silver. The total production cost increased to negative $0.06 (three months ended September 30, 2007 - negative $12.91) and negative $2.91 (six months ended September 30, 2008 - $11.15) per ounce of silver after adjusting for by-product credits for the three and six months ended September 30, 2008, repectively, compared to the same period a year ago. The cash production cost for silver adjusted for by-product credits increased to negative $2.65 (three months ended September 30, 2008 - negative $14.38) and negative $4.73 (six months ended September 30, 2007 - negative $12.25) per ounce for the three and six months ended September 30, 2008. The increase of production cost was mainly caused by the reduction in by-product credits as lead prices fell 23% to $0.81 per pound, and zinc prices fell 60% to $0.41 per pound.

The head grades of run of mine ores of 71,880 and 149,642 tonnes from the Ying Mine for the three and six months ended September 30, 2008, respectively, were:

- 331 and 364 g/t for silver;
- 6% and 6% for lead; and,
- 3% and 3% for zinc.

The mining process at the Ying Mine was going through certain lower grade pockets of ore zones, but the higher grade pocket of ore zone has been developed in September 2008. It is expected that the head grade of run of mine ores from the Ying Mine will be improved starting next quarter.

The head grades of run of mine ores of 19,368 and 32,724 tonnes from the HPG Mine for the three and six months ended September 30, 2008, respectively, were:

- 135 and 147g/t for silver;
- 4% and 5% for lead; and,
- 1% and 1% for zinc.

The head grade of run of mine ores of 8,456 and 20,043 tonnes from LM Mine for the three and six months ended September 30, 2008, respectively, were:

- 310 and 309 g/t for silver; and,
- 2% and 2% for lead.

The head grade of run of mine ores of 28,566 and 52,023 tonnes from TLP Mine for the three and six months ended September 30, 2008, respectively, were:

- 140 and 159 g/t for silver; and,
- 2% and 2% for lead.

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

(b)(i) The following table summarizes the operating and financial data in respect to the Ying, HPG, LM, and TLP properties, on a consolidated basis.

Consolidated	Three months ended September 30, 2008	2007	Six months ended September 30, 2008	2007
Production Data				
Mine Data				
Ore Mined *(tonne)*				
Direct Smelting Ores *(tonne)*	**2,571**	3,411	**5,959**	6,069
Stockpiled Ores *(tonne)*	**121,963**	71,306	**254,519**	139,464
	124,534	74,717	**260,478**	145,533
Run of Mine Ore *(tonne)*				
Direct Smelting Ores *(tonne)*	**2,571**	3,411	**5,959**	6,069
Ores Milled *(tonne)*	**125,698**	90,970	**248,472**	146,389
	128,269	94,381	**254,431**	152,458
Mining Cost and Milling Cost				
Mining Cost per tonne of ore mined ($)	**69.94**	52.70	**72.99**	49.41
Cash mining cost per tonne of ore mined ($)	**52.33**	45.62	**56.50**	43.00
Non cash mining cost per tonne of ore mined ($)	**17.61**	6.39	**16.49**	6.41
Milling Cost per tonne of ore milled ($)	**12.45**	11.64	**12.92**	11.09
Cash milling cost per tonne of ore milled ($)	**11.55**	**11.09**	**11.96**	**10.60**
Non cash milling cost per tonne of ore milled ($)	**0.91**	**0.55**	**0.96**	**0.49**
Average Production Cost				
Silver *($ per ounce)*	**5.89**	2.04	**4.72**	2.22
Gold *($ per ounce)*	**304.74**	97.75	**232.29**	99.56
Lead *($ per pound)*	**0.40**	0.21	**0.33**	0.19
Zinc *($ per pound)*	**0.20**	0.21	**0.19**	0.23
put in here the calculation of cash cost and production costs: and	-		-	
Production Cost and Cash Cost Per Ounce of Silver, Adjusted for By-Product Credits				
Total production cost per ounce of Silver ($)	**(0.06)**	(12.91)	**(2.91)**	(11.15)
Total cash cost per ounce of Silver ($)	**(2.65)**	(14.38)	**(4.73)**	(12.25)
Total Recovery of the Run of Mine Ores				
Silver *(%)*	**89.46**	90.50	**90.34**	90.20
Gold	-	-		
Lead *(%)*	**93.41**	94.80	**94.17**	95.13
Zinc *(%)*	**68.22**	77.00	**66.24**	75.27
Head Grades of Run of Mine Ores				
Silver *(gram/tonne)*	**257.59**	425.20	**290.03**	422.04
Gold (gram/tonne)	-			
Lead *(%)*	**4.59**	7.10	**5.02**	7.53
Zinc *(%)*	**1.54**	3.40	**1.80**	3.38
Sales Data				
Metal Sales				
Silver *(ounce)*	**849,245**	1,001,992	**2,062,956**	1,872,600
Gold *(ounce)*	**448**	515	**1,024**	838
Lead *(pound)*	**10,664,570**	12,879,642	**25,092,432**	24,149,188
Zinc *(pound)*	**2,354,083**	4,744,258	**6,519,277**	8,593,531
Metal Sales				
Silver ($)	**10,183,599**	10,279,807	**25,590,323**	19,727,848
Gold ($)	**278,349**	250,332	**625,453**	396,344
Lead ($)	**8,682,235**	13,674,794	**21,507,463**	21,997,786
Zinc ($)	**959,417**	4,969,271	**3,239,637**	9,305,510
	20,103,600	29,174,203	**50,962,876**	51,427,488
Average Selling Price, Net of Value Added Tax and Smelter Charges				
Silver *($ per ounce)*	**11.99**	10.02	**12.40**	10.54
Gold *($ per ounce)*	**620.76**	479.02	**610.95**	472.97
Lead *($ per pound)*	**0.81**	1.05	**0.86**	0.91
Zinc *($ per pound)*	**0.41**	1.03	**0.50**	1.08

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

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

Ying Project	Three months ended September 30, 2008	2007	Six months ended September 30, 2008	2007
Production Data				
Mine Data				
Ore Mined *(tonne)*				
Direct Smelting Ores *(tonne)*	**2,387**	2,903	**5,458**	5,127
Stockpiled Ores *(tonne)*	**71,456**	59,923	**149,023**	115,961
	73,843	62,826	**154,481**	121,088
Run of Mine Ore *(tonne)*				
Direct Smelting Ores *(tonne)*	**2,387**	2,903	**5,458**	5,127
Ores Milled *(tonne)*	**69,492**	81,815	**144,183**	146,389
	71,880	84,718	**149,642**	151,516
Mining Cost and Milling Cost				
Mining Cost per tonne of ore mined ($)	**72.86**	51.47	**69.44**	49.47
Cash mining cost per tonne of ore mined ($)	**55.71**	44.13	**55.61**	42.65
Non cash mining cost per tonne of ore mined ($)	**17.14**	7.33	**13.83**	6.82
Milling Cost per tonne of ore milled ($)	**12.24**	10.07	**11.75**	10.17
Cash milling cost per tonne of ore milled ($)	**11.24**	9.68	**10.80**	9.80
Non cash milling cost per tonne of ore milled ($)	**1.00**	0.39	**0.95**	0.37
Average Production Cost				
Silver *($ per ounce)*	**4.46**	1.75	**3.73**	1.97
Gold *($ per ounce)*	**145.87**	50.11	**115.23**	55.20
Lead *($ per pound)*	**0.31**	0.19	**0.26**	0.17
Zinc *($ per pound)*	**0.15**	0.18	**0.15**	0.20
Production Cost and Cash Cost Per Ounce of Silver, Adjusted for By-Product Credits				
Total production cost per ounce of Silver ($)	**(3.44)**	(13.28)	**(5.08)**	(11.14)
Total cash cost per ounce of Silver ($)	**(5.14)**	(13.75)	**(6.13)**	(11.61)
Total Recovery of the Run of Mine Ores				
Silver (%)	**91.32**	91.40	**92.13**	88.99
Lead (%)	**95.57**	95.80	**96.48**	95.45
Zinc (%)	**68.19**	74.10	**66.18**	75.30
Head Grades of Run of Mine Ores				
Silver (gram/tonne)	**331.20**	446.80	**364.17**	471.77
Lead (%)	**5.98**	7.00	**6.33**	7.47
Zinc (%)	**2.52**	3.90	**2.90**	3.79
Sales Data				
Metal Sales				
Silver *(ounce)*	**622,070**	923,033	**1,597,556**	1,759,432
Gold *(ounce)*	**20**	75	**64**	136
Lead *(pound)*	**8,095,753**	10,983,686	**19,345,336**	21,036,293
Zinc *(pound)*	**2,300,597**	4,614,186	**6,362,724**	8,322,365
Metal Sales				
Silver ($)	**7,492,527**	9,484,096	**19,897,719**	18,583,281
Gold ($)	**7,897**	22,093	**24,635**	40,328
Lead ($)	**6,846,552**	11,733,389	**16,885,546**	19,143,814
Zinc ($)	**939,407**	4,838,698	**3,172,525**	9,026,884
	15,286,382	26,078,277	**39,980,425**	46,794,307
Average Selling Price, Net of Value Added Tax and Smelter Charges				
Silver *($ per ounce)*	**12.04**	10.03	**12.46**	10.56
Gold *($ per ounce)*	**394.23**	288.52	**384.74**	296.53
Lead *($ per pound)*	**0.85**	1.05	**0.87**	0.91
Zinc *($ per pound)*	**0.41**	1.03	**0.50**	1.08

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

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

HPG Project	Three months ended September 30, 2008	2007	Six months ended September 30, 2008	2007
Production Data				
Mine Data				
Ore Mined *(tonne)*				
Direct Smelting Ores *(tonne)*	**135**	508	**328**	942
Stockpiled Ores *(tonne)*	**17,302**	11,383	**32,632**	23,503
	17,436	11,891	**32,959**	24,445
Run of Mine Ore *(tonne)*				
Direct Smelting Ores *(tonne)*	**135**	508	**328**	942
Ores Milled *(tonne)*	**19,233**	9,155	**32,396**	17,533
	19,368	9,663	**32,724**	18,475
Mining Cost and Milling Cost				
Mining Cost per tonne of ore mined ($)	**66.64**	59.24	**79.62**	49.11
Cash mining cost per tonne of ore mined ($)	**48.48**	53.49	**53.60**	44.72
Non cash mining cost per tonne of ore mined ($)	**18.16**	5.75	**26.02**	4.40
Milling Cost per tonne of ore milled ($)	**13.82**	17.48	**13.40**	17.95
Cash milling cost per tonne of ore milled ($)	**13.21**	15.52	**12.13**	16.91
Non cash milling cost per tonne of ore milled ($)	**0.62**	1.97	**1.28**	1.04
Average Production Cost				
Silver *($ per ounce)*	**5.21**	5.21	**6.00**	4.82
Gold *($ per ounce)*	**334.67**	266.94	**329.38**	241.52
Lead *($ per pound)*	**0.38**	0.53	**0.43**	0.44
Zinc *($ per pound)*	**0.19**	0.51	**0.22**	0.49
Production Cost and Cash Cost Per Ounce of Silver, Adjusted for By-Product Credits				
Total production cost per ounce of Silver ($)	**(5.80)**	(8.53)	**(6.54)**	(11.33)
Total cash cost per ounce of Silver ($)	**(10.48)**	(21.75)	**(12.72)**	(22.18)
Total Recovery of the Run of Mine Ores				
Silver *(%)*	**83.99**	82.10	**84.13**	80.27
Lead *(%)*	**92.98**	90.00	**93.76**	94.08
Zinc *(%)*	**68.50**	54.80	**67.29**	53.90
Head Grades of Run of Mine Ores				
Silver *(gram/tonne)*	**134.64**	259.30	**146.87**	221.46
Lead *(%)*	**4.21**	**7.70**	**5.04**	7.79
Zinc *(%)*	**0.88**	**1.30**	**0.76**	1.48
Sales Data				
Metal Sales				
Silver *(ounce)*	**55,153**	78,959	**133,978**	113,168
Gold *(ounce)*	**343**	440	**839**	702
Lead *(pound)*	**1,312,207**	1,895,956	**3,334,777**	3,112,895
Zinc *(pound)*	**53,486**	130,072	**156,553**	271,166
Metal Sales				
Silver ($)	**568,867**	795,711	**1,581,313**	1,144,567
Gold ($)	**227,328**	228,238	**543,869**	356,017
Lead ($)	**978,484**	1,941,404	**2,802,662**	2,853,972
Zinc ($)	**20,010**	130,572	**67,112**	278,625
	1,794,689	3,095,926	**4,994,957**	4,633,182
Average Selling Price, Net of Value Added Tax and Smelter Charges				
Silver *($ per ounce)*	**10.31**	9.97	**11.80**	10.11
Gold *($ per ounce)*	**662.79**	511.49	**648.25**	507.15
Lead *($ per pound)*	**0.75**	1.01	**0.84**	0.92
Zinc *($ per pound)*	**0.37**	0.98	**0.43**	1.03

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

(b)(iv) The following table summarizes the operating and financial data in respect to the LM Mine on a non-consolidated basis.

LM Project	Three months ended September 30, 2008	Six months ended September 30, 2008
Production Data		
Mine Data		
Ore Mined *(tonne)*		
Direct Smelting Ores *(tonne)*	15	86
Stockpiled Ores *(tonne)*	10,872	25,338
	10,887	25,424
Run of Mine Ore *(tonne)*		
Direct Smelting Ores *(tonne)*	15	86
Ores Milled *(tonne)*	8,440	19,956
	8,456	20,043
Mining Cost and Milling Cost		
Mining Cost per tonne of ore mined ($)	77.90	112.34
Cash mining cost per tonne of ore mined ($)	53.60	79.65
Non cash mining cost per tonne of ore mined ($)	24.30	32.70
Milling Cost per tonne of ore milled ($)	11.71	17.75
Cash milling cost per tonne of ore milled ($)	11.71	17.75
Average Production Cost		
Silver *($ per ounce)*	8.95	9.69
Gold *($ per ounce)*	416.80	424.78
Lead *($ per pound)*	0.36	0.52
Production Cost and Cash Cost Per Ounce of Silver, Adjusted for By-Product Credits		
Total production cost per ounce of Silver ($)	8.39	9.07
Total cash cost per ounce of Silver ($)	4.16	5.34
Total Recovery of the Run of Mine Ores		
Silver *(%)*	88.78	89.62
Lead *(%)*	89.35	87.50
Head Grades of Run of Mine Ores		
Silver *(gram/tonne)*	309.71	309.27
Lead *(%)*	2.36	2.30
Sales Data		
Metal Sales		
Silver *(ounce)*	92,799	165,083
Gold *(ounce)*	50	56
Lead *(pound)*	358,347	685,175
Metal Sales		
Silver ($)	1,120,954	2,036,663
Gold ($)	28,013	30,335
Lead ($)	173,384	454,433
	1,322,351	2,521,431
Average Selling Price, Net of Value Added Tax and Smelter Charges		
Silver *($ per ounce)*	12.08	12.34
Gold *($ per ounce)*	562.66	540.57
Lead *($ per pound)*	0.48	0.66

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

(b)(v) The following table summarizes the operating and financial data in respect to the TLP Mine on a non-consolidated basis.

TLP Project	**Three months ended September 30, 2008**	**Six months ended September 30, 2008**
Production Data		
Mine Data		
Ore Mined *(tonne)*		
Direct Smelting Ores *(tonne)*	34	87
Stockpiled Ores *(tonne)*	22,333	47,526
	22,367	47,613
Run of Mine Ore *(tonne)*		
Direct Smelting Ores *(tonne)*	34	87
Ores Milled *(tonne)*	28,532	51,936
	28,566	52,023
Mining Cost and Milling Cost		
Mining Cost per tonne of ore mined ($)	59.02	58.90
Cash mining cost per tonne of ore mined ($)	43.54	49.05
Non cash mining cost per tonne of ore mined ($)	15.48	9.85
Milling Cost per tonne of ore milled ($)	13.33	14.00
Cash milling cost per tonne of ore milled ($)	12.20	12.86
Non cash milling cost per tonne of ore milled ($)	1.13	1.14
Average Production Cost		
Silver *($ per ounce)*	17.30	10.37
Gold *($ per ounce)*	581.06	342.65
Lead *($ per pound)*	1.04	0.66
Production Cost and Cash Cost Per Ounce of Silver, Adjusted for By-Product Credits		
Total production cost per ounce of Silver ($)	20.55	8.97
Total cash cost per ounce of Silver ($)	14.34	5.13
Total Recovery of the Run of Mine Ores		
Silver *(%)*	82.80	82.79
Lead *(%)*	79.14	79.06
Head Grades of Run of Mine Ores		
Silver *(gram/tonne)*	140.33	159.43
Lead *(%)*	1.99	2.30
Sales Data		
Metal Sales		
Silver *(ounce)*	79,225	166,341
Gold *(ounce)*	36	65
Lead *(pound)*	898,264	1,727,145
Metal Sales		
Silver ($)	1,001,251	2,074,626
Gold ($)	15,111	26,614
Lead ($)	683,815	1,364,822
	1,700,177	3,466,063
Average Selling Price, Net of Value Added Tax and Smelter Charges		
Silver *($ per ounce)*	12.64	12.47
Gold *($ per ounce)*	424.47	411.98
Lead *($ per pound)*	0.76	0.79

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

(b)(vi) Non-GAAP measures – Total cash cost and total production cost per silver ounce calculation.

The Company has included non-GAAP performance measures, total production costs and total cash costs per silver ounce, throughout this document. The Company reports total production costs and total cash costs on a sales basis. In the silver mining industry, this is a common performance measure but does not have any standardized meaning, and are non-GAAP measures. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, the Company and certain investors use this information to evaluate the Company's performance and ability to generate cash follow and profits. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance GAAP. The following tables provides a reconciliation of total cash costs and total production costs per silver ounce to the financial statements for the three and six months ended September 30, 2008 and 2007.

	Three months ended September 30,		Six months ended September 30,	
Consolidated	**2008**	2007	**2008**	2007
Cost of sales	**$ 7,668,158**	$ 4,488,495	**$ 15,606,914**	$ 8,766,684
By-product lead, zinc, and gold sales	**(9,920,001)**	(18,894,397)	**(25,372,553)**	(31,699,640)
Total adjusted cash costs	**(2,251,843)**	(14,405,902)	**(9,765,639)**	(22,932,956)
Divided by ounces of silver sold	**849,245**	1,001,992	**2,062,956**	1,872,600
Total cash costs per ounce of silver	**$ (2.65)**	$ (14.38)	**$ (4.73)**	$ (12.25)
Total adjusted cash costs	**$ (2,251,843)**	$ (14,405,902)	**$ (9,765,639)**	$ (22,932,956)
Amortization and depletion	**2,201,011**	1,472,906	**3,769,453**	2,058,959
Total adjusted cash of goods sold	**(50,832)**	(12,932,996)	**(5,996,186)**	(20,873,997)
Divided by ounces of silver sold	**849,245**	1,001,992	**2,062,956**	1,872,600
Total production cost per ounce of silver	**$ (0.06)**	$ (12.91)	**$ (2.91)**	$ (11.15)

	Three months ended September 30,		Six months ended September 30,	
Ying Project	**2008**	2007	**2008**	2007
Cost of sales	**$ 4,597,968**	$ 3,905,430	**$ 10,285,864**	$ 7,787,748
By-product lead, zinc, and gold sales	**(7,793,856)**	(16,594,180)	**(20,082,706)**	(28,211,026)
Total adjusted cash costs	**(3,195,888)**	(12,688,750)	**(9,796,842)**	(20,423,278)
Divided by ounces of silver sold	**622,070**	923,033	**1,597,556**	1,759,432
Total cash costs per ounce of silver	**$ (5.14)**	**$ (13.75)**	**$ (6.13)**	**$ (11.61)**
Total adjusted cash costs	**$ (3,195,888)**	$ (12,688,750)	**$ (9,796,842)**	$ (20,423,278)
Amortization and depletion	**1,058,061**	429,558	**1,688,406**	831,418
Total adjusted cash of goods sold	**(2,137,827)**	(12,259,192)	**(8,108,436)**	(19,591,860)
Divided by ounces of silver sold	**622,070**	923,033	**1,597,556**	1,759,432
Total production cost per ounce of silver	**$ (3.44)**	**$ (13.28)**	**$ (5.08)**	**$ (11.14)**

	Three months ended September 30,		Six months ended September 30,	
HPG Project	**2008**	2007	**2008**	2007
Cost of sales	**$ 647,561**	$ 583,065	**$ 1,708,923**	$ 978,936
By-product lead, zinc, and gold sales	**(1,225,822)**	(2,300,214)	**(3,413,643)**	(3,488,614)
Total adjusted cash costs	**(578,261)**	(1,717,149)	**(1,704,720)**	(2,509,678)
Divided by ounces of silver sold	**55,153**	78,959	**133,978**	113,168
Total cash costs per ounce of silver	**$ (10.48)**	**$ (21.75)**	**$ (12.72)**	**$ (22.18)**
Total adjusted cash costs	**$ (578,261)**	$ (1,717,149)	**$ (1,704,720)**	$ (2,509,678)
Amortization and depletion	**258,644**	1,043,348	**829,026**	1,227,541
Total adjusted cash of goods sold	**(319,617)**	(673,801)	**(875,694)**	(1,282,137)
Divided by ounces of silver sold	**55,153**	78,959	**133,978**	113,168
Total production cost per ounce of silver	**$ (5.80)**	**$ (8.53)**	**$ (6.54)**	**$ (11.33)**

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

LM Project	Three months ended September 30, 2008	Six months ended September 30, 2008
Cost of sales	$ 587,741	$ 1,366,938
By-product lead, zinc, and gold sales	(201,397)	(484,768)
Total adjusted cash costs	386,344	882,170
Divided by ounces of silver sold	92,799	165,083
Total cash costs per ounce of silver	$ 4.16	$ 5.34
Total adjusted cash costs	$ 386,344	$ 882,170
Amortization and depletion	391,803	614,429
Total adjusted cash of goods sold	778,147	1,496,599
Divided by ounces of silver sold	92,799	165,083
Total production cost per ounce of silver	$ 8.39	$ 9.07

TLP Project	Three months ended September 30, 2008	Six months ended September 30, 2008
Cost of sales	$ 1,834,887	$ 2,245,189
By-product lead, zinc, and gold sales	(698,926)	(1,391,436)
Total adjusted cash costs	1,135,961	853,753
Divided by ounces of silver sold	79,225	166,341
Total cash costs per ounce of silver	$ 14.34	$ 5.13
Total adjusted cash costs	$ 1,135,961	$ 853,753
Amortization and depletion	492,494	637,592
Total adjusted cash of goods sold	1,628,454	1,491,345
Divided by ounces of silver sold	79,225	166,341
Total production cost per ounce of silver	$ 20.55	$ 8.97

(c) Economic Factors Affecting the Industry

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

(d) Political and Country Risk

The Company conducts its operations in China and is potentially subject to a number of political and economic risks. The Company is not able to determine the impact of these risks on its future financial position or results of operations. The Company's exploration, development and production activities may be substantially affected by factors outside of the Company's control. These potential factors include, but are not limited to: levies and tax increases or claims by governmental bodies, expropriation or nationalization, foreign exchange controls, cancellation or renegotiation of contracts, and environmental and permitting regulations. The Company currently has no political risk insurance coverage against these risks.

(e) Environmental Risks

The Company's activities are subject to extensive laws and regulations governing environmental protection and employee health and safety. Environmental laws and regulations are complex and have tended to become more stringent over time. Although the Company makes provisions for reclamation costs, it cannot be assured that these provisions will be adequate to discharge its future obligations for these costs.

Failure to comply with applicable environmental health and safety laws may result in injunctions, damages, suspension or revocation of permits and imposition of penalties. There can be no assurance that the Company has been or will be at all times in complete compliance with current and future environmental and health and safety laws and permits and such failure may materially adversely affect the Company's business, results of operations or financial condition.

(f) Risk Factors

The Company is subject to other risks that 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

The following table sets out selected consolidated financial information for the Company prepared in accordance with Canadian generally accepted accounting principles. The Company's reporting currency is US dollars. This information has been summarized from the Company's audited consolidated financial statements for the fiscal years ended March 31, 2008, 2007 and 2006. This selected consolidated financial information should only be read in conjunction with the Company's consolidated financial statements.

For the years ended March 31,
(expressed in millions, except share and per share data)

	2008	2007	2006
Sales	$ 108.4	$ 39.8	$ -
Gross Profit	85.0	30.8	-
Gains and other income	7.3	5.3	0.4
Net income (loss)	59.9	22.0	(5.3)
Basic earnings (loss) per share	0.41	0.15	(0.04)
Diluted earnings (loss) per share	0.40	0.15	(0.04)
Total assets	190.2	94.2	18.1
Total long term liabilities	7.6	2.1	-
Cash dividends paid	6.9	-	-
Cash dividends declared per share	0.05	-	-

For the year ended March 31, 2008, the Company increased sales by 172% to $108.4 million (2007 - $39.8 million) compared to the prior year period. The increase is primarily attributed to the Ying Silver Property increase in sales to $96.4 million (2007 - $39.8 million) and HPG property sales of $12.0 million (2007 - $nil).

For the year ended March 31, 2008, gross profit from mine operations amounted to $85.0 million (2007 - $30.8 million), representing a gross margin of 78% (2007 - 78%). The net income was $59.9 million (2007 - $22.0 million) with a net profit margin of 55% (2007 - 55%).

For the year ended March 31, 2008, the Company recorded net earnings of $59.9 million (CAD$61.7 million), or $0.41 (CAD$0.42) per share, up 172%, compared to $22.0 million (CAD$25.1 million), or $0.15 (CAD$0.17) per share in the year ended March 1 ,2007. The company achieved a net profit margin of 55% (2007 - 55%) for the year ended March 31, 2008.

The Company's subsidiary, Henan Found Mining Company Ltd. ("Henan Found"), is now subject to

12.5% income tax rate until December 31, 2010 and a 25% income tax rate thereafter. Based on Chinese tax rule, Henan Found has paid $1.3 million in tax in the 4th quarter ended March 31, 2008. A tax provision of approximately $1.9 million was provided for in the year ended March 31, 2008.
On October 21, 2007, the Company paid its first annual dividend of $0.05 (CAD$0.05) per share to all shareholders on record at the close of business on September 28, 2007. The total dividend payment of $6.9 million (CAD$7.4 million) is eligible for the enhanced federal and provincial dividend tax credits.

1.4 Results of Operations

(a) Three months ended September 30, 2008
Also see section 1.2.

(i) Sales: During the three months ended September 30, 2008, sales decreased by 31% to $20.1 million (three months ended September 30, 2007 - $29.2 million) compared to the prior year period. The decrease was primarily attributed to the decrease in selling price of lead and zinc and less metal produced as the Company went through a lower head grade zone at the Ying Silver Property.

(ii) Cost of sales: The total cost of sales, for the three months ended September 30, 2008 amounted to $9.9 million (three months ended September 30, 2007 - $6.0 million), and are comprised of $7.7 million (three months ended September 30, 2007 - $4.5 million) for the cash cost and $2.2 million (three months ended September 30, 2007 - $1.5 million) for the depreciation charges. The 71% increase in cash cost of $3.4 million was attributed to the increase in unit cost of production as we went through low grade areas in the first two months of the quarter and as a result of being in the start up phase of mining at the LM and TLP mines.

(iii) Accretion of asset retirement obligations: During the three months ended September 30, 2008, the Company recognized $0.04 million (three months ended September 30, 2007 - $0.01 million) as accretion of asset retirement obligations. The Company's assets retirement obligations relate to the reclamation cost of the Ying; HPG; TLP and LM properties and was calculated using a credit-adjusted risk-free discount rate of 6%. The total undiscounted amount of cash flows required to settle the obligations is estimated at approximately $3.1 million and is expected to be settled gradually over the estimated mine lives.

(iv) Foreign exchange loss(gain): During the three months ended September 30, 2008, the Company recorded a foreign exchange gain of $3.1 million (three months ended September 30, 2007 - loss $0.7 million) or $0.02 per share, which was mainly due to the strengthening Chinese RMB¥.

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, a component of shareholders' equity, and amounted to loss $1.3 million (2007 - gain $2.2 million) for the three months ended September 30, 2008.

(v) General exploration and property investigation expenses: During the three months ended September 30, 2008, the Company incurred general exploration and property investigation expenses of $1.2 million (three months ended September 30, 2007 - $0.3 million) representing an increase of 300% or $0.9 million as the Company actively pursues its strategy to grow through the exploration, development and production of advanced silver properties in China. This expense includes governmental levies and taxes.

(vi) Investor relations: During the three months ended September 30, 2008, the Company incurred investor relation costs of $0.26 million (three months ended September 30, 2007 - $0.07 million) representing an increase of 270% or $0.19 million as compared to the same period in the prior year. The increase is mainly attributable to the increases in the amount of newswire services and investor conferences compared to the prior year period.

(vii) Office, administration and miscellaneous: During the three months ended September 30, 2008, the Company incurred office, administration and miscellaneous expenses of $2.3 million (three months ended September 30, 2007 - $1.4 million) representing an increase of $0.9 million or 58%. The increase was mainly attributable to further enhancements of the corporate and operating infrastructures to effectively manage the continual growth and increase of business activities.

(viii) Professional fees: During the three months ended September 30, 2008, the Company incurred professional fees of $0.9 million (three months ended September 30, 2007 - $0.1 million) a $0.8 million or 737% increase compared to the prior year period. This increase was mainly attributable to the enhancements of corporate governance and regulatory matters and consulting fees for preparations towards Sarbanes Oxley Act compliance.

(ix) Equity income in investment: During the three months ended September 30, 2008, the Company recorded equity loss of $1.2 million (three months ended September 30, 2007 - gain $0.01 million) due to an equity pickup of an impairment loss of $7.3 million in New Pacific Metals Corp.

(x) Interest income: During the three months ended September 30, 2008, the Company recognized interest income of $0.2 million (three months ended September 30, 2007 - $0.6 million) representing a decrease of 60% or $0.4 million over the prior year period. The decrease was due to less cash on hand compared to the same period in the prior year.

(xi) Income tax expense: During three months ended September 30, 2008, the Company recorded an income tax provision of $1.1 million (three months ended September 30, 2007 - $0.08 million) as Henan Found is paying 12.5% income tax on its earnings since January 1, 2008 due to the implementation of the new Chinese income tax law effective January 1, 2008..

(b) Six months ended September 30, 2008

(i) Sales: During the six months ended September 30, 2008, sales decreased by 0.8% to $51.0 million (six months ended September 30, 2007 - $51.4 million) compared to same period in prior year. The decrease is primarily attributed to the decrease in selling price of lead and zinc and less metal produced as the Company was going through a lower head grade zone at the Ying Silver Property offset by the increased production level.

(ii) Cost of sales: During the six months ended September 30, 2008, cost of sales amounted to $19.4 million (six months ended September 30, 2007 - $10.8 million), and are comprised of $15.6 million (six months ended September 30, 2007 - $8.8 million) for the cash cost and $3.8 million (six months ended September 30, 2007 - $2.0 million) for the amortization and depletion charges. The increase in cash cost of $6.8 million or 79% was attributed to the increase in unit cost of production as we went through low grade areas during the period and as a result of being in the start up phase of mining at the LM and TLP mines.

(iii) Accretion of asset retirement obligations: During the six months ended September 30, 2008, the Company recognized $0.06 million (six months ended September 30, 2007 - $0.03 million) as accretion of asset retirement obligations. The Company's assets retirement obligations relate to the reclamation cost of the Ying, HPG, TLP and LM properties and was calculated using a credit-adjusted risk-free discount rate of 6%. The total undiscounted amount of cash flows required to settle the obligations is estimated at approximately $3.1 million and is expected to be settled gradually over the estimated mine lives.

(iv) Foreign exchange loss(gain): During the six months ended September 30, 2008, the Company recorded a foreign exchange gain of $3.0 million (six months ended September 30, 2007 - loss $1.1 million) or $0.02 per share, which was mainly due to the strengthening Chinese RMB¥.

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 gain $0.5 million (2007 - $1.2 million) for the 2nd quarter ended September 30, 2008.

(v) General exploration and property investigation expenses: During the six months ended September 30, 2008,the Company incurred general exploration and property investigation expenses of $1.6 million (six months ended September 30, 2007 - $0.6 million) representing an increase of 166% or $1.0 million as the Company actively pursues its strategy to grow through the exploration, development and production of advanced silver properties in China. This expense includes governmental levies and taxes.

(vi) Investor relations: During the six months ended September 30, 2008, the Company incurred investor relation costs of $0.4 million (six months ended September 30, 2007 - $0.1 million) representing an increase of 167% or $0.3 million as compared to the same period in the prior year. The increase is mainly attributable to the increases in the amount of newswire services and investor conferences compared to the prior year period.

(vii) Office, administration and miscellaneous: During the six months ended September 30, 2008, the Company incurred office, administration and miscellaneous expenses of $5.2 million (six months ended September 30, 2007 - $2.8 million) representing an increase of $2.4 million or 85%. The increase is mainly attributable to further enhancements of the corporate and operating infrastructures to effectively manage the continual growth and increase of business activities.

(viii) Professional fees: During the six months ended September 30, 2008, the Company incurred professional fees of $1.2 million (six months ended September 30, 2007 - $0.2 million), a $1.0 million or 484% increase as compared to the same period in the prior year. This increase was mainly attributable to the enhancements of corporate governance and regulatory matters and consulting fees for preparations towards Sarbanes Oxley Act compliance.

(ix) Equity loss in investment: During the six months ended September 30, 2008, the Company recorded equity loss of $1.4 million (six months ended September 30, 2007 - loss $0.1 million) due to an equity pickup of an impairment loss of $7.3 million in New Pacific Metals Corp.

(x) Other income: During the six months ended September 30, 2008, the Company recorded other income of $0.1 million (six months ended September 30, 2007 - $3.1 million) while in the previous period $3.1 million in option income was recognized 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.

(xi) Interest income: During the six months ended September 30, 2008, the Company recognized interest income of $1.0 million (six months ended September 30, 2007 - $1.1 million) representing a decrease of $0.1 million as there was less cash on hand compared to the same period in the prior year.

(xii) Income tax expense: During the six months ended September 30, 2008, the Company recorded an income tax provision of $3.0 million (six months ended September 30, 2007 - recovery of $1.4 million) as Henan Found is paying 12.5% income tax on its earnings since January 1, 2008 due to the implementation of the new Chinese income tax law effective January 1, 2008. The tax recovery in September 2007 was a result of Henan Found receiving a favorable ruling from the local Chinese tax authorities on its tax exemption application in March 31, 2007 resulting in a reversal of the income tax provision made during the quarter ended June 30, 2007.

1.5 Summary of Quarterly Results

	For the Quarters Ended (expressed in millions, except share and per share data)			
	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07
Sales	$ 20.1	$ 30.9	$ 26.8	$ 30.1
Gross Profit	10.2	21.4	20.2	24.2
Gains and other income	(0.9)	0.6	1.2	2.1
Net income	4.9	11.6	10.9	17.8
Basic earnings per share	0.03	0.08	0.07	0.12
Diluted earnings per share	0.03	0.08	0.07	0.12
Total assets	249.9	276.8	190.2	165.9
Total long term liabilities	27.4	27.8	7.6	3.5
Cash dividends paid	3.0	-	-	6.9
Cash dividends declared per share	0.02	-	-	-

	For the Quarters Ended (expressed in millions, except share and per share data)			
	30-Sep-07	30-Jun-07	31-Mar-07	31-Dec-06
Sales	$ 29.2	$ 22.3	$ 13.4	$ 13.0
Gross Profit	23.2	17.4	9.8	10.6
Gains and other income	1.8	2.2	2.3	1.4
Net income (loss)	16.8	14.5	6.9	8.2
Basic earnings (loss) per share	0.11	0.10	0.05	0.06
Diluted earnings (loss) per share	0.11	0.10	0.05	0.05
Total assets	149.8	118.1	94.2	78.3
Total long term liabilities	3.4	3.1	2.1	4.9
Cash dividends paid	-	-	-	-
Cash dividends declared per share	0.05	-	-	-

1.6 Liquidity and Capital Resources

(a) Working Capital

As at September 30, 2008, the Company had a working capital position of $40.0 million (March 31, 2008 - $69.5 million) comprised mainly of cash and cash equivalents of $36.5 million (March 31, 2008 - $47.1 million), short term investments of $12.1 million (March 31, 2008 - $37.1 million), accounts receivable and prepaids of $5.2 million (March 31, 2008 - $5.3 million), inventories of $5.1 million (March 31, 2008 - $2.4 million), offset by current liabilities of $18.9 million (March 31, 2008 - $22.4 million).

Working capital decreased by 42% or $29.5 million since March 31, 2008 to $40.0 million, primarily as the result of the acquisition of mineral rights and properties and deferred exploration costs totaling $35.4 million, the purchase of equipment and construction of property and plant of $8.6 million, and the share buy back of $9.1 million, offset by cash provided by operating activities of $26.9 million.

(b) Cash and Cash Equivalents, and Short Term Investments

Cash and cash equivalents plus short term investments, as at September 30, 2008, decreased by $35.7 million to $48.6 million (March 31, 2008 - $84.2 million).

During the six months ended September 30, 2008, the Company's cash and cash equivalents decreased by $10.6 million to $36.5 million (March 31, 2008 - $47.1 million) as a result of: cash provided by operating activities of $26.9 million (six months ended September 30, 2007 - $39.4 million); cash used in investing activities of $29.8 million (six months ended September 30, 2007 - $48.0 million), cash used in financing activities of $7.8 million (six months ended September 30, 2007 - provided $2.0 million), and positive effect of exchange rate changes on cash of $0.05 million (six months ended September 30, 2007 - $4.1 million).

The Company does not invest in any asset-backed commercial paper.

(c) Operating Activities

During the six months ended September 30, 2008, the Company's net cash provided by operating activities of $26.9 million (six months ended September 30, 2007 - $39.4 million) is comprised of: cash provided by net income of $ 16.5 million (six months ended September 30, 2007- $31.3 million); items not affecting cash of $12.9 million (six months ended September 30, 2007- $10.3 million); and, the net decrease in non-cash working capital of $2.5 million (six months ended September 30, 2007 - decrease of $2.2 million).

(d) Investing Activities

During the six months ended September 30, 2008, the Company's net cash used in investing activities of $29.8 million (six months ended September 30, 2007- $48.0 million) was comprised of the purchases of mineral rights and properties of $35.4 million (six months ended September 30, 2007 - $5.1 million); addition of property, plant and equipment of $8.6 million (six months ended September 30, 2007 - $2.2 million), redemption of short term investments of $24.9 million (six months ended September 30, 2007, purchase of $31.6 million); a decrease in long term prepaid of $0.6 million (six months ended September 30, 2007 – increase of $4.0 million); and dividend payment to non-controlling shareholder of Henan Found of $11.1 million (six months ended September 30, 2007- $3.4 million).

(e) Financing Activities

During the six months ended September 30, 2008, the Company's net cash used in financing activities of $7.8 million (six months ended September 30, 2007 - provided $2.0 million) is comprised primarily of shares returned to treasury for cancellation $9.1 million (six months ended September 30, 2007 - $nil).

During the six months ended September 30, 2008, the Company, through the facilities of the TSX Exchange, acquired and cancelled 2,136,500 shares under the Normal Course Issuer Bid at a total cost of $9.1 million. Subsequent to September 30, 2008, the Company acquired 230,000 common shares under the Normal Course Issuer Bid at a cost of $0.6 million.

(f) Commitments

The Company's commitments include:

(a) During the 2007 fiscal year, Henan Found entered into a joint venture agreement, for a 30% participation interest, in Luoyang Yongning Smelting Co. Ltd. ("Yongning"), to custom build a 150,000-tonne per year lead-silver-gold smelter in Luoning County, Luoyang City, Henan Province, China. On September 21, 2007, Yongning obtained approval from Chinese governmental authorities and the business license was issued.

During the 2008 fiscal year, Henan Found fulfilled its registered capital requirement through a contribution of approximately $6.6 million (RMB¥45 million) to Yongning. As of March 31, 2008, the registered capital requirement of $21.4 million (RMB¥150 million) has been fully contributed by all the joint venture parties.

The remaining commitment, for other capital expenditure investment, of approximately $4.3 million

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

(RMB¥30 million) (30% of $14.3 million or RMB¥100 million) is to be contributed based on the construction process of the smelter and as requested by Yongning.

(b) The Company's leasehold obligation commitments total $814,549 over six years (years ending March 31, 2009: $106,602; 2010: $256,853; 2011: $256,853; 2012: $85,117; 2013: $87,299; and 2014: $21,825).

No other commitments to provide additional funds have been made by management or other stockholders.

(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

Related party transactions not disclosed elsewhere in the financial statement are as the follows:

Amount due to (from) related parties		**September 30, 2008**		March 31, 2008
New Pacific Metals Corp. (a)	**$**	**1,728,409**	$	(18,051)
Henan Non-ferrous Geology Bureau (b)		**1,971,696**		12,117,910
Qinghai Non-ferrous Geology Bureau (c)		**-**		(17,113)
Quanfa Exploration Consulting Services Ltd. (d)		**124,488**		(12,014)
Gao Consulting Ltd.(e)		**16,841**		-
R. Feng Consulting Ltd. (f)		**31,135**		-
Directors (g)		**24,767**		-
	$	**3,897,336**	$	12,070,732

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

	Three month ended September 30,		Six month ended September 30,	
Transactions with related parties	**2008**	2007	**2008**	2007
New Pacific Metals Corp. (a)	**$ 497,299**	$ 221,273	**$ 872,680**	$ 481,352
Henan Non-ferrous Geology Bureau (b)	**10,146,214**	-	**10,146,214**	-
Qinghai Non-ferror Geology Bureau (c)	**-**	-	**17,113**	-
Quanfa Exploration Consulting Services Ltd. (d)	**270,198**	65,662	**270,198**	65,662
Gao Consulting Ltd.(e)	**52,218**	41,513	**114,093**	80,258
R. Feng Consulting Ltd. (f)	**96,538**	44,337	**183,159**	81,902
Directors (g)	**24,767**	35,760	**39,617**	51,050
	$ 11,087,234	$ 408,545	**$ 11,643,074**	$ 760,224

(a) New Pacific Metals Corp. is a publicly traded company with a director and officers in common with the Company. Upon the services and cost reallocation agreement being formalized by the Company and NUX, the Company will recover costs for services rendered to NUX and expenses incurred on behalf of NUX. During the three and six months ended September 30, 2008, the Company recovered $54,359 (three months ended September 30, 2007 - $39,740) and $120,752 (six months ended September 30, 2007 - $207,791), respectively, from NUX for services rendered and expenses incurred on behalf of NUX. The costs recovered from NUX were recorded as direct reduction of office, administration and miscellaneous expenses on the consolidated statements of operations.

On December 8, 2006, NUX entered into a Declaration of Trust Agreement (the "Trust Agreement") with Yunnan JCJ, an indirectly wholly owned subsidiary of the Company, to hold in trust for NUX, two exploration permits ("Huaiji Project") located in Guangdong Province, China. NUX is to advance cash to Yunnan JCJ to fund the exploration programs at Huaji Project. During the three and six months ended September 30, 208, Yunan JCJ incurred exploration expenditures of $442,940 (three months ended September 30, 2007 - $181,533) and $751,928 (six months ended September 30, 2007 - $273,561), respectively, for the sole benefit of NUX.

As of September 30, 2008, a total of $1,795,697 (March 31, 2008 - $683,995) of cash held in trust by the Company for the sole benefit of NUX is repayable upon demand, pursuant to a trust agreement dated October 16, 2007.

(b) Henan Non-ferrous Geology Bureau ("Henan Geology Bureau") is a 22.5% equity interest holder of Henan Found. During the year ended March 31, 2008, Henan Found's Board of Directors declared a dividend of $53,857,378 (RMB¥400 million), of which $12,117,910 (RMB¥90 million) was payable to Henan Geology Bureau. During the three and six months ended September 30, 2008, a total of $10,146,214 was paid to Henan Geology Bureau and the rest balance of $1,971,696 was included in amounts due to related parties.

(c) Qinghai Non-ferrous Geology Bureau is an 18% equity interest holder of Qinghai Found. During the three and six months ended September 30, 2008, Qinghai Non-ferror Geology Bureau repaid $17,113 previously owed to the Company.

(d) Quanfa Exploration Consulting Services Ltd. ("Quanfa") is a private company with majority shareholders and management from the senior management of Henan Found and Henan Huawei. NZ project is held by Quanfa and the title transfer of NZ project from Quanfa to Henan Found is in process. Prior to the completion of title transfer, Henan Found is required to pay certain consulting fees to Quanfa. During the three and six months ended September 30, 2008, the Company paid $65,726 (thee and six months ended September 30, 2007 - $65,662) to Quanfa for its consulting services provided.

During the three and six months ended September 30, 2008, the Company also purchased a mining right from Quanfa for $204,472 (three and six months ended September 30, 2007 - $nil).

(e) During the three and six months ended September 30, 2008, the Company paid $52,218 and $114,093, respectively, (three months ended September 30, 2007 - $41,513; six months ended September 30, 2007 - $80,258), respectively, to Gao Consulting Ltd., a private company controlled by a director of the Company for consulting services.

(f) During the three and six months ended September 30, 2008, the Company paid $96,538 and $183,159 (three months ended September 30, 2007 - $44,337; six months ended September 30, 2007 - $81,902), respectively, to R. Feng Consulting Ltd., a private company controlled by a director of the Company for consulting services.

(g) During the three and six months ended September 30, 2008, the Company incurred director fees of $24,767 and $39,617 (three months ended September 30, 2007 - $35,760; six months ended September 30, 2007 - $51,050), respectively, payable to four independent directors of the Company.

The transactions with related parties during the period are measured at the exchange amount, which is the amount of consideration established and agreed by the parties. The balances with related parties are unsecured, non-interest bearing, and due on demand.

1.10 Fourth Quarter

Not applicable.

1.11 Proposed Transactions

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

1.12 Critical Accounting Estimates

A detailed summary of the Company's significant accounting policies is included in note 2 to the annual audited consolidated financial statements for the year ended March 31, 2008 and in note 2 to the interim consolidated financial statements for the three and six months ended September 30, 2008.

(a) Mineral rights and properties

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

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

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

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

(b) Asset retirement obligations

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

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

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

(c) Income taxes

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

(d) Stock-based compensation

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

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

1.13 Initial Adoption and Change in Accounting Policies

The significant accounting policies outlined within the Audited Consolidated Financial Statements of the Company for the year ended March 31, 2008 have been applied consistently for the six months ended September 30, 2008.

(a) Initial Adoption

(i) Financial Instrument Standards

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 of the Company's reporting period beginning on April 1, 2008. There is no significant impact on the classification and measurement to the Company's interim consolidated financial statement on the adoption of these new sections.

(ii) Inventories

Section 3031, "Inventories", which replaces Section 3030 "Inventories", requires inventories 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". It also provides guidance on the determination of cost and requires the reversal of any write-downs previously recognized when the net realizable value increases subsequently. Certain minimum disclosures are required, including the accounting policies used, carrying amounts, amount recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses. The adoption of these new standards did not have any impact on the Company's unaudited interim consolidated financial statements. Additional disclosure has been provided in note 3 to the Company's unaudited interim consolidated financial statements.

(iii) Capital Disclosures

As of April 1, 2008, the Company is be required to adopt CICA Section 1535 "Capital Disclosures", issued in December 2006, which requires 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. There is no significant impact on the classification and measurement to the Company's interim consolidated financial statement on the adoption of this new section.

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirement on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The capital of the Company consists of the items included in shareholders' equity. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company's capital is subject to People's Republic of China ("PRC") foreign currency exchange controls, which may limit the ability to repatriate funds.

The Company's overall strategy with respect to capital risk management remains unchanged from the year ended March 31, 2008

(b) Future Changes in Accounting Policies

(i) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development

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

Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The new Section will be applicable to the Company's consolidated financial statements for its fiscal year beginning April 1, 2009. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

(ii) Convergence with IFRS

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than in the first quarter ending June 30, 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The Company is currently evaluating the future impact of IFRS on its financial statements and will continue invest in training and additional resources to ensure a timely conversion.

1.14 Financial Instruments and Other Instruments

The Company manages its exposure to financial risks, including liquidity risk, foreign exchange rate risk, interest rate risk and credit risk in accordance with its risk management framework. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

(a) Fair value

The fair values of financial instruments at September 30, 2008 and March 31, 2008 is summarized as follows:

	September 30, 2008		March 31, 2008	
	Carrying amount $	**Fair value $**	Carrying amount $	Fair value $
Financial Assets				
Held for trading				
Cash and cash equivalents	**36,493,693**	**36,493,693**	47,092,890	47,092,890
Short term investment	**12,081,456**	**12,081,456**	37,145,656	37,145,656
Loans and receivable				
Accounts receivables	**1,876,420**	**1,876,420**	3,393,487	3,393,487
Available for sale				
Long term investment				
- Investment in Dajin Resources Corp.	**132,088**	**132,088**	204,300	204,300
Financial Liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	**10,473,856**	**10,473,856**	7,026,628	7,026,628
Deposits received from customers	**1,697,645**	**1,697,645**	2,573,202	2,573,202
Dividend payable	**2,864,742**	**2,864,742**	-	-
Amount due to related parties	**3,897,336**	**3,897,336**	12,070,732	12,070,732

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments classified as current approximates their fair value because of the short maturities and normal trade term of these instruments. The fair value of the long term investment was based on the quoted market prices.

(b) Liquidity risk

The Company has in place a planning process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion plans. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents and short term investments.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following summarized the remaining contractual maturities of the Company's financial liabilities.

	September 30, 2008			
	Within a year	**1 to 3 year**	**Total**	March 31, 2008
Accounts payable and accrued liabilities	**$ 10,473,856**	**$ -**	**$ 10,473,856**	$ 7,026,628
Deposits received from customers	**1,697,645**	**-**	**1,697,645**	2,573,202
Dividend payable	**2,864,742**	**-**	**2,864,742**	-
Amount due to related parties	**3,897,336**	**-**	**3,897,336**	12,070,732
	$ 18,933,579	**$ -**	**$ 18,933,579**	$ 21,670,562

(c) Exchange risk

The Company undertakes transactions in various foreign currencies, and reports its results of its operations in US Dollars while the Canadian dollar is considered its functional currency, and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency and the translation of functional currency to reporting currency.

The Company conducts its mining operations in China and thereby the majority of the Company's assets, liabilities, revenues and expenses are denominated in RMB, which was tied to the U.S. Dollar until July 2005 and is now tied to a basket of currencies of China's largest trading partners. The RMB is not a freely convertible currency.

The Company currently does not engage in foreign currency hedging, and the exposure of the Company's financial assets and financial liabilities to foreign exchange risk is summarized as follows:

The amounts are expressed in USD equivalents	**September 30, 2008**	March 31, 2008
Canadian dollars	**$ 20,731,164**	$ 39,184,560
United States dollars	**16,564,577**	1,018,552
Chinese renminbi	**13,286,210**	47,631,299
Hongkong dollars	**1,706**	1,922
Total financial assets	**$ 50,583,657**	$ 87,836,333
Canadian dollars	**$ 4,990,114**	$ 286,484
United states dollars	**3,541**	182,606
Chinese renminbi	**13,939,924**	21,201,472
Total financial liabilities	**$ 18,933,579**	$ 21,670,562

For the period ended September 30, 2008, with other variables unchanged, a 1% strengthening (weakening) of the Chinese RMB against the Canadian dollar would have decreased (increased) net income by approximately $200,000 and increased (decreased) other comprehensive income (loss) $800,000.

For the period ended September 30, 2008, with other variable unchanged, a 1% strengthening (weakening) of the Canadian dollar against the US dollar would have increased (decreased) other comprehensive income (loss) $2 million.

(d) Interest rate risk

The Company has no interest-bearing debt and so is not exposed to interest rate risk. None of the cash equivalents or short-term investments was in asset backed financial instruments. The Company has deposits of cash equivalents that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote.

(e) Credit risk

The Company is exposed to credit risk primarily associated to accounts receivable from customers, cash and cash equivalents and short-term investments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks. The Company has accounts receivable from clients primarily in China engaged in the mining and milling of base and polymetallic metals industry. The historical level of customer defaults is zero and aging of accounts receivable are less than 30 days, and, as a result, the credit risk associated with accounts receivable at September 30, 2008 is not considered to be high.

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, 2008 and 2007.

1.15.2 Outstanding Share Data

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 – **151,817,001** common shares with a recorded value of **$113,128,486**.
Shares subject to escrow or pooling agreements – nil.

(b) Options

As at the date of this report, the outstanding options are comprised of the following:

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

Number of Options	Exercise Price (CAD$)	Expiry Date
990,000	0.18	October 24, 2009
450,000	0.63	February 28, 2010
10,000	5.99	July 2, 2010
432,399	4.32	July 23, 2011
54,708	4.47	August 14, 2011
207,000	4.43	August 28, 2011
777,204	6.74	April 10, 2012
135,000	6.95	October 1, 2012
137,500	9.05	January 16, 2013
50,000	7.54	May 13, 2013
525,000	5.99	July 1, 2013
160,000	3.05	October 1, 2013
3,928,811		

1.16 Controls and Procedures

(a) 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 six months ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(b) Limitations of Controls and Procedures

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

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

(d) Directors and Officers

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

Directors	**Officers**
Dr. Rui Feng, Director, Chairman & CEO	Dr. Rui Feng, Director, Chairman & CEO
Myles J. Gao, Director, President & COO	Myles J. Gao, Director, President & COO
Yikang Liu, Director	Maria Tang, Interim Chief Financial Officer
Earl Drake, Director	Lorne Waldman, Corporate Secretary
Paul Simpson, Director	Michael Hibbitts, Vice President, Operations
Greg Hall, Director	Shaoyang Shen, General Manager, China Operations
Robert Gayton, Director	Grace Soo, CFO (resigned as at Sept 30, 2008)

1.17 Outlook

To adjust for the continued weakening in metal pricing and the current state of global financial markets, the Company will adopt a strategy of conserving capital to maintain a strong balance sheet for future growth. We are adjusting our expansion strategy to focus on maintaining mine profitability, including implementing a series of cost cutting measures and controls to address challenges of weak metal prices. The Company will be deferring some of its planned capital expenditures and development drilling programs planned for the second half of the fiscal year ended March 31, 2009 but will continue to move forward with the key development and exploration projects to maximize its ability to build future capital value.

Currently, the Company is operating and developing four Silver-Lead-Zinc mines at the Ying Mining Camp, Henan Province, owned through its subsidiaries in China.

For the Ying Mine, in the first two months of the quarter ended September 30, 2008, the mining process was working through certain low grade areas as outlined in the 2007 resource upgrade. Higher grade ore zone pockets have been developed in September 2008, and it is expected that the head grade of run of mine ores from the Ying Mine will improve starting in the third quarter of fiscal year 2009. This will mitigate, to a degree, the impact from the lower metal prices the Company is now experiencing.

At the TLP mine, due to the lower grade nature, its production will be cut back to focus on those higher grade ores which are profitable. The Company is still in the process of transferring the TLP mining permits from the previous owner to the Company's subsidiary Henan Found, which remains subject to receipt of all necessary approvals from the governmental departments of the Henan Province. Furthermore, the Company is in the process of completing a NI43-101 compliant resource estimate for the TLP Mine and the LM Mine.

In Guangdong Province, the Company is applying for a mining permit for the newly acquired GC/SMT property, held in a 95% owned subsidiary in China.

The Company is nearing completion of a new mill, Test production expected to begin within the next two months. Due to weak commodity prices, and the resulting expected decline in production from those mines with lower grades, we have reduced the number of flotation systems being installed in the new mill, which will reduce the capacity to 1,500 tonnes per day.