

SILVERCORP METALS INC.
希尔威金属矿业有限公司

NYSE: SVM
TSX: SVM

www.silvercorp.ca

The Premier Primary Silver Producer in China Today...

A Global Producer Tomorrow.

Fight Against Short and Distort
Denver Gold Show September 20, 2011

Capital Structure & Financial Highlights

Capital Structure

NYSE: SVM; TSX: SVM

52-Week Hi/Low: US\$16.32/\$7.04

Shares Outstanding¹: 175.1 Million
 (of which 2.32 Million shares will be cancelled per NCIB)

3-mo Avg. Daily Vol.: 5.5 Million (NYSE+TSX)

Market Cap.: ~US\$1.2 Billion

Total Equity Financing: US\$202.5 Million

Component of the NYSE Composite, S&P/TSX
 Composite and Global Mining Indexes.

¹ As at June 30, 2011

² Silvercorp's Fiscal Year ends March 31st

Financial Highlights²

	Q1 FY2012	Fiscal Year 2011
Revenue	US\$69.7 M	US\$167.3 M
Net Income	US\$25.6 M	US\$68.8 M
Operating Cash Flow	US\$33.9 M	US\$104.2 M

Cash (June 30, 2011): US\$230.5 MM

Dividends Paid since 2007: US\$40 Million

Share Buy Backs per NCIB: US\$43 Million

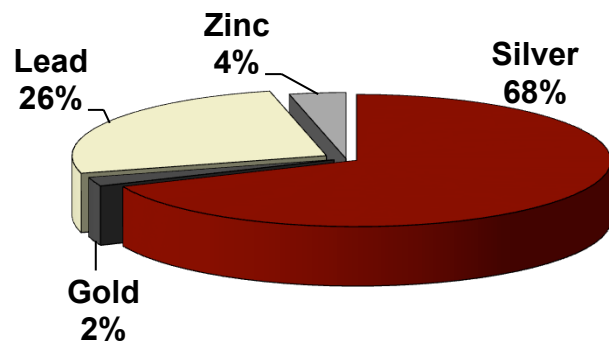
Investment in Canadian companies:
> USD\$35 Million

No LT Debt; No Hedging

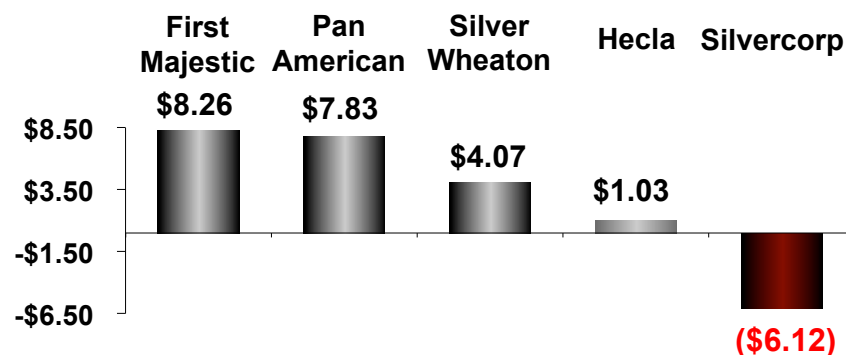
Industry Leading Profitability

- Lowest cost producer of silver among industry peers: cash cost was **-\$6.12** per ounce of silver in Q1/FY2012
- Highest gross profit margin among industry peers: FY2011 → **75%**

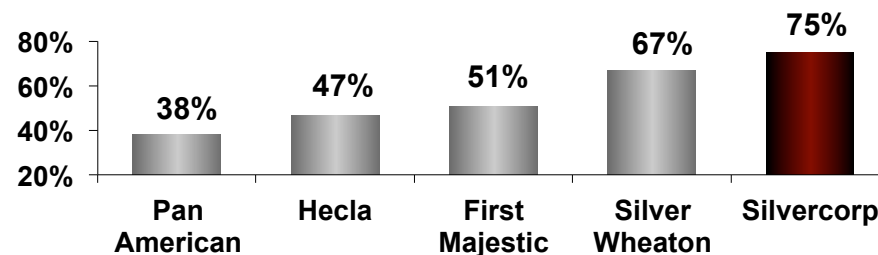
Q1FY2012 Sales Mix by Metal



Peer Comparison of Cash Costs
 per oz silver adjusted for by-product credits*



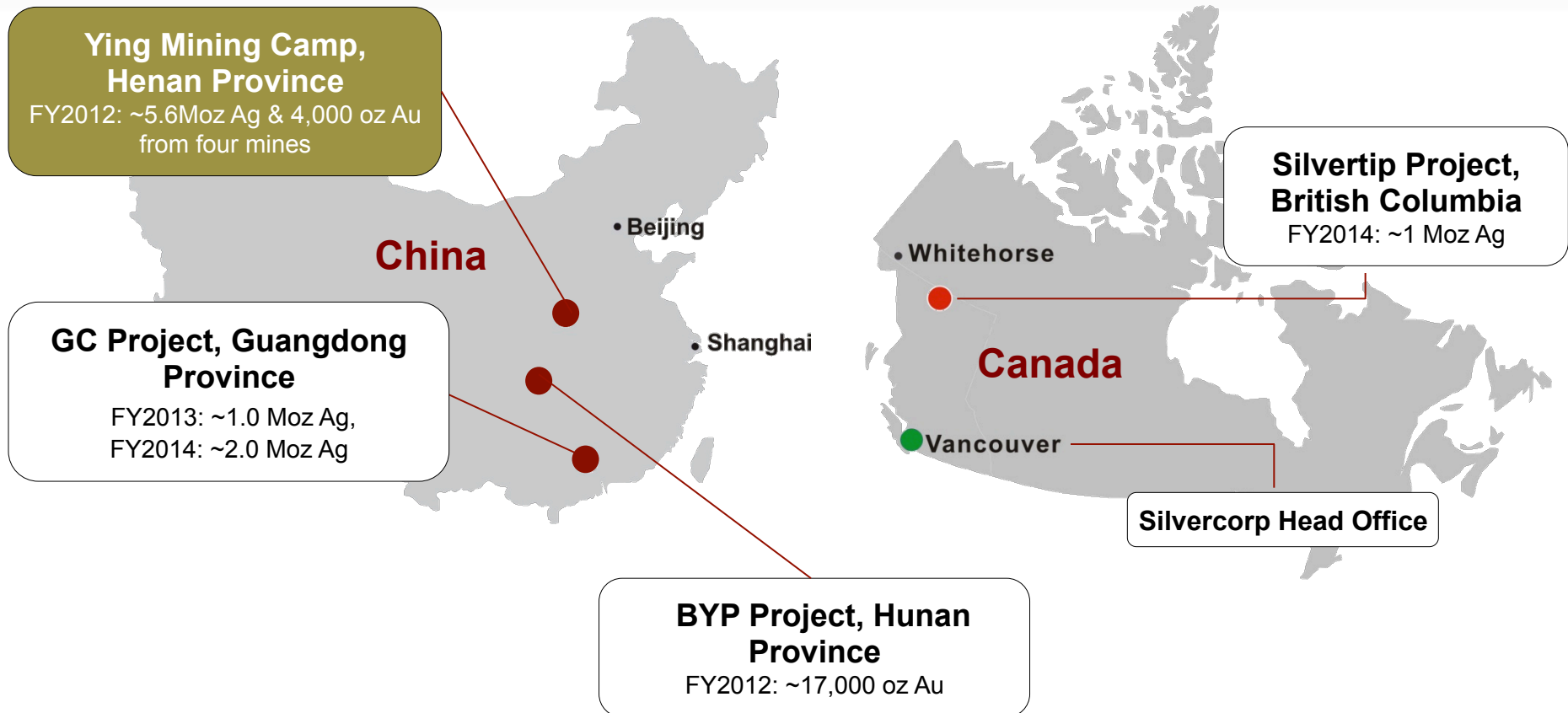
Gross Profit Margin
 Most recent full year*



* Silvercorp's year ends March 31st

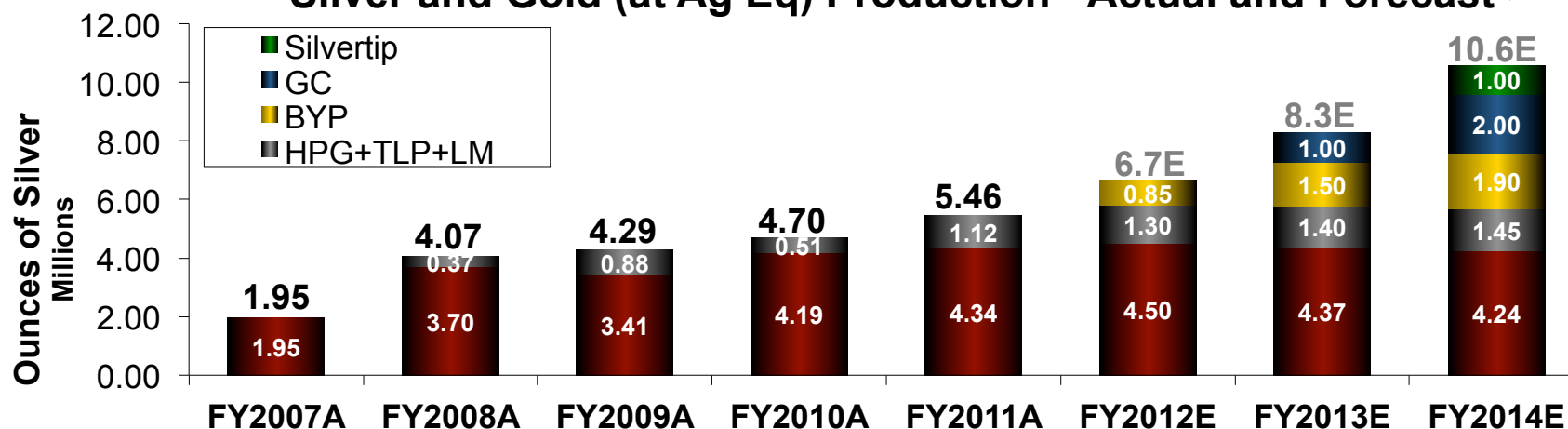
** Quarter ended March 31, 2011, except Silvercorp June 30, 2011

Silvercorp Operations & Development Projects



Silver Production History & Forecast

Silver and Gold (at Ag Eq) Production - Actual and Forecast^{1,2}



¹Gold converted to Silver at 50:1 rate

²Silvercorp's fiscal year ends March 31st

Estimated Production (Commodity)	FY2012
Silver	5.6 Million oz
Gold	21,000 oz
Lead	72.8 Million lbs
Zinc	17.5 Million lbs

Reserve & Resource Growth

History

April 2005: Resource defined at Ying

May 2006: Drilling doubles Ying resources

September 2007: Resource expansion at Ying and addition of HPG mine

May 2008: Addition of GC project resource

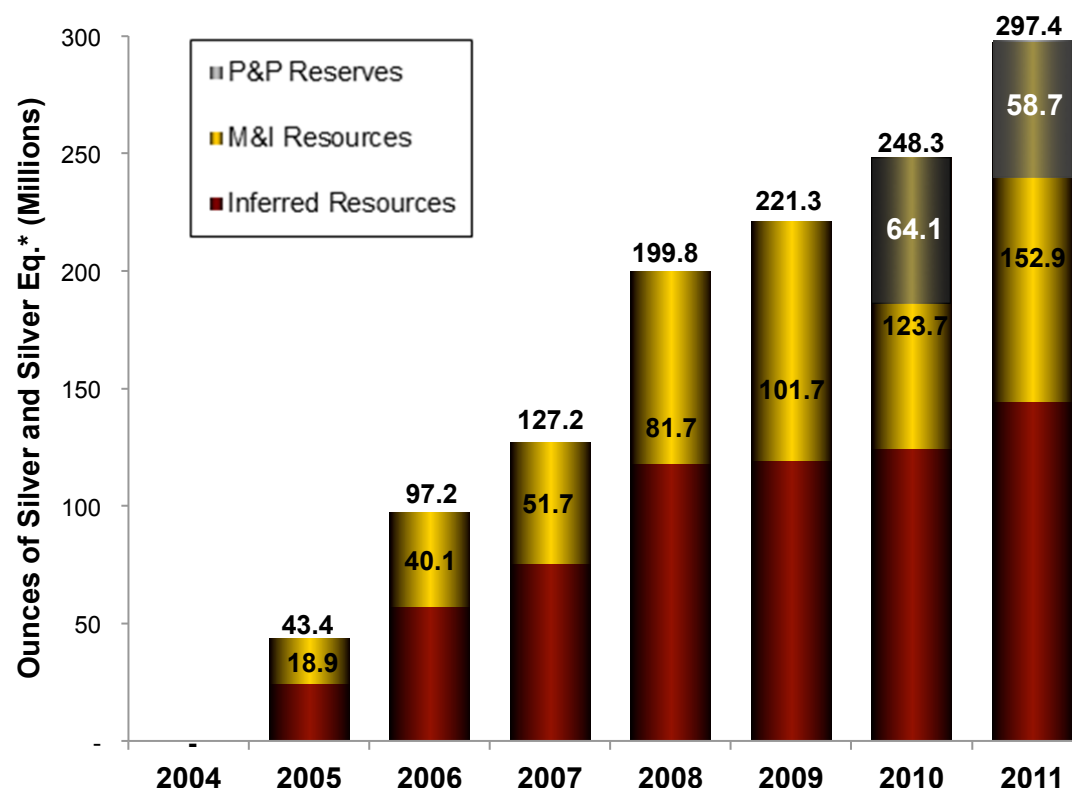
November 2008: Addition of TLP and LM resource

June 2009: Updated GC technical report increases M&I resources

February 2010: Ying resources updated and partially converted to P&P reserves; Addition of Silvertip resources

June 2011: Ying, HPG, TLP & LM and Silvertip resources updated; Addition of BYP resources

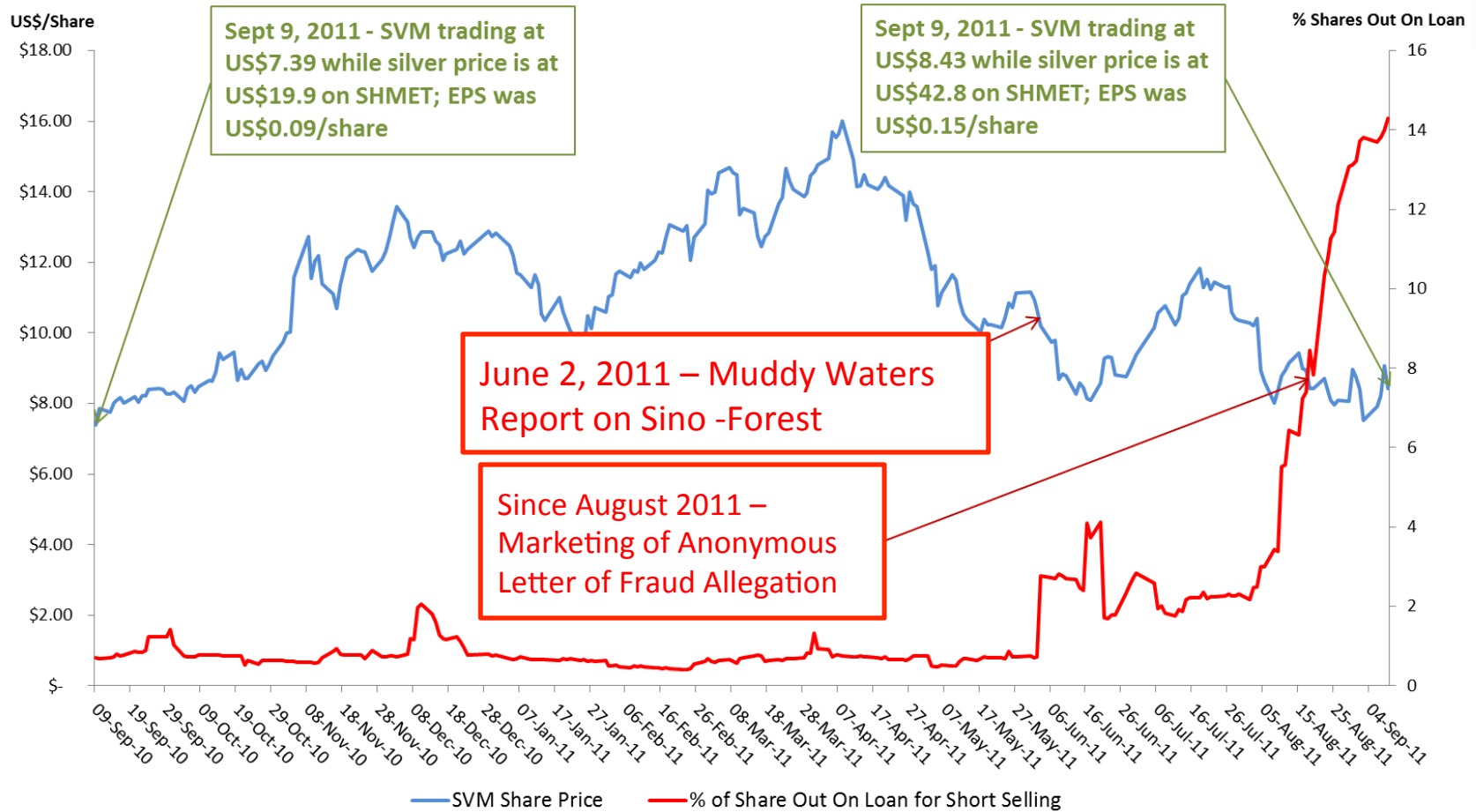
Reserves & Resources: FY2004 - FY2011**



* Only Gold was converted to Silver equivalent at a rate of 50:1.

** Reserves are included in the Resource number

12 Month Share Price vs. Short Position



*Short data info provided by Dataexplorer

Well Plan and Organized “Short and Distort”

Over the last two weeks, Silvercorp has been attacked by a group of well-organized and well-planned illegal short sellers trying to profit by manipulating Silvercorp's share price with false and selective statements, fabrications and rumours.

Sept. 1, 2011: an anonymous letter ([anonymous letter V1](#)) dated Aug. 29, 2011, maliciously alleging a "potential \$1.3-billion accounting fraud at Silvercorp." was forwarded to us

Sept. 13, 2011: a second [Alfred Little](#) anonymous allegations against us was published on the [AlfredLittle.com](#)

Sept. 14, 2011: the anonymous letter V1 writers posted a much shorter and tone-downed version on the [Chinastockwatch.com](#) (anonymous letter V2)

Sept. 19, 2011: a twisted version of [Alfred Little](#) anonymous allegations posted

Who is the Anonymous Writers and Alfred Little?

Alfred Little and the **Anonymous Shorters** have not been identified. As such, they avoid legal responsibility for the rumours and fabrications that have been circulated.

Is there any credibility to the International Financial Research & Analysis Group (IFRA), hired by Alfred Little or hedge funds, to fabricate rumours on Silvercorp?

IFRA is an organization with no registration and no address

Anonymous shorters and Alfred Little and others members of the short industry are promoting a distorted form of discrimination against companies with operations in China.

There is a growing pattern of attacking companies with assets in China with manipulative schemes, but the results have been mixed.

Short Attack Results have been mixed

In case of [Spreadtrum Communications Inc.](#), [Muddy Water](#) shorted [Spreadtrum](#) first, then issued misleading reports and drove down share price to \$9. But they were proved wrong as the stock is now at \$20.

In case of Harbin Electric Inc., short sellers spread rumours and false information and drove down Harbin Electric from [\\$20 \(U.S.\)](#) to [\\$6 \(U.S.\)](#). Now, Harbin is in the process of completing a going [private transaction at \\$24 per share in cash](#), advised by Goldman Sachs etc.

Other examples include, Deer Consumer Products. According to DEER's News Release on Sept. 16, 2011, "**Alfred Little offered to issue retractions of various articles in exchange for Deer dropping its ongoing subpoena and discovery efforts in the Superior Court of the state of New York.**"

Short Attack's Strategies

Mix concepts:

Financial Reporting: Simply compare public company reports under US GAAP or Canadian GAAP with private Chinese subsidiary in China reporting as Income Tax-return type of financial Statement at SAIC site

Technical Reporting: Simply Compare public company reports under the requirements and guidance of USA or Canada to a private subsidiary in China reporting under Chinese government's requirements or no requirement or simple statistic data. For example, in Canada, we report under NI43-101, but in China, there is no such a thing.

Fabrication:

For example, main accusation on us is our Chinese subsidiaries filing on SAIC for Calendar 2010 is a loss of US\$0.5 million. Our lawyers enquiry finds that the calendar 2010 financial statements are not available for any company from SAIC, **as SAIC has not completed or archived such material yet.**

Rules and Regulation Silvercorp Follows:

Technical reporting for mining companies listed in Canada is governed by National Instrument 43-101 or NI 43-101. According to NI 43-101. Only (Qualified Person) QP can issue technical results

NI43-101, Standards of Disclosure for Mineral Projects, states in Section 5.2(2), "A technical report required to be filed by a producing issuer under paragraph (c) of Subsection (1) is not required to be prepared by or under the supervision of an independent qualified person."

All Silvercorp's technical reports Silvercorp have been prepared by independent QP

Silvercorp's subsidiaries operate in China as private company , they complies with the regulations, requirements and standards of China.

Source of Information for Anonymous Shorters and Alfred Little:

What is the accuracy and reliability of Anonymous Shorters and Alfred Little's data?

Alfred Little and Anonymous Shorters claim: all Chinese Companies' data is not reliable as they are from China, but their own data is also obtained from China!

Why their data is more reliable? Their main data source, IFRA, only has a phone number and e-mail, but is not a registered company in Hong Kong as it claims on its website.

Are they QP, CPA, CA or Analyst belonging to any professional association in China or any country?

What are their credentials to analyze Silvercorp from financial to mining and to geological results?

Source of Information for Anonymous Shorters and Alfred Little:

One thing we may give Alfred Little credit:

when The Globe and Mail interviewed one of their authors, Mr. Huang, he said that, "**We never said in the report that the company was a scam, or cooked its books.**" This directly contradicts the anonymous shorters accusation that Silvercorp is an accounting fraud.

The Anonymous Letter V1

August 29, 2011

To:

Ontario Securities Commission
James S. Turley, CEO, Ernst & Young, Auditors to Silvercorp
Steve Howe, Area Managing Partner – Americas, Ernst & Young, Auditors to Silvercorp
Tom Hough, Vice Chair – Assurance, Ernst & Young, Auditors to Silvercorp
Mark MacKinnon, Beijing Bureau Chief, Globe and Mail
Daniel Bases, Reuters
Andrew Brown, The Wall Street Journal
Bill Alpert, Barrons
Herb Greenberg, CNBC
Dune Lawrence, Bloomberg News

Dated: Aug 29
Rec'd by SVM: Sep 1

Re: Potential \$1.3 Billion Accounting Fraud at Silvercorp (NYSE: SVM, TSX: SVM)

Ladies and Gentlemen:

I am writing to inform you of what I believe is a massive accounting fraud at TSX-listed Silvercorp (NYSE: SVM, TSX: SVM). I work for a firm that has a short position in SVM. The investment could be added to or covered at a later date. My research and information on the situation comes from public sources and of doubt, I believe I am not in possession of any material non-public information.

Re: Potential \$1.3 Billion Accounting Fraud at Silvercorp (NYSE:SVM, TSX:SVM)

Analysis of SVM Current Situation

I believe there are **numerous material misstatements** in SVM's audited financials that have been filed with regulators. Here are several of these material misstatements:

1. SVM reported net profit of US\$ 66 million to the SEC in calendar 2010 -- Financials available from the Chinese State Administration of Industry and Commerce (SAIC)¹ show SVM actual consolidated LOSS of US\$ 0.5 million in calendar 2010
2. In confirmation of item (1) above, my internet searches have uncovered evidence that the company's JV partner in the Ying asset sold (in August 2011) a 5% stake in the asset for RMB 35 million (US \$7 million) -- implying the entire Ying asset is valued at US\$ 140 million and the entire company (of

¹ These SAIC filings have been used extensively by financial investigators in recent months to examine reverse-take-over (RTOs). A Bloomberg article, "Texas Short Seller Fights China Fraud in \$20 Billion U.S. Shares" on January 13, 2011 (available at <http://www.bloomberg.com/news/2011-01-13/texas-short-seller-fights-china-fraud-in-20-billion-u-s-shares.html>) described the method of obtaining these financials from Qingdao Inter-Credit Services, a credit report provider in China. It is my understanding Qingdao is one of many credit reporting services in China that provides this service.

The Anonymous Letter V1

Proof Silvercorp. (NYSE: SVM, TSX: SVM CN) Is Just Another China Fraud

"A mine is a hole in the ground with a liar at the top." – Mark Twain

Disclaimer

Use of this research is at your own risk. You should do your own research and due diligence before making any investment decisions with respect to securities covered herein. You should assume that as of the publication date of any report through our members, partners, affiliates, employees, and/or consultants) along with our clients and/or in the stock (and/or options of the stock) covered herein, and therefore stands to realize significant gain or loss of stock declines. Following publication of any report, we intend to continue transacting in the securities covered herein. This is not an offer to sell or a solicitation of an offer to buy a security or to offer or sell to any person, in any jurisdiction in which such offer would be unlawful under applicable law.

The information contained herein is presented "as is," without warranty of any kind – whether express or implied. We make no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. All expressions of opinion are subject to change without notice, and we do not undertake to update or supplement this report or any of the information contained herein.

Our Background

We are investors who have successfully identified frauds in the Chinese reverse-merger space in the past, before they were exposed by bloggers, including CCME, CBEH, TRE CN and CHBT. We have decided to publish our research on Silvercorp Metals Inc. (NYSE: SVM, TSX: SVM). Based on our research, we believe Silvercorp is in all likelihood an egregious and unexposed fraud.

Silvercorp.'s Background

Silvercorp is a ~USD \$1.4 billion market cap silver producer based in China. SVM has interests in three mines in China (Ying Mining District, GC Project and BYP Mine) and one project in Canada (Silvertip project). A large majority of current production comes from the Ying Mining District's three sub-divisions (Ying, TLP, HPG+LM).

SVM was a reverse takeover of a TSX Venture company named Spokane Resources. In July 2001, Spokane Resources changed its name to SKN Resources. SKN Resources changed its name to Silvercorp in May 2005. Current President and COO Myles Gao joined the company in November 2002. Current CEO Rui Feng joined the company in September 2003.

Based on the extensive research we detail below, we believe SVM is a FRAUD and that SVM is worth at most US\$1.00-2.50/share.

Key Take-aways

We believe that we have uncovered evidence of the following:

- SVM's JV partner just sold a 5% interest in an entity that holds SVM's flagship Ying mine at a shockingly low valuation that implies SVM's financial statements are seriously exaggerated
 - The transaction implies a per-share valuation of US \$1.00 - US\$2.50/share for all of SVM's equity
- The financial statements SVM reports to Chinese authorities (the State Administration for Industry & Commerce) imply SVM has essentially fabricated its calendar year 2010 Revenue, EBITDA and Net Income:

Proof Silvercorp, (NYSE: SVM, TSX:SVM.CN) Is Just Another China Fraud

The TONED-DOWN Version of Anonymous Letter V1

ChinaStockWatch

September 14, 2011

Our Questions About Silvercorp. (NYSE: SVM, TSX: SVM CN)

Situation Background

On August 29, 2011, we anonymously sent a letter to a number of parties including Ernst & Young (Silvercorp's auditor) and the Ontario Securities Commission. We indicated that we planned to post some of our research on Silvercorp on the Internet and we included a preliminary copy of our research with that letter. On September 2, 2011, before we had posted any research, Silvercorp announced publicly that it had received a copy of our letter from Ernst & Young. Silvercorp published a press release in which it stated its response to certain of the matters raised in our letter and made reference to certain documents. In the release Silvercorp stated that a special committee of its board of directors has been established. We reviewed Silvercorp's response, updated our analysis further, and are now posting our revised analysis on the Internet. On September 9, 2011, the media reported that the British Columbia Securities Commission had been made aware of our research and was "examining both the nature of the complaint and the allegations contained in [our] letter." We have sent a copy of this Internet posting to the British Columbia Securities Commission, the Ontario Securities Commission, Ernst & Young and Silvercorp's independent directors.

Our Background

We are investors who have successfully identified accounting issues related to public entities with operations in China in the past. These issuers include CCME, CBEH, TRE CN and CHBT. We have decided to publish our research on Silvercorp Metals Inc. (NYSE: SVM, TSX: SVM). Based on our research, we still have serious questions about Silvercorp's accounting and various other issues that we detail below. It continues to be our opinion that Silvercorp is significantly overvalued.

We prefer, at this time, to remain anonymous. Although we do not have any reason to believe Silvercorp or anyone associated with Silvercorp would engage in such conduct, according to numerous news accounts other critics of other Chinese issuers have received personal threats from unidentified parties.

We are troubled by Silvercorp's statement in its September 2nd press release that "[i]n accordance with good governance practices, the Company has established a task force of independent directors...to work with regulatory authorities to immediately investigate and discover the identity of the party behind these allegations." In our view, as a matter of good corporate governance, Silvercorp's directors should be investigating the serious questions we have raised regarding Silvercorp's public filings.

Although we have chosen to remain anonymous, we clearly state that we hold a short position in Silvercorp. Readers should take this into account when evaluating our

Disclaimer
 Use of this research is at your own risk. You should do your own research and consult a professional before making any investment decision with respect to any securities. We do not assume any liability for any loss or damage, including without limitation, any loss or damage to your investments, or with our clients and/or position in the stock (a stock) covered herein, realize significant gains or losses in the price of the stock and/or publishing of any report, or a trend to continue transacting in the securities covered therein, and we may be long, short, or neutral at any time. This is not an offer to sell or a solicitation of an offer to buy any security, nor shall any security be offered or sold to any person, in any jurisdiction in which such offer would be unlawful under the securities laws of such jurisdiction.

The information contained herein is presented "as is," without warranty of any kind—whether express or implied. We make no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. All expressions of opinion are subject to change without notice, and we do not undertake to update or supplement this report or any of the information contained herein.

Our Questions About Silvercorp, (NYSE:SVM, TSX:SVM.CN)

- **No Fraud accusation any more! Why?**
- **Paddling away from their original positions?**
- **Or are they not sure now?**

Differences in Tone – Example #1 SAIC Filings

➤ Main Accusation in the Anonymous Letter V1(PAGE 1)

1. SVM reported net profit of US\$ 66 million to the SEC in calendar 2010 -- Financials available from the Chinese State Administration of Industry and Commerce (SAIC)¹ show SVM actual consolidated LOSS of US\$ 0.5 million in calendar 2010

➤ TONE-DOWN Version of Anonymous Letter V1 (PAGE 8)

We noted in our initial work that, as described below, it appears that financial statements for Henan Found have been changed. This is described in more detail

- When we first started researching SVM months ago, we obtained SAIC financial statements for Henan Found. At the time, we received financials for 2008 and 2009.
- Here is the original report we received ([PDF](#))
- We later received another report on Henan Found ([PDF](#))
 - This second report was later sent to us, unsolicited, by the provider of the first report.
 - The second report showed financials that were effectively different and higher for 2008 and 2009. There was also summary data for 2010 included in this new report. This summary data appears to match the Henan Found revenue and financials the company disclosed on September 2, 2011.

“...it appears that financial statements for Henan Found have been changed.”

“This [second report] summary data appears to match the Henan Found revenue and financials the company disclosed on September 2, 2011.” 17

Differences in Tone – Example #2 Cash Position

➤ Another Major Accusation in the ORIGINAL Anonymous Letter V1

- The financial statements SVM reports to Chinese authorities (the SAIC) show a domestic (i.e. in the PRC) cash plus short-term investments balance of roughly ~US \$7 million versus US \$224 million reported to the SEC
 - While some of the discrepancy in the cash balance may be attributable to cash held in offshore banks, which isn't captured in SAIC financials, we find the discrepancy way too big to pass our "smell test"

“we have no reason to dispute the company’s statement that it holds US\$87 million of cash outside China.”

➤ TONED-DOWN Version of 1st Anonymous Letter

- After reviewing the documents released on September 2, 2011, including bank accounts held outside China at BMO and UBS, we have no reason to dispute the company’s statement that it holds US\$87 million of cash outside China.
- Given our concerns about the Chinese financial statements described above, we remain, at this time, unconvinced that the Chinese cash balances are 1) actually present in full, or, 2) if present, unencumbered by liens, pledges, etc . Our concern here stems from the fact that Chinese financial statements for Henan Found appear to have been changed and most (US\$112 million) of SVM's cash balance is in Henan Found (according to the company’s materials released September 2, 2011).

➤ They obtained their source data from China but at the same time doubting every document we obtained from China.

Differences in Tone – Example #3 43-101 Resource Report

➤ Another Major Accusation in the ORIGINAL Anonymous Letter V1

- The grade of the deposits (i.e. purity of the mines) is simply “too good to be true” compared to comparable companies
- The 43-101 resource reports, which were published in order to lead investors to believe management’s representations about SVM’s assets are true, rest on shaky foundations

TONE-DOWN Version of Anonymous Letter V1

Independent Consulting Geologist Reports—Room For Improvement

report. We do not suggest that the Ying technical report does not exist. We do not suggest that any independent person associated with that report has knowingly acted in an inappropriate manner. We only question certain aspects of the report.

We suggest that additional confidence in the SVM investment case could be built if SVM were to hire a “name brand” minerals consulting firm and have independent, on-site work conducted every time a technical report is prepared.

The Globe and Mail – September 14 Article

THE GLOBE AND MAIL

Hedge fund commissioned critical Silvercorp report in May

brenda bouw AND tim kiladze

VANCOUVER/TORONTO—Globe and Mail Update

Published Wednesday, Sep. 14, 2011 5:26AM EDT

Last updated Wednesday, Sep. 14, 2011 6:28AM EDT

A new short-seller report alleging improprieties against Chinese miner Silvercorp Metals Inc. (SVM-T6.20-1.58-20.31%) was commissioned by a hedge fund in May, weeks after the company's share price hit a record high alongside surging silver prices.

An analyst behind the report said the hedge fund was curious about the Vancouver-based company's high grade and low cost as compared to its peers.

"They wanted us to look into this," Dino Huang, a Shanghai-based analyst with International Financial Research & Analysis Group (IFRA) said in an interview. He would not reveal the identity of the hedge fund, or where it's based.

IFRA was part of a team of investigators and technical staff hired to conduct the report, which was released Tuesday by Alfred Little, a high-profile independent research that focuses on public companies operating in China.

The report alleges Silvercorp overstated its production, inflated the grade of silver it mines and failed to disclose that its largest customer is a related party.

It says provincial mining reports in China contradict the higher resource and production estimates Silvercorp released from its Ying mine, which Mr. Huang called "very suspicious."

Researchers also monitored the volume of trucks delivering ore to its Chinese mills and tested mined material that fell off trucks along the route from the ferry dock. More results are expected from those tests in the coming days to increase the sample size.

Mr. Huang said the report includes facts from their investigation that took place over several months this summer.

"We never said in the report that the company is a scam, or cooked the books," Mr. Huang said.

The report notes that some of its contributors have shorted Silvercorp stock, which Mr. Huang said is the unnamed hedge fund.

Silvercorp shares plunged 20 per cent to \$6.20 on the Toronto Stock Exchange on Tuesday, after having recovered from an initial hit earlier this month when an anonymous letter surfaced alleging the company was involved in a "potential \$1.3-billion accounting fraud."

"An analyst behind the report said the hedge fund was curious about the Vancouver-based company's high grade and low cost as compared to its peers.

'They wanted us to look into this,' Dino Huang, a Shanghai-based analyst with International Financial Research & Analysts Group (IFRA) said in an interview. He would not reveal the identity of the hedge fund, or where it's based.'

"We never said in the report that the company is a scam, or cooked the books," Mr. Huang said.

Other Victims Similar to Silvercorp – Spreadtrum Communication Inc.



Other Victims Similar to Silvercorp – Harbin Electricity, Inc

