

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

SILVERCORP METALS INC.,

Plaintiff,

- against -

CHINASTOCKWATCH.COM, JERRY KATZ,
ALFREDLITTLE.COM, ALFRED LITTLE,
SIMON MOORE, AND JOHN DOES 1-5,

Defendants.

Index No.

Date Purchased:

Plaintiff designates New York
County as the place of trial

SUMMONS

To the above Named Defendants:

YOU ARE HEREBY SUMMONED to answer the Complaint in this action and to serve a copy of your answer, or, if the complaint is not served with this summons, to serve a notice of appearance, on the Plaintiff's attorney within 20 days after the service of this summons, exclusive of the day of service (or within 30 days after the service is complete if this summons is not personally delivered to you within the State of New York); and in case of your failure to appear or answer, judgment will be taken against you by default for the relief demanded in the Complaint.

Plaintiff designates New York County as the place of venue. The basis of venue is publication of reports in New York County and certain Defendants' residence and business activities in New York County.

Dated: New York, New York
September 22, 2011

K&L GATES LLP

By: /s/ Roger R. Crane, Jr.
Stephen J. Crimmins
Roger R. Crane, Jr.
Darian Alexander
599 Lexington Avenue
New York, New York 10022
Phone: (212) 536-3900
Fax: (212) 536-3901
Attorneys for Plaintiff

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

SILVERCORP METALS INC.,

Plaintiff,

COMPLAINT FOR DAMAGES
AND EQUITABLE RELIEF

- against -

Index No. _____/2011

CHINASTOCKWATCH.COM, JERRY KATZ,
ALFREDLITTLE.COM, ALFRED LITTLE,
SIMON MOORE, AND JOHN DOES 1-5,

Defendants.

Plaintiff Silvercorp Metals Inc. (“Silvercorp”) brings this action against Defendants Chinastockwatch.com, Jerry Katz, Alfredlittle.com, Alfred Little, Simon Moore, and John Does 1-5 (collectively “Defendants”) and alleges as follows:

1. This is a complaint for an injunction, damages and other appropriate relief to stop Defendants from making false, defamatory and fraudulent statements about Silvercorp in order to injure Silvercorp and as part of a scheme to manipulate its stock price for Defendants’ personal gain.

2. Plaintiff Silvercorp is a corporation organized under the laws of the Province of British Columbia, Canada, and maintains its headquarters at 1378 - 200 Granville Street, Vancouver, British Columbia.

3. On information and belief, Defendant Chinastockwatch.com is an entity operating in New York County that publishes reports on public companies on its website, chinastockwatch.com. Defendant Chinastockwatch.com published the false, defamatory and fraudulent August 29, 2011 letter, September 14, 2011 letter, and September 14, 2011 Internet posting concerning Silvercorp, all described below.

4. On information and belief, Defendant Jerry Katz is a resident of New York County; the operator, spokesperson and publisher of the Chinastockwatch.com entity and website; and the author of its false, defamatory and fraudulent publications concerning Silvercorp referred to in the preceding paragraph.

5. On information and belief, Defendants Chinastockwatch.com and Jerry Katz caused Chinastockwatch.com's August 29, 2011 letter to be hand delivered at 5 Times Square in New York County and to be sent by courier service from New York County to other locations, and also caused its September 14, 2011 letter to be sent by courier service from 606 West 49th Street in New York County.

6. On information and belief, Defendant Alfredlittle.com is an entity that publishes reports on public companies on its website, alfredlittle.com. Alfred Little published the false, defamatory and fraudulent September 13, 2011 and September 19, 2011 Internet postings concerning Silvercorp, both described below.

7. On information and belief, Defendant Alfred Little is a resident of New York County; an operator, spokesperson and editor of Alfredlittle.com and its website; and an author of its false, defamatory and fraudulent postings concerning Silvercorp referred to above on the alfredlittle.com website. Silvercorp is advised that Alfred Little has retained counsel in New York County who may appear for him in related litigation in this Court.

8. On information and belief, Defendant Simon Moore is a United States resident; an operator, spokesperson and editor of Alfredlittle.com and its website; and an author of its false, defamatory and fraudulent postings concerning Silvercorp referred to above on the alfredlittle.com website. On September 19, 2011, Simon Moore gave an interview to a Bloomberg news reporter reaffirming his false Internet posting that day concerning Silvercorp on the alfredlittle.com website, and thereby republished the same, and in doing so refused to tell the reporter where he was speaking from.

9. Silvercorp is unaware of the true names and capacities of the remaining Defendants, sued herein as John Does 1-5, and therefore sues Defendants by such fictitious names. On information and belief, these Defendants directly participated in or assisted the preparation and dissemination of the August 29, 2011 and September 14, 2011 letters and the September 13, 14 and 19, 2011 Internet postings, all making and publishing false, defamatory and fraudulent statements about Silvercorp, as described below. Silvercorp will amend this complaint to allege their true names and capacities when ascertained. Each of these fictitiously named Defendants is responsible in some manner for the occurrences herein alleged, and that Silvercorp's injuries as herein alleged were proximately caused by such Defendants. Upon information and belief, these fictitiously named Defendants, together with the above-named Defendants, formed and continue to form an integral part of the ongoing short-selling stock manipulation scheme described below.

JURISDICTION AND VENUE

10. This Court has jurisdiction over the claims in this action based upon (a) the publication of the false, defamatory and fraudulent statements in the State of New York; (b) certain Defendants' residence and business activities in the State of New York, as set forth above; and (c) Defendants' successful plan to unlawfully profit by using their false, defamatory and fraudulent statements for the express purpose of injuring Silvercorp and unlawfully manipulating the price of Silvercorp's stock in trading on a stock exchange located in the State of New York, specifically the New York Stock Exchange.

11. Venue is proper in this court based upon (a) the publication of the false, defamatory and fraudulent statements in New York County; (b) certain Defendants' residence and business activities in New York County, as set forth above; and (c) Defendants' successful plan to unlawfully profit by using their false, defamatory and fraudulent

statements for the express purpose of injuring Silvercorp and unlawfully manipulating the price of Silvercorp's stock in trading on a stock exchange located in New York County.

SILVERCORP AND ITS BUSINESS

12. Silvercorp is engaged in the operation and development of, and in the acquisition and exploration for, mineral properties in China and Canada. Silvercorp is China's largest primary silver producer, and it operates and develops silver, lead and zinc mines in the Ying Mining District of China, and has exploration stage properties in Guangdong Province, China, and at the Silvertip silver, lead and zinc project in northern British Columbia, Canada. This year, it also acquired a gold, lead and zinc mine in Hunan Province, China.

13. Silvercorp's stock trades on both the New York Stock Exchange and the Toronto Stock Exchange. It had 175,046,741 common shares issued and outstanding as of May 31, 2011. Silvercorp's corporate headquarters are at 200 Granville Street, Vancouver, British Columbia. Its outside auditors are Ernst & Young LLP, Chartered Accountants, in Vancouver, British Columbia.

14. During its fiscal year ended March 31, 2011, as reflected in its public filings with the U.S. Securities and Exchange Commission ("SEC"), Silvercorp enjoyed record operating performance. This included: (i) record net earnings of \$68.8 million, or \$0.41 per share, a 79% increase compared to earnings of \$38.5 million, or \$0.24 per share, the year before; (ii) record sales of \$167.3 million, 56% higher than the year before; (iii) record cash flows from operations of \$104.2 million, or \$0.62 per share, up 60% from \$65.3 million the year before; (iv) record production of 5.3 million ounces of silver, or 5.46 million ounces of silver equivalent if including 3,200 ounces gold produced, an increase in silver production up 15% from 4.6 million ounces the year before; (v) total production costs of negative \$5.58 per ounce of silver and cash costs of negative \$6.80 per ounce of silver, representing 4% and 9% improvements, respectively; (vi) cash dividends totaling Canadian \$0.08 per share,

representing \$13.1 million for the year; (vii) a capital raise of \$110.4 million net proceeds from an equity financing; and (viii) a 119% increase in total cash and short term investments to \$206.3 million from \$94.4 million the year before. Additional disclosures relating to the company and its performance are set forth in its filings with the SEC, available on the “EDGAR” portion of the SEC’s website, www.sec.gov.

DEFENDANTS’ TORTIOUS AND UNLAWFUL CONDUCT

15. On information and belief, during August 2011 Defendants, acting individually and in combination, commenced a scheme to injure Silvercorp and to use false, defamatory and fraudulent statements and other means to artificially drive down the price of Silvercorp common stock in order to obtain illicit profits on short sales of Silvercorp common stock. A “short sale” is a transaction in which a person sells shares the person does not own, and then borrows the same number shares to deliver when the sale is formally settled. Ultimately, the person buys the shares, hopefully at a much lower price, to “cover” or pay off the stock loan. A short sale’s profitability is determined by how much the stock price drops in excess of the cost of borrowing the stock.

16. During August 2011, market data began to reveal a potential short selling manipulation scheme. The number of Silvercorp shares out on loan, jumped dramatically from 3% of total shares outstanding at the beginning of August to almost 14% at the end of the month. Thus, by the end of the month short positions in Silvercorp stock represented approximately 23 million shares. Moreover, the short interest was concentrated, with one broker accounting for 35% of the shares on loan on the borrower side. Historically demand to borrow Silvercorp shares has lagged below peer companies, but beginning around mid-August, demand to borrow Silvercorp shares surged above that for peer companies.

17. At the same time, word was quietly spread among certain traders that short selling Silvercorp stock would be profitable because a planned negative research report

would soon cause the stock to drop. Comparisons were made to a negative report about another Chinese company two months earlier that had resulted in a sharp drop in that company's stock price.

The August 29, 2011 Letter

18. On or about August 29, 2011, as short interest in Silvercorp stock hit record heights, Defendants Chinastockwatch.com and Jerry Katz, acting with certain other Defendants, authored and sent an "anonymous" letter to market regulators at the Ontario Securities Commission, Silvercorp's auditors at Ernst & Young LLP, and various financial media outlets falsely and maliciously alleging a "Potential \$1.3 Billion Accounting Fraud at Silvercorp," and providing a copy of their intended Internet posting entitled "Proof Silvercorp is just another China Fraud," with the subtitle "A mine is a hole in the ground with a liar at the top." The authors admitted holding a short position in Silvercorp's shares. The copies of the letter received at 5 Times Square in New York County at the U.S. headquarters of Silvercorp's auditors, Ernst & Young LLP, bore uncanceled U.S. postage stamps and no post-mark, thus indicating that they were actually hand delivered to the auditors in New York County. Another copy of the letter was sent from New York County by courier service to the auditors' London office.

19. The August 29, 2011 letter contained a number of highly material and injurious false, defamatory and fraudulent statements, including the following: (a) that while Silvercorp reported net profits of \$66 million to the SEC in calendar 2010, other financial statements supposedly available from the Chinese State Administration of Industry and Commerce showed Silvercorp actually reporting a loss for the year of \$500,000; (b) that Silvercorp's cash position was grossly overstated; and (c) that Silvercorp's subsidiary partner, a Chinese state-owned enterprise, had sold a 5% interest in the subsidiary for \$7 million, thus

implying that the subsidiary's assets are worth only \$140 million, substantially below their stated value.

20. Defendants' false, defamatory and fraudulent statements concerning Silvercorp successfully carried out their scheme to injure Silvercorp and manipulate the price of Silvercorp stock, including its price in exchange trading conducted in New York County. When Defendants' allegations became known in the market on September 2, 2011, Silvercorp stock dropped approximately 10% in a single day on aberrationally high volume of 20,167,166 shares traded. Considering the rising prices of peer companies and rising silver prices that day, Silvercorp was actually down approximately 15% relative to its peer companies.

21. On September 2, 2011, Silvercorp responded with a press release that provided detailed information demonstrating the falsity of the allegations in the August 29, 2011 letter. Among other things, Silvercorp provided Chinese government records corroborating that its four Chinese subsidiaries had in fact recorded the combined profits they had claimed, and reconciled these profit figures to the amounts contained in Silvercorp's SEC filings. It also produced income tax filings and value-added tax payment receipts confirming its profitable operations. Silvercorp also disclosed dozens of pages of bank statements and related documentation demonstrating that it had cash and short-term investments of \$221.3 million.

The September 13, 2011 Internet Posting

22. Following Silvercorp's press release, its stock price partially recovered, from \$7.53 on September 2, 2011 to \$9.07 on September 8, 2011. However if this recovery by Silvercorp's stock had continued, it would have spelled the end of Defendants' fraudulent scheme, as Defendants depended on a declining stock price to be able to cover their short sales at a profit. Consequently, as Silvercorp's stock began to recover, Defendants individually and/or collectively prepared the next barrage of false, defamatory and fraudulent

statements to again injure Silvercorp, drive down Silvercorp's stock price, and allow Defendants to further profit from their short selling activity.

23. On September 13, 2011, Defendants Alfredlittle.com, Alfred Little and Simon Moore, acting with certain other Defendants, authored and published a posting on the alfredlittle.com website maliciously alleging "Questionable Customers, Geologists, Production, Quality and Serious Related Party Failures." This Internet posting was available to persons in New York County and elsewhere to consider in connection with their exchange trading of Silvercorp stock conducted in New York County.

24. The September 13, 2011 posting – calculated to manipulate the price of Silvercorp stock – contained a number of highly material and injurious false, defamatory and fraudulent statements designed to panic investors, including the following: (a) that Chinese government mining reports contradicted Silvercorp's statements concerning the production, quality and resource estimates of its key mine; (b) that independent tests of ore from the same mine revealed a low silver content; (c) that Silvercorp's principal subsidiary's 2010 sales growth came from two "questionable customers," and that Silvercorp had failed to disclose that its largest customer is a related party; (d) that an "auction" sale of the subsidiary valued it at a 90% discount from Silvercorp's market value; and (e) that Silvercorp had acquired a company with mineral property interests in China from a relative of Silvercorp's chairman in a transaction that gave the relative a 1500% gain in six months.

25. Defendants' false, defamatory and fraudulent statements concerning Silvercorp succeeded in carrying out their scheme to injure Silvercorp and manipulate the price of Silvercorp stock, including its price in exchange trading conducted in New York County. When Defendants' allegations became known in the market on September 13, 2011, Silvercorp stock dropped approximately 20% in a single day on aberrationally high volume

of 35,436,706 shares traded. This represented the biggest percentage decline that day of any stock traded on the New York Stock Exchange.

26. On September 14, 2011, Silvercorp responded with a press release that disclosed that an independent committee of Silvercorp's board had retained independent legal counsel and KPMG Forensic Inc. to assist in completing a report on certain aspects of revenue, cash balances, tax payments, and reconciliations of filings with regulators. Silvercorp also invited the "anonymous" authors of the allegations against it to identify themselves to regulators. Silvercorp said it would itself continue to work with regulators and not comment further on the allegations, except to provide information concerning alleged disparity between grades and production numbers reported in China and North America, and concerning sales to related parties.

The September 14, 2011 Letter and Internet Posting

27. On or about September 14, 2011, the next day following the Internet posting by Alfredlittle.com, Alfred Little and Simon Moore described above, Defendants Chinastockwatch.com and Jerry Katz, acting with certain other Defendants, authored and sent another "anonymous" letter to the British Columbia Securities Commission, the Ontario Securities Commission, and Silvercorp's auditors admitting that they were responsible for the August 29, 2011 letter described above. They again admitted holding a short position in Silvercorp's shares. Copies of the letter were again delivered to the U.S. headquarters of Silvercorp's auditors, Ernst & Young LLP, in New York County, and copies were also sent by courier service from 606 West 49th Street in New York County.

28. In their September 14, 2011 letter, Defendants Chinastockwatch.com and Jerry Katz additionally admitted responsibility for an Internet posting on the chinastockwatch.com website that same day, September 14, 2011, maliciously alleging certain "Questions about Silvercorp." This Internet posting was available to persons in New York County and

elsewhere to consider in connection with their exchange trading of Silvercorp stock conducted in New York County.

29. The September 14, 2011 posting contained a number of highly material and injurious false, defamatory and fraudulent statements, including the following: (a) that Silvercorp's subsidiary partner sold a 5% interest in the subsidiary for an amount implying that the subsidiary's assets were overvalued; (b) that Silvercorp's reported earnings in China differed from its reported earnings in the U.S. and Canada; (c) that Silvercorp's cash position was grossly overstated (though by a lesser amount than previously indicated in Defendants' August 29, 2011 letter discussed above); (d) that Silvercorp was misrepresenting the quality of its silver deposits; (e) that Silvercorp was misrepresenting the costs of its drilling operations; (f) that Silvercorp's asset evaluations were inadequate; and (f) that Silvercorp's CEO and COO had profited from related-party transactions.

30. Defendants' false, defamatory and fraudulent statements concerning Silvercorp succeeded in carrying out their scheme to injure Silvercorp and manipulate the price of Silvercorp stock, including its price in exchange trading conducted in New York County. When Defendants' allegations became known in the market on September 14, 2011, Silvercorp stock swung widely between a high of \$7.49 and a low of \$5.86 on aberrationally high volume of 35,372,643 shares traded before closing at \$6.48, virtually unchanged from the previous day's close.

The September 19, 2011 Internet Posting

31. Three trading days later, Defendants struck again. On September 19, 2011, Defendants Alfredlittle.com, Alfred Little and Simon Moore, acting with certain other Defendants, authored and disseminated a posting on the alfredlittle.com website maliciously alleging "Substantial Evidence Proves Silvercorp Metals' Earnings are Inflated More than 5X." This Internet posting was available to persons in New York County and elsewhere to

consider in connection with their exchange trading of Silvercorp stock conducted in New York County.

32. The September 19, 2011 posting contained a number of highly material and injurious false, defamatory and fraudulent statements substantially similar to the statements in these Defendants' September 13, 2011 Internet posting, as well as various additional false and defamatory statements about Silvercorp. Defendant Simon Moore republished these false and defamatory statements by reaffirming them to a Bloomberg news reporter later in the day on September 19, 2011, but in doing so refused to tell the reporter where he was speaking from.

33. Defendants' false, defamatory and fraudulent statements concerning Silvercorp succeeded in carrying out their scheme to injure Silvercorp and manipulate the price of Silvercorp stock, including its price in exchange trading conducted in New York County. When Defendants' allegations became known in the market on September 19, 2011, Silvercorp stock again dropped substantially on aberrationally high trading volume before recovering later in the day.

Damages Suffered, Unlawful Profits, and Continuing Threat to Silvercorp

34. As a result of Defendants' misconduct, Silvercorp has suffered substantial reputational and other damages and expenses in an amount to be proven at trial for which Defendants should be held accountable. As Defendants' conduct is willful, outrageous and without any justification, they should additionally be held liable for substantial punitive damages. Further, it would be outrageous, unjust and inequitable for Defendants to retain the trading profits reaped from their tortious and unlawful conduct, and such profits should be disgorged to Silvercorp or imposed with a constructive trust and forfeited for such disposition as the Court may direct.

35. Silvercorp will be irreparably harmed if Defendants are not restrained from additional misconduct of the type described in this Complaint. Silvercorp's stock presently trades around \$7 per share. Defendants hold short positions that will only be profitable if Silvercorp's stock remains at artificially low prices. Based on their past conduct between August 29 and September 19, 2011, Defendants will, unless restrained, continue to disseminate false, defamatory and fraudulent information about Silvercorp whenever they deem necessary to manipulate and depress Silvercorp's stock price and thus ensure the profitability of their fraudulent scheme.

36. Moreover, this was not the first time Silvercorp was subjected to such false, defamatory and fraudulent attacks. Two months earlier, in June 2011, an anonymous individual misrepresented to Reuters that the company would miss earnings estimates, and following dissemination this resulted in a sharp drop in the stock price until the misinformation was corrected. These attacks will continue absent this Court's intervention.

COUNT I – DEFAMATION

37. Plaintiff repeats and realleges the allegations of Paragraphs 1 through 36 above.

38. During August and September 2011, Defendants authored and published false and defamatory statements concerning Silvercorp, as set forth above. Upon information and belief, Defendants have also published similar false and defamatory statements concerning Silvercorp, in addition to those set forth above. Further, Defendants are responsible for each and every republication of their false and defamatory statements about Silvercorp.

39. Defendants authored and published these false and defamatory statements without privilege or authorization to numerous persons, including all persons who visited the chinastockwatch.com and alfredlittle.com websites and accessed these statements, and to all persons to whom Defendants otherwise circulated such statements.

40. Defendants authored and published these false and defamatory statements without sufficient factual bases for making these false and defamatory statements, and indeed intentionally or recklessly. Defendants authored and published these false and defamatory statement for the purpose of executing and assisting the execution of a scheme to injure Silvercorp and manipulate its stock price.

41. The false and defamatory statements authored and published by Defendants constituted libel *per se* with respect to Silvercorp.

42. Silvercorp has suffered damages as a result of Defendants' false and defamatory statements.

COUNT II – UNJUST ENRICHMENT

43. Plaintiff repeats and realleges the allegations of Paragraphs 1 through 42 above.

44. As a direct and proximate result of the acts alleged herein, Defendants wrongfully deprived Silvercorp of substantial assets, inflicted significant reputational and economic harm and expense, and were unjustly enriched at Silvercorp's expense through Defendants' receipt of profits from their short selling scheme, as described above.

45. Defendants are liable to Silvercorp as a result of such unjust enrichment and should be required to disgorge their unjust gains, including their profits from short selling Silvercorp stock, and to pay over such gains to Silvercorp. Alternatively, such profits should be imposed with a constructive trust and forfeited for such disposition as the Court may direct by further order.

COUNT III – TRADE LIBEL AND INTERFERENCE

46. Plaintiff repeats and realleges the allegations of Paragraphs 1 through 45 above.

47. As alleged above, Defendants knowingly published false matter that was derogatory to Silvercorp's business and of a kind designed to prevent others from dealing

with Silvercorp and that otherwise interfered, to Silvercorp's detriment, with Silvercorp's relations and business with others.

48. Defendants' publishing of false matter played a substantial and material role in inducing others not to deal with Silvercorp, as demonstrated by the aberrational trading volume and decreases in the value of Silvercorp stock described above.

49. Defendants' publishing of false matter caused actual losses to Silvercorp in an amount to be determined at trial and estimated to exceed \$1 million.

**COUNT IV – UNLAWFUL DECEPTIVE ACTS AND PRACTICES UNDER
NEW YORK GENERAL BUSINESS LAW § 349**

50. Plaintiff repeats and realleges the allegations of Paragraphs 1 through 49 above.

51. Defendants' actions as alleged above were manifestly consumer-oriented, broadly directed at and affecting, *inter alia*, the respective readerships of chinastockwatch.com and alfredlittle.com, various financial media outlets, traders of Silvercorp stock, and traders of stock on both the New York and Toronto Stock Exchanges at large.

52. Defendants' alleged false and defamatory statements were misleading in a material respect.

53. As a result of Defendants' false and defamatory statements Silvercorp has suffered damages in an amount to be determined at trial and estimated to exceed \$1 million.

WHEREFORE, Plaintiff demands judgment against Defendants for:

1. Compensatory monetary damages in an amount to be determined at trial and estimated to exceed \$1 million;
2. Punitive damages in an amount of at least \$10 million;
3. An order requiring Defendants who have participated in any market manipulation scheme to disgorge to Silvercorp all illicit trading profits received by Defendants in connection with such market manipulation scheme, which may be as much as \$100 million

based on the artificial loss in Silvercorp's market capitalization at various times between August 29, 2011 and the present.

4. An order imposing a constructive trust on Defendants' aforesaid illicit trading profits and directing that such profits be immediately forfeited for such disposition as the Court may by further order decree.

5. An order requiring Defendants to immediately remove all false and defamatory statements and reports concerning Silvercorp from the chinastockwatch.com and alfredlittle.com websites, and further requiring Defendants to publish on such website a retraction of their previous such statements for such period as the Court may direct.

6. An order permanently enjoining Defendants from publishing any further false and defamatory reports concerning Silvercorp.

7. Appropriate preliminary orders preserving and preventing transfer or dissipation of Defendants' assets in order to protect this Court's ability to afford meaningful monetary relief for the unlawful conduct herein alleged.

8. Costs and expenses incurred in connection with this action, including reasonable attorneys' fees to the extent available under any applicable law; and

9. Such other and further relief as the Court may deem just and proper.

Dated: New York New York
September 22, 2011

/s/ Roger R. Crane, Jr.
Stephen J. Crimmins
Roger R. Crane, Jr.
Darian Alexander
K&L GATES LLP
599 Lexington Avenue
New York, NY 10022
(212) 536-3900