

*Auditors' Report and Consolidated Financial Statements of*

**SILVERCORP METALS INC.  
(Formerly SKN Resources Limited)**

*March 31, 2005*



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## **Auditors' Report**

To the Shareholders of  
Silvercorp Metals Inc.  
(formerly SKN Resources Limited)

We have audited the consolidated balance sheets of Silvercorp Metals Inc. (formerly SKN Resources Limited) as at March 31, 2005 and April 30, 2004 and the consolidated statements of operations and deficit and cash flows for the eleven month period ended March 31, 2005 and the year ended April 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2005 and April 30, 2004 and the results of its operations and its cash flows for the eleven month period ended March 31, 2005 and the year ended April 30, 2004 in accordance with Canadian generally accepted accounting principles.

***(Signed) Deloitte & Touche LLP***

Chartered Accountants  
Vancouver, British Columbia  
June 3, 2005

**SILVERCORP METALS INC.**  
**(formerly SKN Resources Ltd.)**  
**CONSOLIDATED BALANCE SHEETS**

<b>Stated in Canadian dollars</b>	<b>March 31, 2005</b>	<b>April 30, 2004</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 2,371,882	\$ 1,929,633
Short-term investments (Note 3)	4,200,000	5,000,000
Accounts receivable	105,504	128,671
Prepaid expenses	115,802	162,046
Amount due from related parties (Note 9)	-	71,208
Amount due from joint venture parties	61,654	66,240
	<b>6,854,842</b>	<b>7,357,798</b>
<b>Investment at equity (Note 4)</b>	<b>1,946,099</b>	<b>-</b>
<b>Property, plant and equipment (Note 5)</b>	<b>586,373</b>	<b>649,738</b>
<b>Long term investment (Note 7)</b>	<b>1,041,333</b>	<b>-</b>
<b>Investment in and Expenditures on Resource Properties</b>		
Mineral properties (Note 6)	1,668,740	1,232,712
Reclamation deposits	10,000	10,000
	<b>\$ 12,107,387</b>	<b>\$ 9,250,248</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 237,254	\$ 182,604
Amount due to related parties (Note 9)	43,784	-
Deposit for sale of property	-	27,414
	<b>281,038</b>	<b>210,018</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	27,211,096	24,124,435
Treasury shares held for cancellation (Note 8)	(101,091)	-
Contributed surplus	2,926,855	1,842,378
Share subscriptions received	-	9,000
Deficit	(18,210,511)	(16,935,583)
	<b>11,826,349</b>	<b>9,040,230</b>
	<b>\$ 12,107,387</b>	<b>\$ 9,250,248</b>

Approved on behalf of the Board:

"Rui Feng"

Director

"Paul Simpson"

Director

(The accompanying notes are an integral part of these consolidated financial statements)

**SILVERCORP METALS INC.**  
**(formerly SKN Resources Ltd.)**  
**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**

<b>Stated in Canadian dollars</b>	<b>Eleven months ended March 31, 2005</b>	<b>Year ended April 30, 2004</b>
<b>Expenses</b>		
Bank charges and interest	\$ 5,612	\$ 5,004
Consulting	159,281	313,525
Depreciation	62,175	18,810
Foreign exchange loss	143,133	64,883
General exploration expenses	274,423	537,022
Mineral properties written off	-	299,417
Office and miscellaneous	277,150	515,982
Shareholder relations	107,304	297,446
Stock-based compensation	786,910	1,421,483
Professional fees	132,442	244,998
Transfer agent and filing fees	25,006	59,224
	<b>1,973,436</b>	<b>3,777,794</b>
<b>Other income and expenses</b>		
Equity income in investment	18,381	-
Gain on disposal of furniture	-	147
Gain on disposal of subsidiary (Note 6b)	503,518	-
Mineral property option income (Note 6c)	529,406	-
Interest income	104,282	73,328
Other income	607	-
	<b>1,156,194</b>	<b>73,475</b>
<b>Net loss for the period</b>	<b>(817,242)</b>	<b>(3,704,319)</b>
<b>Deficit, beginning of period, as previously reported</b>	<b>(16,935,583)</b>	<b>(13,231,264)</b>
Stock-based compensation expenses, cumulative effect (Note 2g)	(457,686)	-
<b>Deficit, beginning of period, as restated</b>	<b>(17,393,269)</b>	<b>(13,231,264)</b>
<b>Deficit, end of period</b>	<b>\$ (18,210,511)</b>	<b>\$ (16,935,583)</b>
<b>Basic and diluted loss per share</b>	<b>\$ -0.02</b>	<b>\$ -0.13</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>37,459,614</b>	<b>27,873,060</b>

(The accompanying notes are an integral part of these consolidated financial statements)

**SILVERCORP METALS INC.**  
**(formerly SKN Resources Ltd.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<b>Stated in Canadian dollars</b>	<b>Eleven months ended March 31, 2005</b>	<b>Year ended April 30, 2004</b>
<b>Cash provided by (used for)</b>		
<b>Operating activities</b>		
Net loss for the period	\$ (817,242)	\$ (3,704,319)
Add (deduct) items not affecting cash :		
Equity income	(18,381)	-
Gain on disposal of furniture	-	(147)
Gain on disposal of subsidiary	(503,518)	-
Mineral property option income	(529,406)	-
Mineral properties written off	-	299,417
Stock-based compensation	786,910	1,421,483
Non-cash general exploration expenses	-	240,000
Depreciation	62,175	18,810
	<b>(1,019,462)</b>	<b>(1,724,756)</b>
Net change in non-cash working capital		
Accounts receivable	23,167	(107,479)
Prepaid expenses	46,244	(156,546)
Accounts payable and accrued liabilities	54,650	136,883
Deposit for sale of property	(27,414)	27,414
<b>Cash used in operating activities</b>	<b>(922,815)</b>	<b>(1,824,484)</b>
<b>Investing activities</b>		
Resource property additions	(436,028)	(1,242,985)
Equipment and furniture additions	(7,217)	(640,418)
Sale (purchase) of short-term investment	800,000	(5,000,000)
Investment in Henan Found Mining Co. Ltd. (Note 4)	(1,927,718)	-
Proceeds from disposal of furniture	-	1,471
<b>Cash used in investing activities</b>	<b>(1,570,963)</b>	<b>(6,881,932)</b>
<b>Financing activities</b>		
Advance from (to) related companies	114,992	(71,208)
Advance to joint venture parties	4,586	(66,240)
Share subscriptions for cash, net of commissions	2,875,035	8,339,922
Purchase of treasury shares	(151,636)	-
Proceeds from disposal of treasury shares	93,050	-
<b>Cash provided by financing activities</b>	<b>2,936,027</b>	<b>8,202,474</b>
<b>Increase (decrease) in cash</b>	<b>442,249</b>	<b>(503,942)</b>
<b>Cash, beginning of period</b>	<b>1,929,633</b>	<b>2,433,575</b>
<b>Cash, end of period</b>	<b>\$ 2,371,882</b>	<b>\$ 1,929,633</b>
<b>Supplemental information:</b>		
Interest paid	\$ 1,898	\$ 1
Income taxes paid	\$ 429	\$ -
<b>Non-cash investing activities:</b>		
2,000,000 shares of Dajin Resources Ltd. received for the disposal of Victor Gold Ltd. (Note 6b)	\$ 500,000	\$ -
804,167 shares of New Pacific Metals Corp. received as partial consideration for the Option Agreement in relation to the Kian Dian Project (Note 6c)	\$ 541,333	\$ -

**Non-cash financing activities:**

During the eleven months ended March 31, 2005, the Company issued 15,000 common shares for subscriptions received in a prior period.

(The accompanying notes are an integral part of these consolidated financial statements)

**SILVERCORP METALS INC.**  
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**Notes to the Consolidated Financial Statements**  
**Eleven months ended March 31, 2005 and year ended April 30, 2004**

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**1. CONTINUING OPERATIONS**

Silvercorp Metals Corp., formerly SKN Resources Limited, together with its subsidiaries (individually and collectively referred to as the “Company”), is a development stage company engaged in the acquisition and exploration of mineral properties in the People’s Republic of China (“China”).

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses since inception of \$18,210,511. The Company’s continued existence is dependent on the ability to obtain loan financing, the raising of additional equity capital through sales of its common stock or other means to fund its operations and the Company’s ability to ultimately attain profitable operations.

If the going concern assumption were not applicable in the preparation of these financial statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used.

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 property, those procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

During the year, the Company changed its fiscal year end from April 30 to March 30, 2005. As a result, the results of the operations and cash flows of the current period represent the eleven month period ended March 31, 2005.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies used in these consolidated financial statements are as follows:

*(a) Principles of consolidation*

These consolidated financial statements of the Company include the accounts of the Company and its subsidiaries, Yunnan Jin Chang Jiang Mining Co. Ltd., Fortune Mining Ltd., Fortune Copper Ltd., Fortress Mining Inc., Lachlan Gold Ltd., Victor Resources Ltd., Fortress Gold Mining Inc. and Victor Mining Ltd. All significant inter-company balances and transactions have been eliminated upon consolidation.

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**SILVERCORP METALS INC.**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(b) Accounting estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in Canada 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 period. Actual results could differ from those estimates.

*(c) Foreign currency translation*

The accounts of the foreign operations are translated into Canadian dollars as follows:

- monetary assets and liabilities at the rate prevailing at the balance sheet date
- non-monetary assets and liabilities at historical rates
- income and expenses at the average rate in effect during the year

The resulting translation adjustment is charged to operations for the year.

*(d) Cash and cash equivalents*

Cash and cash equivalents includes cash and short-term investments maturing within 90 days of the original date of acquisition. The outstanding balance as at March 31, 2005 was consisted of cash only.

*(e) Mineral properties*

Acquisition costs of mineral properties and direct exploration and development expenditures thereon are capitalized. Costs incurred for general exploration that does not result in the acquisition of mineral properties with ongoing exploration or development potential are charged to operations. Costs relating to properties abandoned are written-off when such decision is made. When production is attained, the capitalized costs will be amortized using the unit of production method based upon estimated proven and probable recoverable reserves.

The Company reviews the carrying value of each property that is in the exploration or 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 is made by reference to the estimated future operating results and net cash flows. When the carrying value of a property exceeds its estimated net realizable amount, provision is made for the decline in value.

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(e) Mineral properties (continued)*

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

*(f) Property, plant and equipment*

Property, plant and equipment are recorded at cost. Amortization is computed using the straight-line method at the following rates calculated to amortize the cost of the assets less their residual values over their estimated useful lives.

Motor vehicle	20%, straight line
Equipment and furniture	20%, declining balance (except for equipment and furniture located in China which is 20%-50% straight line)
Computer equipment	30%, declining balance (except for computer equipment located in China which is 50% straight line)
Computer software	50%, straight line
Mining equipment	10%, straight line

*(g) Stock-based compensation plans*

Effective May 1, 2004, the Company adopted the new requirements of the Canadian Institute of Chartered Accountants Standard 3870 which requires an expense to be recognized in the financial statements for all forms of employee and non-employee stock-based compensation, including stock options. All stock-based awards are measured and recognized using a fair value based method. Awards that the Company has the ability to settle in stock are recorded as equity. Previously, the Company did not record any compensation cost on the granting of stock options to employees and directors as the exercise price was equal to or greater than the market price at the date of the grants. The Company has adopted this policy retroactively without restatement.

Accordingly, the opening deficit as at May 1, 2004 was increased to reflect the effect of compensation expense associated with stock option grants to employees, non-employees, directors and consultants from January 1, 2002 to April 30, 2004, in the amount of \$457,686, and share capital and contributed surplus increased by \$122,325 and \$335,361 respectively, to reflect the assigned value of the stock options issued.

Unvested options for consultants are measured at their then-current value at each reporting date. This re-measurement continues until the vesting date.

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(h) Long-term investments*

Long-term investments in which the Company does not control nor wield significant influence nor control are valued at cost, less a provision for other than temporary impairments in value.

Investments in which the Company has a significant influence are accounted for by the equity method, whereby the Company records its proportionate share of the investee's income or loss.

Quoted market values presented do not necessarily reflect the long-term net realizable value and assume that the Company is able to dispose of all shares held at the closing trading price at year end.

*(i) Income taxes*

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

*(j) Loss per common share*

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the "treasury stock method" is used whereby the assumed proceeds upon the exercise of stock options and warrants are used to purchase common shares at the average market price during the year.

*(k) Comparative figures*

Certain of the comparative figures have been reclassified to conform with the presentation as at and for the eleven months ended March 31, 2005.

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**SILVERCORP METALS INC.**  
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**Notes to the Consolidated Financial Statements**  
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**3. SHORT-TERM INVESTMENTS**

Short term investments of \$4,200,000 (2004 - \$5,000,000) are made up of Guaranteed Investment Certificates with the following terms:

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
\$ 2,000,000	2.40%	November 15, 2005
2,200,000	2.18%	October 6, 2005
\$ 4,200,000		

As of March 31, 2005, the related interest receivable is \$41,011 (2004 - \$35,059).

**4. INVESTMENT AT EQUITY**

In May 2004, the Company, through its wholly-owned subsidiary, Victor Mining Ltd., entered into a cooperative joint venture agreement with a Chinese party to acquire a 77.5% interest in the high grade Ying Silver-Gold Project located in Hennan Province, China. Under the cooperative agreement with the Chinese party, the Company holds the right to acquire 77.5% of the Ying Project by funding exploration and development of the Project in the amount of US\$3,670,000 (\$4,439,232) to the joint venture company, Hennan Found Mining Co. Ltd. ("HFMC"), over a period of three years for a 55% interest in HFMC and pay US\$1,500,000 (\$1,814,400) to the Chinese party over a period of three years to acquire another 22.5% interest in HFMC. After the Company has earned its 77.5% interest, contributions to fund the exploration and development of the Project will be made on a pro rata basis. The interest of the Chinese party can be diluted to not less than 10% if it elects not to make cash contributions.

As of March 31, 2005, the Company has contributed US\$1,350,500 (\$1,664,957) to the registered capital of HFMC, representing a 20.24% interest in HFMC. The Company also incurred \$262,761 exploration expenses on the project.

The Company accounts for its investment in HFMC on the equity basis, which is carried at cost, adjusted for the Company's proportionate share of HFMC's undistributed earnings or losses.

Advances to HFMC	\$ 1,664,957
Exploration expenditures	262,761
Equity in undistributed income of investee company	18,381
Investment In HFMC on the equity basis	<u>\$ 1,946,099</u>

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**4. INVESTMENT AT EQUITY (Continued)**

Summarized financial information for HFMC is as follows:

	<u>2005</u>
<i>Balance Sheet</i>	
Total assets	\$ 2,025,555
Total liabilities	243,739
Total shareholders' equity	1,781,816
<i>Statement of Income</i>	
Income	\$ 275,406
Expenses	184,589
Net Income	<u>\$ 90,817</u>

**5. PROPERTY, PLANT AND EQUIPMENT**

	<u>2005</u>			<u>2004</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Motor vehicle	\$ 77,956	\$ 18,333	\$ 59,623	\$ 72,487
Equipment and furniture	40,024	11,565	28,459	27,011
Computer equipment	87,771	44,211	43,560	65,901
Computer software	2,714	2,601	113	1,357
Mining equipment	482,108	27,490	454,618	482,982
	<u>\$ 690,573</u>	<u>\$ 104,200</u>	<u>\$ 586,373</u>	<u>\$ 649,738</u>

**6. MINERAL PROPERTY**

	<u>2005</u>	<u>2004</u>
Tuobuka Property (a)	\$ 1,668,740	\$ 1,101,069
Ying Property (Note 4)	-	65,568
Kang Dian Property (c)	-	45,047
Gou Gold Property (b)	-	21,028
	<u>\$ 1,668,740</u>	<u>\$ 1,232,712</u>

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**SILVERCORP METALS INC.**  
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**6. MINERAL PROPERTY (Continued)**

(a) *Tuobuka Property*

On August 1, 2003, the Company, through its wholly-owned subsidiary Lachlan Gold Ltd., signed a cooperative joint venture agreement with a Chinese party to form a Sino-Foreign Joint Venture Cooperative Company, Yunnan Jin-Chang-Jiang Mining Co. Ltd. ("YJCJM"), to explore the Tuobuka Gold Property located in Yunnan Province, China. Under the terms of the cooperative joint venture agreement, the Chinese party held a 20% interest in YJCJM in consideration of the transference of the Tuobuka Project exploration permit to YJCJM, and the Company was to earn its 80% interest in YJCJM by contributing RMB8,000,000 (\$1,324,800) to YJCJM over three years and paying RMB1,000,000 (\$165,000) (paid) to the Chinese party. On January 13, 2004, the Company acquired the remaining 20% interest in YJCJM from the Chinese party by paying an additional RMB1,600,000 (\$256,978) (paid). The Company now has a 100% interest in the Tuobuka Gold Project and no longer has any remaining commitments under the joint venture agreement.

(b) *Gou Gold Property*

On February 4, 2004, Dajin Resources Corp. ("Dajin"), previously known as Windridge Technology Corp., signed an acquisition agreement with the Company whereby Dajin would acquire 100% of the Company's rights in the Gou Gold Project through the purchase of 100% of the issued and outstanding shares of Victor Gold Ltd.. Under the terms of the agreement, Dajin would issue 2,000,000 (an interest of approximately 8%) of its common shares (received) to the Company at a market price of \$0.25 per share and reimburse the Company the sum of US\$20,000 (received) for expenses previously incurred in relation to its acquisition of the Gou Property. The transaction was completed on January 19, 2005 and 2,000,000 shares of Dajin Resources Corp. have been received by the Company as consideration. A gain on disposal of subsidiary of \$503,518 has been recorded on the income statement.

(c) *Kang Dian Property*

In November 2003, the Company, through a wholly owned subsidiary SKN Nickel & Platinum Ltd. ("SNP"), entered into two letter agreements with the respective holders of the permits and permit applications comprising the Kang Dian Project located in Sichuan Province, China, thereby obtaining the rights to acquire 75% and 90% interests, respectively, in the exploration permits by contributing US\$2,500,000 (\$3,024,000) to fund the exploration and development of the Project over a period of four years and paying US\$80,000 (\$96,768) to a Chinese party within 10 days after obtaining the approvals from China government. After SNP has earned its 75% and 90% interests, respectively, contributions to fund the exploration and development of the Project will be made pro rata. The interest of the Chinese property owners can be diluted to not less than 10% to 12%, respectively, if they elect not to make cash contributions.

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**6. MINERAL PROPERTY (Continued)**

*(c) Kang Dian Property (continued)*

The Company has signed a letter agreement with New Pacific Metals Corp. (“NPM”), a related party by way of common director, whereby NPM has the option to acquire SNP and thereby the Kang Dian Project through the issuance of a total of 6,500,000 common shares at a market price as at the date of release. The common shares will be issued on the basis of 2,500,000 common shares on issuance of a Bulletin by the TSX Venture Exchange accepting the transaction; a further 2,000,000 shares will be issued upon successful completion of the US\$374,000 (\$452,390) work program recommended under the Technical Report that has been completed on the Project; and 2,000,000 shares will be issued on completion of US\$1,000,000 (\$1,209,600) in funding obligations by SNP under the agreement with one of the permit holders. The initial 2,500,000 common shares will be subject to escrow with a release of 650,000 common shares upon receipt of exchange approval and 154,167 every quarter over the 3 year escrow period. The common shares remaining in escrow are subject to cancellation in the event NPM determines not to continue contributing to the joint venture company to be created. The Company has the right to place a representative on the NPM board of directors.

As of March 31, 2005, NPM issued into escrow the first 2,500,000 common shares. From this tranche, 650,000 and 154,167 shares were released to the Company on December 20, 2004 and March 1, 2005 respectively. Mineral property option income of \$529,406 has been recorded on the income statement after offsetting the mineral property cost of \$11,927.

**7. LONG TERM INVESTMENTS**

	<u>2005</u>	<u>2004</u>
Dajin Resources Corp.		
- 2,000,000 common shares ((Note 6(b)) (market value at March 31, 2005: \$520,000)	\$ 500,000	\$ -
New Pacific Metals Corp.		
- 804,167 common shares ((Note 6(c)) (market value at March 31, 2005: \$329,708)	541,333	-
	<u>\$ 1,041,333</u>	<u>\$ -</u>

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**8. SHARE CAPITAL**

(a) *Authorized*

Unlimited number of common shares without par value

(b) *Issued and outstanding*

Changes in outstanding common shares were as follows:

	Number of Shares	Amount
	<u>          </u>	<u>          </u>
Balance, April 30, 2003	24,050,542	\$ 15,073,268
Issued for cash under private placement in September 2003	220,000	187,000
Issued for cash under private placement in November 2003	2,750,000	4,578,750
Issuance of brokers warrants for commission on private placement	-	(712,500)
Issuance for finders' fee of the projects	150,000	240,000
Exercise of warrants		
Cash received	5,885,145	3,371,546
Transfer from warrants account	-	1,151,903
Exercise of options		
Cash received	523,125	193,625
Transfer from stock options account	-	40,843
<u>Balance, April 30, 2004</u>	<u>33,578,812</u>	<u>24,124,435</u>
Retroactive application of fair value method of accounting for stock options	-	122,325
Shares issued for subscription received	15,000	9,000
Issued for cash under private placement in February 2005	1,500,000	2,126,523
Issuance of brokers warrants for commission on private placement	-	(57,500)
Exercise of warrants	5,164,095	568,264
Exercise of options		
Cash received	337,500	180,250
Transfer from contributed surplus	-	137,799
<u>Balance, March 31, 2005</u>	<u>40,595,407</u>	<u>\$ 27,211,096</u>

In February 2005, the Company completed a non-brokered private placement of 1,500,000 Units at \$1.50 per Unit for net proceeds of \$2,126,523. Each Unit is comprised of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$1.75 per share for a period of one year. A finder's fee of \$105,000 was paid in cash, together with the issue of 50,000 warrants (5%) exercisable at \$1.75 for one year.

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**8. SHARE CAPITAL (Continued)**

*(b) Issued and outstanding (continued)*

In September 2004, the Company acquired on the open market 300,000 shares of its common stock at prices ranging from \$0.48 to \$0.51 per share for total cost of \$151,636. 100,000 of these shares were sold in January 2005 at prices ranging from \$0.94 to \$0.96 per share for proceeds of \$93,901. The gain on disposal of these shares in the amount of \$42,505 has been recorded as contributed surplus. The remaining 200,000 shares at a cost of \$101,091 were cancelled on April 14, 2005.

*(c) Share purchase warrants*

The following is a summary of warrant transactions:

	Number of Warrants	Weighted Average Exercise Price
	<u>                    </u>	<u>                    </u>
Balance, April 30, 2003	10,789,690	\$ 0.31
Issued for cash on non-brokered private placement	220,000	1.05
Issued for cash on brokered private placement	1,375,000	2.25
Issued for broker commission on private placement	250,000	2.18
Warrants exercised and shares issued	(5,885,145)	(0.57)
Warrants exercised but shares not issued	(15,000)	(0.60)
Balance, April 30, 2004	6,734,545	0.57
Issued for cash on brokered private placement	750,000	1.75
Issued for broker commission on private placement	50,000	1.75
Warrants exercised	(5,164,095)	0.11
Warrants expired	(1,370,450)	2.24
Balance, March 31, 2005	1,000,000	\$ 1.61

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**8. SHARE CAPITAL (Continued)**

*(c) Share purchase warrants (continued)*

The warrants will expire on the following dates:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
200,000	1.05	September 23, 2005
<u>800,000</u>	1.75	February 23, 2006
<u>1,000,000</u>		

As part of the consideration of arranging the private placement on February 15, 2005, 50,000 share purchase warrants were granted to the agent. These warrants are exercisable until February 23, 2006 at a price of \$1.75 per share. A fair value of \$57,500 has been recorded as a cost of the private placement, which is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	1.43%
Expected life	1 year
Expected volatility	147%
Dividend per share	\$0.00

*(d) Stock options*

The Company is able to grant stock options to acquire up to 5,100,000 shares. The options are exercisable for a period of up to ten years from the date of grant, as determined by the Board of Directors. The exercise price cannot be less than the last price on the TSX Venture Exchange immediately preceding the grant of the option. Options vest over a minimum period of eighteen months from the date of grant.

A summary of the status of the Company's stock options as of March 31, 2005 and April 30, 2004, and changes during the period and year ended on those dates is presented below:

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**8. SHARE CAPITAL (Continued)**

(d) *Stock options (continued)*

	Number of Shares	Weighted Average Exercise Price Per Share
	<u>                    </u>	<u>                    </u>
Balance, April 30, 2003	2,042,000	\$ 0.35
Options granted	665,000	0.71
Options exercised	(523,125)	(0.39)
	<u>                    </u>	<u>                    </u>
Balance, April 30, 2004	2,183,875	0.45
Options granted	1,590,000	0.81
Options exercised	(337,500)	0.53
Options cancelled	(20,000)	0.63
	<u>                    </u>	<u>                    </u>
Balance, March 31, 2005	3,416,375	\$ 0.59

During the year, the Company granted incentive stock options to directors, employees and consultants for 1,590,000 shares at a price ranging from \$0.40 to \$1.90 per share and exercisable for between two to five years. 25% of options were vested on grant date and 12.5% of the options are vested every three months after the date of grant for one and half years.

The fair value of unvested options issued to consultants as at March 31, 2005 was \$515,125.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	<u>2005</u>	<u>2004</u>
Risk free interest rate	<b>3.25% to 3.84%</b>	3.00% to 4.47%
Expected life of options in years	<b>2 to 5 years</b>	2 to 5 years
Expected volatility	<b>149% to 153%</b>	155% to 157%
Dividend per share	<b>\$0.00</b>	\$0.00

The weighted average grant date fair value of options granted during the year is \$0.81. For the eleven months ended March 31, 2005, \$786,910 has been recorded as compensation expense.

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**9. RELATED PARTY TRANSACTIONS (Continued)**

- (a) (continued)
    - (iii) incurred management fees of \$110,000 (year ended April 30, 2004 - \$97,500) payable to an officer and director.
    - (iv) incurred accounting fees of \$15,751 (year ended April 30, 2004 - \$Nil) payable to an accounting firm of which an officer is a partner.
  - (b) Included in accounts payable is an amount of \$49,866 (April 30, 2004 - \$76,461) due to a law firm of which a director of the Company is the proprietor.
  - (c) Included in accounts payable is an amount of \$11,250 (April 30, 2004 - \$14,025) due to a director for his services in March 2005 and for expenses incurred on behalf of the Company respectively.
  - (d) Included in accounts payable is an amount of \$6,918 (April 30, 2004 - \$Nil) due to an accounting firm of which an officer is a partner.
  - (e) Included in due to related party is an amount of \$9,652 (April 30, 2004 - \$Nil) due to a director for his services in March 2005 and for expenses incurred on behalf of the Company.
  - (f) Included in due to related party is an amount of \$34,132 (April 30, 2004 - \$Nil) due to two related companies by common director for expenses incurred on behalf of the Company.
  - (g) Included in accounts receivable is an amount of \$973 (April 30, 2004 - \$12,471) due from a director as travel advances for normal business courses.
  - (h) Included in due from related party is an amount of \$Nil (April 30, 2004 - \$71,208) due from a related company by common director for advances for normal business courses.
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**10. INCOME TAXES**

The provision for income taxes differs from the amount computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before income tax provision due to the following:

	<u>2005</u>	<u>2004</u>
Canadian basic statutory tax rate	<b>35.62%</b>	37.62%
Expected income tax recovery	\$ 291,102	\$ 1,393,565
Effect of lower tax rate in foreign jurisdictions	<b>373,356</b>	-
Non-deductible expenses	<b>(284,093)</b>	(540,017)
Losses producing no current tax benefit	<b>(380,365)</b>	(853,548)
	<b>\$ -</b>	\$ -

The approximate tax effect of each type of temporary difference that gives rise to the Company's future tax assets is as follows:

	<u>2005</u>	<u>2004</u>
Future income tax assets arising from tax loss carryforwards	\$ 1,562,498	\$ 1,409,700
Unused cumulative exploration and development expenses	<b>1,202,989</b>	1,486,804
	<b>2,765,487</b>	2,896,504
Valuation allowance	<b>(2,765,487)</b>	(2,896,504)
Net future income tax assets	<b>\$ -</b>	\$ -

Due to the uncertainty surrounding the realization of future income tax assets in future income tax returns, the Company has made a 100% valuation allowance against its future income tax assets.

The Company has non-capital losses of approximately \$4,370,000 available to apply against future Canadian income for tax purposes. The non-capital losses will expire as follows:

2006	\$ 508,000
2007	401,000
2008	236,000
2009	186,000
2010	140,000
2011	1,745,000
2015	1,154,000
	<b>\$ 4,370,000</b>

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**10. INCOME TAXES (Continued)**

The Company also has capital losses of approximately \$16,000 available to apply against future capital gain.

**11. FINANCIAL INSTRUMENTS**

The fair values of the Company's cash, joint venture receivables, short-term investments, accounts receivable, and accounts payable are estimated to approximate their carrying values. The fair value of the long-term investments is estimated using the market price as disclosed in Note 7. Due to the non-arms length nature of amounts due from a related company, the fair value is not determinable.

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

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company invests its cash balances in money market instruments with financial institutions with high credit standing.

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**12. SEGMENTED INFORMATION**

(a) *Industry information*

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

(b) *Geographic information*

	<u>British Virgin Islands</u>	<u>China</u>	<u>Canada</u>	<u>Total</u>
Eleven months ended March 31, 2005				
Other income	\$ 1,033,193	\$ 19,325	\$ 103,676	1,156,194
Net (loss) income	1,291,448	(243,282)	(1,865,408)	(817,242)
Mineral properties	-	1,668,740	-	1,668,740
Property, plant and equipment	-	544,861	41,512	586,373
Investment at equity	1,946,099	-	-	1,946,099
Long term investments	1,041,333	-	-	1,041,333
Year ended April 30, 2004				
Other income	\$ 255	\$ 140	\$ 73,080	\$ 73,475
Net loss	(261,899)	(243,366)	(3,199,054)	(3,704,319)
Mineral properties	-	1,232,712	-	1,232,712
Property, plant and equipment	-	599,669	50,069	649,738

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