



ZEAL REPORTS

Favorite 12 Silver Stocks Research Report

June 2009

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nese culture and commerce it will fail. Fortunately Feng and Gao both have excellent connections within the Chinese mining industry and also with regulatory authorities.

SVM Silvercorp Metals

Silvercorp had been active in the junior exploration realm for quite some time under a number of different handles in a number of different regions. But it didn't find its niche until its 2003 decision to venture into China. Now China was not typically a place that foreign resource companies considered to set up shop. But thanks to the enactment of its 1997 Mineral Resource Law it has opened its doors to foreigners. And more and more companies are finding their way to the Land of Dragons in search of mineral wealth.

China decided to let foreigners in because it just couldn't take advantage of the vast mineral discoveries its geological branch had made over the years. And with its ravenous appetite for natural resources ramping up at the turn of the 21st century, China finally came to the realization it needed help. It needed the skills, expertise, and technology of companies with the ability to economically extract minerals.

And China is seeing incredible results on the precious metals front. It is now the world's largest gold producer, vaulting ahead of South Africa, and is the third largest silver producer behind Peru and Mexico. Interestingly gold was the initial focus of this junior, back when its name was SKN Resources. It wasn't actually until it gained its initial interest in the Ying mining district in early 2004 that it shifted its focus to silver and then changed its name to Silvercorp.

In just a few short years Silvercorp has rapidly developed the historic Ying mine and is now one of the largest primary silver producers in all of China with annual volume of about 4m ozs. And thanks to its incredibly high-grade silver mineralization and impressive byproducts, Silvercorp is one of the world's lowest-cost producers. SVM is a well-oiled machine that has self-funded much of its development, made strategic acquisitions to grow its resources and land-holdings, is hedge-free, debt-free, and has a ton of cash.

Much of this success is attributable to Silvercorp's superior management team. CEO Rui Feng and President Myles Gao both joined SVM shortly after its entrance into China. And both are highly accomplished geologists who received their initial training in China and have successful track records in the junior mining sector. Feng was the founder of former Zeal favorite Jinshan Gold and Gao was a senior geologist at former Zeal favorite Northgate Minerals.

Feng and Gao both have the skills, knowledge, understanding, and experience crucial for success in the Chinese mining industry. Even though this country now allows foreign miners within its borders, it doesn't mean it is easy for these companies. If a company doesn't understand Chi-

Feng in particular has a comprehensive understanding of China's legal system and Gao has proven to be a savvy decision maker on the acquisition front. Ultimately the collective qualities of these two leaders and the rest of Silvercorp's managerial and technical staff greatly reduce the geopolitical risks of operating in China. SVM is well-equipped to thrive in this mineral-rich part of the world.

Mining Operations

Ying District		Location: Henan, China	
2009 Production	~5.0m oz	Avg. Silver Grade	763 g/t
Silver Reserves	NA	Mine Life Remaining	10+ yrs

The Ying mining district is located in central China and has a long history of mineral production. For hundreds of years small-scale mining operations have tapped the rich silver, zinc, and lead mineralization in this region. And as a result of a number of acquisitions over the years, Silvercorp Metals has gained control of 58km² of exploration permits and 17km² of mining permits. Within these land holdings are 4 mines with combined resources of 158m ozs.

The flagship mine, and the only one in consistent production, is the Ying-proper mine. Silvercorp gained its initial interest in Ying in early 2004. And by the end of 2005 it had earned a 77.5% interest for total consideration of \$5.2m. The minority partner in this JV is government entity Henan Non-Ferrous Geological and Mineral Resources Company. And what drew Silvercorp to Ying was the incredibly-high-grade mineralization within this project's rich vein system.

An initial resource estimate was completed in late 2003 by Silvercorp's partner and was then followed up with a formal NI 43-101 compliant report about 6 months later. And with a robust cache of silver, lead, and zinc resources SVM jumped right in to develop Ying. Initial exploration that included both surface and underground sampling was very fruitful with the discovery of over 40 mineralized veins. SVM was also able to outline 22 silver/lead/zinc vein zones.

Considering all the historical mining at Ying, there was already excellent infrastructure when Silvercorp Metals took over. Much of this, over 2500 meters of underground tunnels, had been developed by illegal mining operations that China has recently purged from the area. Silvercorp's aggressive development programs included further widening of the main access tunnel, cutting additional tunnels, and drilling to upgrade resources and identify further targets.

By late 2005 Silvercorp had over 2 dozen geologists and engineers along with 400+ miners working onsite. The aggressive development efforts were driving a completion rate of 2500m of tunnels and 1500m of underground drilling each month. And by the time the mining permit was re-

ceived in March 2006, over 25km of tunnels and 3 shafts were completed that gave access to Ying's rich veins.

Upon receipt of the mining permit Silvercorp Metals immediately commenced production on 10 of the 20 initial stopes that had been developed at various elevations on 7 different veins. And these veins are simply incredible. They are narrow and range from between 0.4m and 3.0 meters thick, but their average initial mining grade is 1400 g/t. Over the next couple years Silvercorp would demonstrate the ability to profitably mine these high-grade veins and would be able to use its increasing cash flows to self-fund a good portion of ongoing exploration and development programs.

Since initial production, these programs have greatly expanded Ying's operations. Silvercorp has discovered several new high-grade veins and has grown resources by over 90% since the acquisition. This has of course greatly increased Ying's mining life and has transformed it into what is now a large-scale mining operation. With the construction of a new mill Ying now has total capacity of 3000 metric tons per day. This has allowed production to more than double from fiscal-year 2007 to an annual rate of 4m ozs.

And with significant lead and zinc byproduct credits, Ying's silver is produced at industry-low operating costs. The Ying mine is host to resources of 1.3b lbs of lead and 500m+ lbs of zinc. These byproducts allowed silver cash costs to be -\$10.99/oz in SVM's fiscal-year 2008. And even with base metals prices getting crushed recently, the fiscal-year-ended March 31, 2009 saw cash costs of -\$3.87/oz. Playing with house money has allowed Silvercorp's Ying mine to be wildly profitable over its young mining life.

Ying is now China's largest primary silver producer. This incredible mining operation is host to an amazing vein system in which each mineralized vein has a strike length between 1km to 5km, and they are only about 50m to 100m apart. But even though SVM's fabulous technicians have gained a good understanding of Ying's geology, there is still vast potential for continued growth. Only a small portion of its mineral concessions have seen modern exploration.

Elsewhere in the Ying mining district is the TLP mine. Silvercorp acquired TLP in late 2007 for about \$22m and it falls under the same ownership structure as the Ying mine. TLP is located 9.5km east of Ying and was a past-producer with silver resources of 31m ozs grading an average of about 140 g/t. Silvercorp Metals was able to bring TLP back into production within 3 months of the acquisition, but it has experienced choppy operations as lower metals prices were cause for a brief suspension until recently.

Next is Silvercorp's HPG mine located adjacent to the Ying mine. SVM completed the acquisition of HPG in early 2007 for \$6.3m and has since earned a 70% ownership interest. Minority JV partner Luoning Huatai Mining Development Company owns the remaining 30%. Also a past

producer, HPG hosts resources of 6m ozs grading an average of 120 g/t and was also brought into production within months of the acquisition. Its choppiness is in line with TLP.

Lastly is the LM mine, also located adjacent to the Ying mine. Silvercorp acquired LM in late 2007 for \$6.9m and it has the same ownership structure as the HPG mine. LM has resources of about 3m ozs grading 250 g/t and it is subject to very small-scale mining of the higher-grade ores until metals prices improve. Overall the 4 mines in the Ying district provide excellent synergies on a district scale. The mill is centrally located within about 16km of the mines and has the capacity to process all the ore when they are operating at full commercial production. These synergies are also prevalent in the labor pool and technical knowledge base.

The acquisitions of the TLP, HPG, and LM mines have successfully consolidated the Ying district. And Silvercorp Metals envisions total 2009 silver production between 4.7m ozs and 5.1m ozs if TLP/HPG/LM remain in production. But if metals prices fall SVM does have the flexibility to suspend these 3 subservient operations with minimal negative financial impact to the district. The flagship Ying mine alone is expected to produce 3.7m ozs of silver in 2009. And though this is only about 80% of the district's production potential with the other mines fully operational, it represents over 90% of the cash flows thanks to its smashing economics.

Exploration Projects

GC District		Location: Guangdong, China	
Est. Annual Prod.	~2.0m oz	Avg. Silver Grade	125 g/t
Silver Resources	37m oz	Initial Production	2012

In early 2008 Silvercorp acquired a 95% interest in the GC land holdings for \$60m in cash and shares. This silver, lead, and zinc project consists of the Gaocheng (GC) and Shimentou (SMT) exploration permits. The greater GC project had been subject to extensive field campaigns since the late 1950s. And in the 2000s up until the acquisition GC had undergone 17k meters of drilling and 14k cubic meters of trenching. This work led to a 2008 resource estimate.

This estimate incorporated the mineralization in 13 veins at the GC permit and returned NI 43-101 compliant silver resources of nearly 40m ozs. Most of these resources are in the inferred category and grade an average of about 125 g/t. Since the acquisition SVM has drilled an additional 10k meters and has initiated the application process for a mining permit as it believes this project is economically feasible at current prices. Silvercorp is currently in the process of compiling a series of environmental and engineering reports.

If all stays on track Silvercorp expects to procure the mining permit before the end of 2009. It will then construct the mine and mill at an estimated capex of \$30m and would go live in 2012. For the time being SVM will continue to drill GC in hopes of adding to the now 28 identified veins. We can also expect to see an updated resource estimate in Q2

Warning! Investment and speculation are inherently risky endeavors that are not suitable for everyone. Investors and speculators must willingly assume significant risks in proportion to the returns they hope to reap. All stocks discussed in this report are risky ventures that will rise or fall depending on a broad array of fundamental and technical factors that affect them. Thus it is important that only risk capital that you can afford to lose is deployed in any of these stocks. As we cannot see the future, we try to only cover stocks that have a good probability of thriving but not all these stocks will win all the time. No analysts consistently win all the time, and neither will we. By your act of purchasing and reading this report, you fully and explicitly agree to accept full and complete responsibility for all of your own personal investment and speculation decisions, win or lose. By your act of purchasing and reading this report you also fully and explicitly agree that you will not hold Zeal LLC liable or responsible for any losses that you may suffer. We are not certified investment advisors and we suggest you consult your own. And we may actively trade any of these stocks ourselves as well as in our subscription newsletters.



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2009 that should expand and upgrade resources. Ultimately GC would be a nice addition to SVM's production profile. It would boost annual volume to greater than 7m ozs.

Na-Bao

Location: Qinghai, China

Est. Annual Prod.	NA	Avg. Silver Grade	NA
Silver Resources	NA	Initial Production	NA

Silvercorp holds an 82% ownership interest in the Na-Bao project. Na-Bao is a recent discovery that shows vast potential for silver, lead, zinc, and copper mineralization. This early-stage exploration project has returned excellent results from an extensive trenching program that revealed several mineralized structures. Unfortunately with the depressed metals prices and its remote location in western China, SVM recently decided to put this project on hold. This project will remain subservient to Ying and GC.

Financials

Silvercorp Metals has excellent financials and is sitting pretty with no debt and \$65m in cash. SVM's incredibly strong balance sheet is a rarity for mining companies, as they require such large capex and opex to survive. And this financial strength is even more impressive considering it has constructed a major mine without procuring debt or over-diluting its shareholders. Since its move into China, Silvercorp has only raised about \$85m via equity financings. And about one-third of this was just raised in March.

There are a couple of major factors contributing to Silvercorp's financial success. First is the China factor. Simply put, it is a cheap place to run a business. Aside from the huge tax benefits granted to miners, all the equipment and materials needed to construct and operate the mine and mill is manufactured locally, labor is cheap, and there are smelters all over the place desperate for input materials. SVM is also able to save money thanks to China's streamlined regulatory environment. Obtaining mine permitting is not as tedious of a process as it is in most other countries.

Silvercorp is also blessed with high-margin metals production. When you combine generally low opex with excellent revenues from byproduct lead and zinc production, very healthy profits and cash flows are to be had. A big boon to SVM's lesser need for outside funding was pre-production revenue. In the early exploration and development stages something needed to be done with the ore that was removed from all the tunneling going on. And considering the high-grade mineralization of the ore that was removed, it was either sold directly to a local smelter or test milled at a local mill, then sold to the smelter. These revenues were a big offset to exploration and development costs.

Yet another key to Silvercorp's financial success is its mine implementation strategy. Considering the high-grade mineralization and low-cost opex environment, SVM didn't consider it too much of a risk to develop operations before the full potential of the project is revealed. It therefore bypassed the expensive scoping and feasibility studies that many miners are compelled to perform in order to prove reserves to a bank in hopes of obtaining a project loan.

With these operational efficiencies SVM has been able to use its financings for acquisitions, most notably the 3 additional mines in the Ying district. SVM has also performed several share buybacks over the years, split its stock, and even pays a dividend. Also of note is SVM's recent listing in the US. This will provide even more investment exposure.



Summary

Market Cap	\$520m	P/E Ratio	NA
52-week Low	\$0.92	52-week High	\$6.57
US Exch-Symb	AMEX-SVM	CAN Exch-Symb	TSX-SVM
Working Capital	\$48m	Operating Mines	4
Devel. Projects	0	Explor. Projects	2
Silver Reserves	0	Silver Resources	195m oz
2008 Production	4.0m oz	2009 Est. Prod.	~5.0m oz
Mkt. Cap./res-oz	\$2.67	2008 Cash Costs	-\$11/oz

The bottom line is Silvercorp Metals is one of the world's elite primary silver producers. And it gained this status in short order as it is only in its third year of operations. Silvercorp's production-driven management team has the inside Chinese edge that has allowed it to get where it is today. The company was able to acquire choice mineral concessions, procure the necessary permitting, and commission a robust mining operation all within about 2 years.

And all of this was accomplished in a very cost-efficient manner. Silvercorp self-funded much of its development efforts and now produces its silver at operating costs in the lower quartile of industry average. Becoming a majority owner of a sino-foreign JV and succeeding in this fashion is quite a feat. Even though China has opened its doors to foreign miners, there are still plenty of geopolitical risks operating within its borders. Many foreigners still find it incredibly difficult to develop Chinese mines. The clog that former Zeal favorite Mundoro Capital is experiencing in getting the licensing and permitting for its project is just one example.

But geopolitics is where Silvercorp Metals has a major advantage. Its management's cultural and legal understanding of China has allowed it to swiftly groom its flagship Ying mine as well as acquire and permit several others. SVM is now China's largest primary silver producer and it will have a leg up on what are sure to be future sino-foreign partnerships to tap this country's rich silver mineralization.

* Financial info is from the latest available financial statements or presentation.
 * All data and information presented in this report should be verified for accuracy directly with the company before making a trading decision.