



# HALF YEAR FINANCIAL REPORT

*For the period ended 31 December 2017*

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## **CORPORATE DIRECTORY**

### **Directors**

Keith Perrett – Non-Executive Chairman  
Anthony McClure – Managing Director  
Peter Langworthy – Non-Executive Director  
Jonathan Battershill – Non-Executive Director

### **Company Secretary**

Trent Franklin

### **Australian Company Number**

107 452 942

### **Registered Office**

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Australia

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Website: [www.silvermines.com.au](http://www.silvermines.com.au)

### **Share Registry**

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Sydney NSW 2000

Tel : +61 2 9290 9600

Fax : +61 2 9279 0664

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### **Auditors**

Crowe Horwath Sydney

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Sydney NSW 2000

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## **DIRECTORS' REPORT**

The Directors present their report on Silver Mines Limited and its controlled entities for the half-year ended 31<sup>st</sup> December 2017.

### **DIRECTORS**

The Directors of Silver Mines Limited during the financial period and until the date of this report are:

Keith Perrett                      *Non-Executive Chairman*

Anthony McClure                *Managing Director*

Peter Langworthy                *Non-Executive Director*

Jonathan Battershill            *Non-Executive Director*

### **PRINCIPAL ACTIVITIES**

Silver Mines Limited's ('Silver Mines' or 'the Company') focus throughout the first half of the 2018 Financial Year has involved continuing to advance the Bowdens Silver Project, including progressing the Feasibility Study and Environmental Impact Statement along with substantial exploration works. The Company and its wholly owned subsidiaries (together, 'the Group') also continued to maintain the Webbs, Conrad and Tuena Projects.

### **HIGHLIGHTS FOR THE HALF YEAR**

- Continued advancement of the Bowdens Silver Feasibility Study and Environmental Impact Statement;
- Significant upgrade of Mineral Resources at Bowdens Silver;
- Continued drilling success in the Company's exploration and drilling programs; and
- Capital raising complete with A\$4.3 million raised.

### **PROJECTS**

During the half-year, the Group continued to control the following projects, all of which are located in New South Wales, Australia:

- Bowdens Silver Project (silver/polymetallic);
- Webbs Project (silver/polymetallic);
- Conrad Project (silver/polymetallic); and
- Tuena Project (gold/silver).

## DIRECTORS' REPORT

### BOWDENS SILVER PROJECT

#### Introduction

The Bowdens Silver Project ("Bowdens Silver") is located in central New South Wales, approximately 26 kilometres east of Mudgee. (See Figure 1). The project area comprises 1,654 km<sup>2</sup> (408,000 acres) of titles covering approximately 80 kilometres of strike in the highly mineralised Rylstone Volcanics.

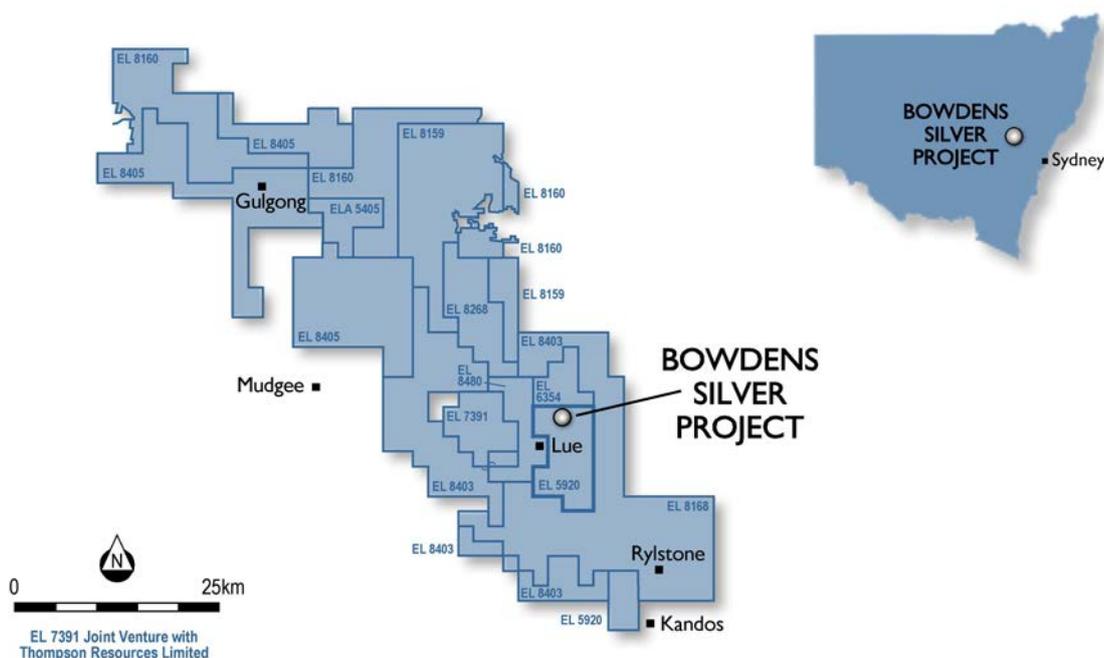


Figure 1. Bowdens Silver tenement holdings in the Mudgee district.

#### Description

Bowdens Silver is the largest undeveloped silver deposit in Australia with substantial mineral resources.

The Group holds 100% of Exploration Licence EL5920 which contains the Bowdens Silver Deposit. The Group also holds exploration licences EL6354, EL8159, EL8160, EL8168, EL8268, EL8403, EL8405 and EL8480. In addition, the Group holds an 80% interest and manages a Joint Venture over Exploration Licence EL7391 with Thomson Resources Limited. (See Figure 1).

The tenement group is situated on the eastern margin of the Lachlan Orocline where it is in contact with the younger, unconformable overlying Permian aged units. These units comprise the highly mineralised early Permian Rylstone Volcanics and the on-lapping later Permian sedimentary units of the Shoalhaven Group within the Sydney Basin. The Rylstone Volcanics unconformably overlie the Ordovician Coomber Formation and Silurian Dungaree Volcanics. Multiple target styles and mineral occurrences have potential throughout the district including analogues to Bowdens Silver, silver-lead-zinc epithermal and volcanogenic massive sulphide (VMS) systems and copper-gold targets. (See Figure 2).

**DIRECTORS' REPORT**

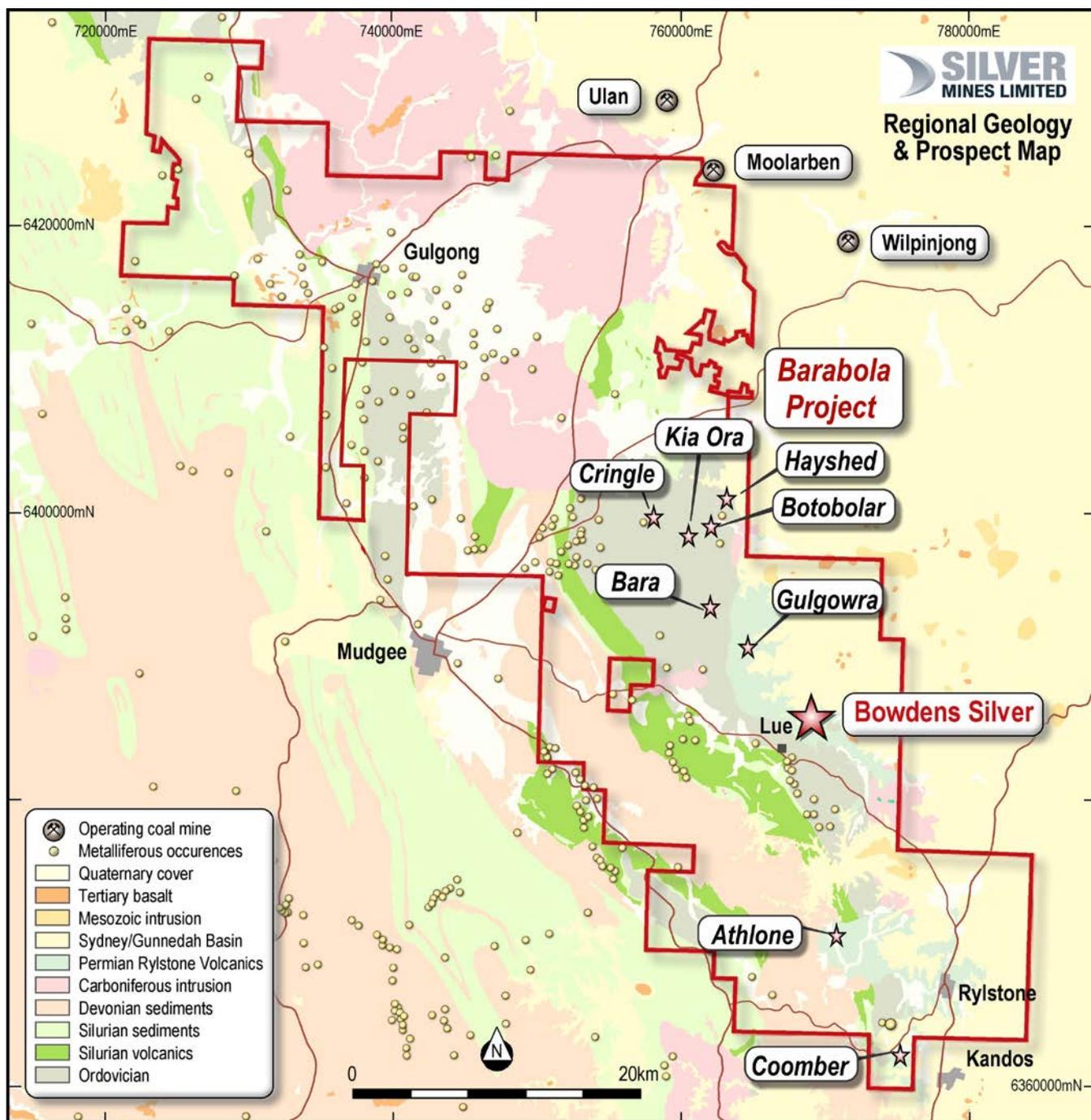


Figure 2. Bowdens Silver prospect locations in the Mudgee district.

## **DIRECTORS' REPORT**

### **Feasibility Study and Environmental Impact Statement**

Bowdens Silver has had a very substantial body of work completed covering all aspects of the feasibility and environmental examination of a considerable silver/zinc/lead mine development. During the half-year, the Group continued works on the Bowdens Silver Feasibility Study with primary consultants GR Engineering, AMC and ATC Williams. Works during the half-year included:

- Drilling and upgrade of Mineral Resources;
- Mine planning and scheduling;
- Metallurgical testing;
- Flowsheet development;
- Process and plant design;
- Infrastructure;
- Environmental management;
- Water and tailings management; and
- Capital and operating cost assessment.

It is the Group's priority to finalise its Feasibility Study which is targeted for completion during the first half-year of calendar 2018. The Bowdens Silver Environmental Impact Statement is targeted for completion mid-calendar 2018.

### **Drilling and Exploration Programs**

During the half-year, the Group continued its substantial drilling program which focused on:

- Increasing silver resources within and in the immediate vicinity of the current resource area;
- Converting silver resources to higher levels of confidence as part of the Feasibility Study;
- Further drilling advanced exploration targets where substantial silver mineralisation has been discovered but not yet fully evaluated; and
- Testing exploration targets proximal to the current resource beneath surface geochemical and geophysical anomalies.

During the half-year the Group also conducted the following exploration activities:

- Surface geochemical surveys along structural trend both north and south of the Bowdens Silver Resource area identifying several anomalous zones for future exploration programs and drilling;
- Ground-based Induced Polarisation (IP) surveys covering the Bowdens Silver Resource area and zones immediately surrounding in all directions; and
- Further exploring the potential for high-grade mineralisation including zones containing gold and silver at depth below the resource area.

**DIRECTORS' REPORT**

A substantial amount of drilling has been completed within the Bowdens Silver Project including:

|              | Diamond Drilling (metres) | Reverse Circulation Drilling (metres) | Total (metres) |
|--------------|---------------------------|---------------------------------------|----------------|
| Previous     | 14,910                    | 53,750                                | 68,660         |
| Silver Mines | 13,252                    | 11,863                                | 25,115         |
| <b>Total</b> | <b>28,162</b>             | <b>65,613</b>                         | <b>93,775</b>  |

**Mineral Resources**

During the half-year, the Group provided an update on Mineral Resources for the Bowdens Silver Project. The Bowdens Mineral Resource Estimate has been completed by H&S Consultants using Multiple Indicator Kriging and the reporting is compliant with the 2012 JORC Code and Guidelines. Please refer to Tables 1 and 2, the accompanying notes and the ASX release of 19<sup>th</sup> September 2017 for further details.

**Table 1 – Bowdens Silver Deposit Mineral Resource Estimate as at September 2017**

| Category     | Tonnes (Mt) | Silver Eq. (g/t) | Silver (g/t) | Zinc (%)    | Lead (%)    | Million Ounces Silver | Million Ounces Silver Eq. |
|--------------|-------------|------------------|--------------|-------------|-------------|-----------------------|---------------------------|
| Measured     | 76          | 72               | 45           | 0.37        | 0.25        | 111                   | 175                       |
| Indicated    | 29          | 59               | 31           | 0.38        | 0.25        | 29                    | 55                        |
| Inferred     | 23          | 60               | 31           | 0.40        | 0.28        | 23                    | 45                        |
| <b>Total</b> | <b>128</b>  | <b>67</b>        | <b>40</b>    | <b>0.38</b> | <b>0.26</b> | <b>163</b>            | <b>275</b>                |

Notes:

1. Bowdens' silver equivalent:  $\text{Ag Eq (g/t)} = \text{Ag (g/t)} + 33.48 \cdot \text{Pb (\%)} + 49.61 \cdot \text{Zn (\%)}$  calculated from prices of US\$20/oz silver, US\$1.50/lb zinc, US\$1.00/lb lead and metallurgical recoveries of 85% silver, 82% zinc and 83% lead estimated from test work commissioned by Silver Mines Limited.
2. Bowdens Silver Mineral Resource Estimate is reported to a 30g/t Ag Eq cut-off and extends from surface and is trimmed to 300 metres RL which is approximately 320 metres below surface representing a potential volume for open-pit optimisation models.
3. In the Group's opinion, the silver, zinc and lead included in the metal equivalent calculations have a reasonable potential to be recovered and sold.
4. Variability of summation may occur due to rounding.

**DIRECTORS' REPORT****Table 2 – Bowdens Silver Deposit Mineral Resource Estimate by Cut Off Grade as at September 2017**

| Cut off g/t Ag Eq. | Tonnes (Mt)  | Silver Eq. (g/t) | Silver (g/t) | Zinc (%)    | Lead (%)    | Million Ounces Silver | Million Ounces Silver Eq. |
|--------------------|--------------|------------------|--------------|-------------|-------------|-----------------------|---------------------------|
| 0                  | 397.2        | 30.7             | 17.6         | 0.18        | 0.12        | 225                   | 392                       |
| 10                 | 261.7        | 43.7             | 25.2         | 0.26        | 0.17        | 212                   | 368                       |
| 20                 | 185.2        | 54.6             | 31.7         | 0.32        | 0.21        | 189                   | 325                       |
| <b>30</b>          | <b>127.9</b> | <b>66.8</b>      | <b>39.6</b>  | <b>0.38</b> | <b>0.26</b> | <b>163</b>            | <b>275</b>                |
| 40                 | 89.2         | 79.7             | 48.6         | 0.43        | 0.29        | 139                   | 229                       |
| 50                 | 63.6         | 92.8             | 58.4         | 0.47        | 0.33        | 119                   | 190                       |
| <b>60</b>          | <b>46.1</b>  | <b>106.3</b>     | <b>69.1</b>  | <b>0.51</b> | <b>0.36</b> | <b>102</b>            | <b>158</b>                |
| 70                 | 33.7         | 120.8            | 80.9         | 0.54        | 0.39        | 87                    | 131                       |
| <b>80</b>          | <b>25.1</b>  | <b>135.5</b>     | <b>93.4</b>  | <b>0.57</b> | <b>0.42</b> | <b>75</b>             | <b>109</b>                |
| 90                 | 19.2         | 149.9            | 105.6        | 0.59        | 0.45        | 65                    | 93                        |
| <b>100</b>         | <b>15.1</b>  | <b>163.7</b>     | <b>117.5</b> | <b>0.62</b> | <b>0.47</b> | <b>57</b>             | <b>80</b>                 |
| 120                | 9.6          | 192.3            | 141.4        | 0.67        | 0.53        | 44                    | 59                        |

Reported at a 30 g/t silver equivalent cut-off, the Bowdens Silver Mineral Resource extends from surface and is trimmed to approximately 320 metres below surface. It is the opinion of the Group and its resource consultants that this represents a potential volume for open-pit optimisation models. Table 2 demonstrates that the Bowdens Silver Deposit contains significant higher-grade portions within the resource estimate.

The Bowdens Silver Deposit remains open plunging to the northwest while at depth beneath the “Bundarra” lens (northwest quadrant of the resource). The resource remains open both along strike and down dip to the west.

The updated Mineral Resource Estimate will be used as the basis to establish an initial Ore Reserve for the Bowdens Silver Project. The initial Ore Reserve Estimates will focus on the higher cut-off grade portions of the Mineral Resource and will facilitate completion of the final elements for the currently progressing Feasibility Study which is due for completion in first half-year of calendar 2018.

**Planned Upcoming Exploration Activities**

Planning is underway to commence significant Bowdens Silver Project extensional and regional exploration programs including:

- Drill testing of high-grade silver extensions down plunge to the northwest of the Bowdens Silver Resource.
- Geophysical surveys including IP surveys across the tenement package including at the Barabola, Athlone and Coomber Prospects;
- Potential ground-based electromagnetic and gravity surveys over prospective areas;
- Surface geochemical sampling on prospective target areas; and
- Potential drill testing of regional target areas.

## **DIRECTORS' REPORT**

### **Government Commitment and Community Engagement**

Throughout the half-year, the Group continued an expansive program of consultation with State and Local Governments along with interested stakeholders and community and interest groups.

The Group's community consultation processes examine the potential impacts and benefits of exploration and development across the Bowdens Silver Project and focus on the current proposed mine development area and the surrounding areas in which the Group is commencing or proposing to commence exploration programs.

A new Community Consultative Committee was established, as part of the requirements of the Department of Planning and Environment.

### **Other Projects**

During the half-year, reconnaissance geological and geochemical work along with environmental work was completed at the Webbs and Conrad Projects in northern New South Wales. The program's aim was to identify potential extensions to known mineralisation as well as to hold landholder discussions at both project areas. The Company continues to assess exploration options and other options for these prospective projects.

Initial exploration at the Tuena Project which is located to the south of Orange, New South Wales is planned for early calendar 2018.

## **DIRECTORS' REPORT**

### **COMPETENT PERSONS STATEMENT**

The information in this report that relates to the Bowdens Silver drill hole intercepts and exploration in the Bowdens Silver area is based on information compiled by Scott Munro, an employee of Bowdens Silver and a member of the Australian Institute of Geoscientists (AIG) and Darren Holden, an employee of GeoSpy Pty Ltd and a member of the Australasian Institute of Mining and Metallurgy (MAusIMM). Mr Munro and Mr Holden have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that they are undertaking, to qualify as Competent Persons as defined in the 2012 edition of the 'Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves' (JORC code). Mr Munro and Mr Holden consent to the inclusion in this report of the matters based on this information in the form and context in which it appears.

The information in this report that relates to mineral resources is based on work compiled by Mr Arnold van der Heyden, who is a Director of H & S Consultants Pty Ltd. Mr van der Heyden is a member and Chartered Professional (Geology) of the Australian Institute of Mining and Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the activity being undertaken, to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC code). Mr van der Heyden consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

**DIRECTORS' REPORT****TENEMENT INFORMATION AS AT 31<sup>st</sup> DECEMBER 2017**

| <b>Tenement</b>      | <b>Project Name</b> | <b>Location</b> | <b>Silver Mines Ownership</b> |
|----------------------|---------------------|-----------------|-------------------------------|
| EL 5920              | Bowdens Silver      | NSW             | 100%                          |
| EL 6354              | Bowdens Silver      | NSW             | 100%                          |
| EL 8159              | Bowdens Silver      | NSW             | 100%                          |
| EL 8160              | Bowdens Silver      | NSW             | 100%                          |
| EL 8168              | Bowdens Silver      | NSW             | 100%                          |
| EL 8268              | Bowdens Silver      | NSW             | 100%                          |
| EL 7391 <sup>1</sup> | Bowdens Silver      | NSW             | 0%                            |
| EL 8403              | Bowdens Silver      | NSW             | 100%                          |
| EL 8405              | Bowdens Silver      | NSW             | 100%                          |
| EL 8480              | Bowdens Silver      | NSW             | 100%                          |
| ELA 5405             | Bowdens Silver      | NSW             | application                   |
| EL 8526              | Tuena               | NSW             | 100%                          |
| EL 5674              | Webbs               | NSW             | 100%                          |
| EPL1050              | Conrad              | NSW             | 100%                          |
| EL 5977              | Conrad              | NSW             | 100%                          |
| ML 6040              | Conrad              | NSW             | 100%                          |
| ML 6041              | Conrad              | NSW             | 100%                          |
| ML 5992              | Conrad              | NSW             | 100%                          |

1. Under Joint Venture with Thomson Resources Limited. Silver Mines Limited earning 80%.

## **DIRECTORS' REPORT**

### **CORPORATE**

In October 2017, Silver Mines successfully completed a placement to sophisticated investors raising A\$4.3 million (before costs) at \$0.08 per share, via the issue of 53,750,000 shares. This financing has been utilised for further exploration at the Bowdens Silver Project, in addition to advancing the Company's Feasibility Study and Environmental Impact Statement.

### **RESULTS AND DIVIDENDS**

For the half-year reporting period to 31 December 2017, the Group recorded a loss of \$1,133,967 (31 December 2016: loss \$1,776,910).

The Group incurred exploration and development expenditure of \$3,700,379 during the current half-year to 31 December 2017 (31 December 2016: \$3,814,720). The total net assets of the Group stands at \$55,092,297 (June 2017: \$52,190,340) of which investment in exploration expenditure accounts for \$44,829,131 (June 2017: \$41,128,752).

### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS DURING THE HALF-YEAR AND AFTER THE END OF THE REPORTING PERIOD**

The Group did not have any significant changes in the state of its affairs during the half-year. Since 31<sup>st</sup> December 2017, the Group has not had any significant events that have affected, or may significantly affect, the Group operations, the results of the Group or the Group's state of affairs in future financial years.

### **EVENTS SUBSEQUENT TO REPORTING DATE**

No matter or circumstance has arisen since the reporting date that has significantly affected, or may significantly affect, the consolidated entity's operations, the results of those operations or the consolidated entity's state of affairs in future financial years.

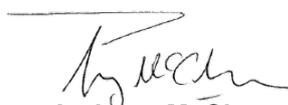
### **AUDITORS INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is enclosed and forms part of this half-year report.

**This report is made in accordance with a resolution of the Directors.**



**Keith Perrett**  
Chairman  
15th March 2018



**Anthony McClure**  
Managing Director

The Board of Directors  
Silver Mines Limited  
Level 11  
52 Phillips Street  
Sydney NSW 2000

Dear Board Members

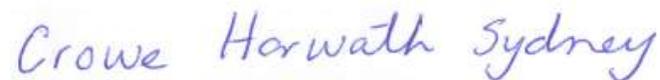
## Silver Mines Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of Silver Mines Limited.

As lead audit partner for the review of the consolidated financial statements of Silver Mines Limited for the period ended 31 December 2017, I declare that to the best of my knowledge and belief, that there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



**CROWE HORWATH SYDNEY**



**LEAH RUSSELL**  
Senior Partner

Dated this 15<sup>th</sup> day of March 2018

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

|                                                                                  | <b>31-Dec-17</b>   | <b>31-Dec-16</b>   |
|----------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                  | \$                 | \$                 |
| Revenue                                                                          | 64,380             | 26,079             |
| Cost of sales                                                                    | (20,739)           | (16,281)           |
| <b>Gross Profit from continuing operations</b>                                   | <b>43,641</b>      | <b>9,798</b>       |
| Other income                                                                     | 667                | -                  |
| Share registry and exchange fees                                                 | (59,360)           | (87,390)           |
| Auditors                                                                         | (12,111)           | (24,000)           |
| Marketing                                                                        | (47,256)           | (57,337)           |
| Office expenses                                                                  | (48,465)           | (55,514)           |
| IT and communication                                                             | (8,635)            | (18,483)           |
| Depreciation                                                                     | (115,987)          | (125,714)          |
| Accountancy                                                                      | (51,000)           | (25,500)           |
| Professional and technical advisors                                              | (294,945)          | (188,849)          |
| Employee benefits expenses                                                       | (380,260)          | (928,375)          |
| Travel and accommodation                                                         | (124,295)          | (91,936)           |
| Gain on sales of non-current assets                                              | -                  | 1,798              |
| Foreign exchange gains/(losses)                                                  | (83)               | -                  |
| Other expenses                                                                   | (49,276)           | (128,812)          |
| <b>Loss from continuing operations before interest and income tax</b>            | <b>(1,147,365)</b> | <b>(1,720,314)</b> |
| Interest income                                                                  | 17,239             | 42,022             |
| Finance costs                                                                    | (3,841)            | (98,618)           |
| <b>Loss from continuing operations before income tax</b>                         | <b>(1,133,967)</b> | <b>(1,776,910)</b> |
| Income tax                                                                       | -                  | -                  |
| <b>Loss from continuing operations after income tax</b>                          | <b>(1,133,967)</b> | <b>(1,776,910)</b> |
| Comprehensive income                                                             | -                  | -                  |
| <b>Total comprehensive income (loss) (attributable to owners of the company)</b> | <b>(1,133,967)</b> | <b>(1,776,910)</b> |
| <b>Earnings per share (cents per share)</b>                                      |                    |                    |
| Basic & diluted earnings per share                                               | (0.27)             | (0.51)             |

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

|                                      | Notes | 31-Dec-17         | 30-Jun-17         |
|--------------------------------------|-------|-------------------|-------------------|
|                                      |       | \$                | \$                |
| <b>Current assets</b>                |       |                   |                   |
| Cash and cash equivalent             | 2     | 1,540,238         | 3,641,237         |
| Receivables                          |       | 103,769           | 281,387           |
| Inventory - livestock                |       | 160,948           | 170,794           |
| <b>Total current assets</b>          |       | <b>1,804,955</b>  | <b>4,093,418</b>  |
| <b>Non-current assets</b>            |       |                   |                   |
| Financial assets                     |       | 61,000            | 50,000            |
| Deferred exploration and development | 3     | 44,829,131        | 41,128,752        |
| Intangible assets                    | 4     | 1,710,000         | 875,000           |
| Land and buildings                   | 5     | 7,670,966         | 7,718,031         |
| Property, plant and equipment        | 6     | 425,657           | 500,922           |
| <b>Total non-current assets</b>      |       | <b>54,696,754</b> | <b>50,272,705</b> |
| <b>Total assets</b>                  |       | <b>56,501,709</b> | <b>54,366,123</b> |
| <b>Current liabilities</b>           |       |                   |                   |
| Payables                             | 7     | 1,216,877         | 2,045,938         |
| Employee provisions                  |       | 192,534           | 129,845           |
| <b>Total current liabilities</b>     |       | <b>1,409,411</b>  | <b>2,175,783</b>  |
| <b>Total liabilities</b>             |       | <b>1,409,411</b>  | <b>2,175,783</b>  |
| <b>Net assets</b>                    |       | <b>55,092,298</b> | <b>52,190,340</b> |
| <b>Equity</b>                        |       |                   |                   |
| Contributed equity                   | 8     | 75,133,739        | 71,097,814        |
| Reserve                              |       | 4,000,000         | 4,000,000         |
| Accumulated losses                   |       | (24,041,441)      | (22,907,474)      |
| <b>Total Equity</b>                  |       | <b>55,092,298</b> | <b>52,190,340</b> |

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

|                                                                     | Notes | Ordinary<br>Shares<br>\$ | Share<br>capital<br>reserve<br>\$ | Accumulated<br>losses<br>\$ | Total<br>\$        |
|---------------------------------------------------------------------|-------|--------------------------|-----------------------------------|-----------------------------|--------------------|
| <b>Balance at 1 July 2016</b>                                       |       | <b>63,502,087</b>        | -                                 | <b>(20,628,567)</b>         | <b>42,873,520</b>  |
| <b>Correction of error</b>                                          | 1(g)  | -                        | 4,000,000                         | -                           | 4,000,000          |
| <b>Restated total equity at the beginning of the financial year</b> |       | <b>63,502,087</b>        | <b>4,000,000</b>                  | <b>(20,628,567)</b>         | <b>46,873,520</b>  |
| <b>Transactions with owners, in their capacity as owners</b>        |       |                          |                                   |                             |                    |
| Equity funds received, issue of shares                              |       | 5,316,936                | -                                 | -                           | 5,316,936          |
| Cost of funds raised                                                |       | (463,425)                | -                                 | -                           | (463,425)          |
| <b>Total transactions with owners, in their capacity as owners</b>  |       | <b>4,853,511</b>         | -                                 | -                           | <b>4,853,511</b>   |
| <b>Comprehensive income for period</b>                              |       |                          |                                   |                             |                    |
| Loss attributable to owners of the company                          |       | -                        | -                                 | (1,776,910)                 | (1,776,910)        |
| <b>Total comprehensive income for the period</b>                    |       | -                        | -                                 | <b>(1,776,910)</b>          | <b>(1,776,910)</b> |
| <b>Balance at 31 December 2016</b>                                  |       | <b>68,355,598</b>        | <b>4,000,000</b>                  | <b>(22,405,477)</b>         | <b>49,950,121</b>  |
| <b>Balance at 1 July 2017</b>                                       |       | <b>71,097,814</b>        | <b>4,000,000</b>                  | <b>(22,907,474)</b>         | <b>52,190,340</b>  |
| <b>Transactions with owners, in their capacity as owners</b>        |       |                          |                                   |                             |                    |
| Equity funds received, issue of shares                              |       | 4,300,600                | -                                 | -                           | 4,300,600          |
| Shares buy-back                                                     |       | -                        | -                                 | -                           | -                  |
| Costs of funds raised                                               |       | (264,675)                | -                                 | -                           | (264,675)          |
| <b>Total transactions with owners, in their capacity as owners</b>  |       | <b>4,035,925</b>         | -                                 | -                           | <b>4,035,925</b>   |
| <b>Comprehensive income for period</b>                              |       |                          |                                   |                             |                    |
| Loss attributable to owners of the company                          |       | -                        | -                                 | (1,133,967)                 | (1,133,967)        |
| <b>Total comprehensive income for the period</b>                    |       | -                        | -                                 | <b>(1,133,967)</b>          | <b>(1,133,967)</b> |
| <b>Balance at 31 December 2017</b>                                  | 8     | <b>75,133,739</b>        | <b>4,000,000</b>                  | <b>(24,041,441)</b>         | <b>55,092,298</b>  |

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

|                                                                 | Notes | 31-Dec-17<br>\$    | 31-Dec-16<br>\$    |
|-----------------------------------------------------------------|-------|--------------------|--------------------|
| <b>Cash flows from operating activities</b>                     |       |                    |                    |
| Receipts from customers                                         |       | 65,047             | 1,999,082          |
| Payments to suppliers & employees                               |       | (2,104,886)        | (1,097,330)        |
| Interest received                                               |       | 17,239             | 42,022             |
| Finance costs                                                   |       | (3,841)            | (98,618)           |
|                                                                 |       | <hr/>              | <hr/>              |
| Net cash outflows from operating activities                     |       | (2,026,441)        | 845,156            |
| <b>Cash flows from investing activities</b>                     |       |                    |                    |
| Proceeds from development bond                                  |       | -                  | 100,000            |
| Payments for deferred exploration                               |       | (3,541,554)        | (8,892,481)        |
| R&D Tax Benefit                                                 |       | 266,071            | -                  |
| Payment to acquire intangible                                   |       | (835,000)          | (775,000)          |
| Payment for property, plant and equipment                       |       | -                  | (364,232)          |
| Proceeds from sale of property, plant and equipment             |       | -                  | 2,273              |
|                                                                 |       | <hr/>              | <hr/>              |
| Net cash outflows from investing activities                     |       | (4,110,483)        | (9,929,440)        |
| <b>Cash flows from financing activities</b>                     |       |                    |                    |
| Proceeds from issues of shares                                  |       | 4,300,000          | 5,316,935          |
| Option conversion                                               |       | 600                | -                  |
| Payments for capital raising costs                              |       | (264,675)          | (463,424)          |
|                                                                 |       | <hr/>              | <hr/>              |
| Net cash inflows from financing activities                      |       | 4,035,925          | 4,853,511          |
| <b>Net (decrease)/increase in cash and cash equivalent</b>      |       |                    |                    |
|                                                                 |       | <b>(2,100,999)</b> | <b>(4,230,773)</b> |
| Cash and cash equivalent at the beginning of the financial year |       | 3,641,237          | 11,557,239         |
|                                                                 |       | <hr/>              | <hr/>              |
| <b>Cash and cash equivalent at the end of the half-year</b>     | 2     | <b>1,540,238</b>   | <b>7,326,466</b>   |

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

### **NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

#### **a. Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards AASB 134: Interim Financial Reporting and the requirements of Corporations Act 2001 as issued by the International Accounting Standards Board as applicable to a for-profit entity. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The interim financial report is intended to provide users with an update on the latest annual financial statements of Silver Mines Limited and its controlled entities. It is therefore recommended that this financial report to be read in conjunction with annual financial statements of the group for the year ended 30 June 2017, together with any public announcements made during the following half-year.

Except for the cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial statements are presented in Australian dollars which is the Group's functional currency.

#### **b. Going Concern**

The Directors believe that the going concern basis is appropriate for the preparation and presentation of the financial statements, notwithstanding continued operating losses, negative operating cash flows, and no ongoing revenue streams, as the directors believe that the Group will raise sufficient cash and liquid assets.

The Directors have prepared a forecast for the foreseeable future reflecting the abovementioned expectations and their effect on the Group. The forecast is conservative, and reflects current market prices, reduction in interest income, costs based on the progression of the Bowdens Silver Project and the further development of the Group's purchase of tenements along with exploration.

In the unlikely event that the above results in a negative outcome, then the going concern basis may not be appropriate with the result that the Group may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and in amounts different from those stated in the Financial Report. No allowance for such circumstances has been made in the Financial Report.

#### **c. Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Silver Mines Limited as at 31 December 2017 and the results of its subsidiaries for the period then ended. Silver Mines Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity' or 'the Group'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d. New Accounting Standards and Interpretations not yet mandatory or early adopted.**

The consolidated entity has adopted all of the new revised or amended Accounting Standards and Interpretations issued by the Australia Accounting Standards Board (AASB) that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

**e. Identification of reportable operating segments**

During the period, the consolidated entity was organised into one operating segment, being exploration operations. This operating segment is based on the internal reports that are reviewed and used by the directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM review operating expenses in relation to the exploration activities and the Group's cash position. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on at least a monthly basis. Information is presented on a consolidated cash flow basis. Cash flow funding is treated as one pool of liquid assets noting relevant terms of any maturity or exercise of any investments for the purpose of funding exploration. Types of products and services – the principal products and services of this operating segment are in exploration operations and mine development in Australia.

**f. Critical accounting estimates and significant judgments used in applying accounting policies**

The critical estimates and judgments are consistent with those applied and disclosed in the June 2017 annual report.

**g. Restated interpretation in accounting for asset acquisition**

In June 2016, the Company completed the acquisition of Silver Investment Holdings Australia Ltd (SIHA) and Bowdens Silver Pty Ltd. As part of the consideration for the purchase of SIHA, 40,000,000 ordinary shares in the capital of the Company are to be issued as a deferred consideration upon completion of project milestones. On review of the accounting treatment, the Company determined that the recognition of the deferred consideration should be amended by including \$4,000,000 into non-current assets, along with corresponding increase in the share capital reserve.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

### **NOTE 2: CASH AND CASH EQUIVALENTS**

|                          | <b>31-Dec-17</b> | <b>30-Jun-17</b> |
|--------------------------|------------------|------------------|
| <b>Current</b>           | <b>\$</b>        | <b>\$</b>        |
| Cash at bank and on hand | 1,540,238        | 3,641,237        |

### **NOTE 3: DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE**

|                                                           | <b>31-Dec-17</b>  | <b>30-Jun-17</b>  |
|-----------------------------------------------------------|-------------------|-------------------|
| <b>Non-current</b>                                        | <b>\$</b>         | <b>\$</b>         |
| Exploration expenditures                                  |                   |                   |
| Costs carried forward in respect of areas of interest in: |                   |                   |
| Exploration and evaluation phase                          |                   |                   |
| Opening balance                                           | 41,128,752        | 32,043,486        |
| Expenditure in the period                                 | 3,700,379         | 9,085,266         |
| <b>Closing balance</b>                                    | <b>44,829,131</b> | <b>41,128,752</b> |

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of an area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profits in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from where exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

Exploration and evaluation assets are tested for impairment each year. When the facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the carrying amount is written down to its likely recoverable amount.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

#### **NOTE 4: INTANGIBLE ASSETS**

|                    | <b>31-Dec-17</b> | <b>30-Jun-17</b> |
|--------------------|------------------|------------------|
|                    | <b>\$</b>        | <b>\$</b>        |
| <b>Non-current</b> |                  |                  |
| Opening balance    | 875,000          | -                |
| Additions          | 835,000          | 875,000          |
| Closing balance    | <u>1,710,000</u> | <u>875,000</u>   |

The Group has entered into a number of option agreements to purchase properties attaching to the tenements. As consideration for these agreements, the Group has paid total option fees of \$1,710,000. However, if the Group chooses not to exercise with the option agreements, the rights to purchase the land will be forfeited and the amounts paid will be written off through the Profit and Loss statement.

#### **NOTE 5: LAND AND BUILDINGS**

|                          | <b>31-Dec-17</b> | <b>30-Jun-17</b> |
|--------------------------|------------------|------------------|
|                          | <b>\$</b>        | <b>\$</b>        |
| <b>Non-current</b>       |                  |                  |
| Properties at cost       | 8,140,619        | 8,140,619        |
| Accumulated Depreciation | (469,653)        | (422,588)        |
|                          | <u>7,670,966</u> | <u>7,718,031</u> |

#### **NOTE 6: PROPERTY, PLANT AND EQUIPMENT**

|                                | <b>31-Dec-17</b> | <b>30-Jun-17</b> |
|--------------------------------|------------------|------------------|
|                                | <b>\$</b>        | <b>\$</b>        |
| Plant and equipment - at cost  | 1,169,038        | 661,067          |
| Assets acquired – non current  | -                | -                |
| Less: accumulated depreciation | (743,381)        | (160,145)        |
|                                | <u>425,657</u>   | <u>500,922</u>   |

#### **NOTE 7: PAYABLES**

|                              | <b>31-Dec-17</b> | <b>30-Jun-17</b> |
|------------------------------|------------------|------------------|
|                              | <b>\$</b>        | <b>\$</b>        |
| <b>Current</b>               |                  |                  |
| Trade creditors and accruals | <u>1,216,877</u> | <u>2,045,938</u> |

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

### **NOTE 8: CAPITAL AND RESERVES**

|                                                           | Half-year               |                             |                   | Half-year               |                             |                   |
|-----------------------------------------------------------|-------------------------|-----------------------------|-------------------|-------------------------|-----------------------------|-------------------|
|                                                           | Dec-17<br>Shares<br>No. | Dec-17<br>Issue price<br>\$ | Dec-17<br>\$      | Dec-16<br>Shares<br>No. | Dec-16<br>Issue price<br>\$ | Dec-16<br>\$      |
| <b>Opening balance</b>                                    | <b>390,298,856</b>      | -                           | <b>71,097,814</b> | <b>340,475,296</b>      | -                           | <b>63,502,087</b> |
| Issues of ordinary shares during the half-year less costs | 53,750,000              | 0.08                        | 4,035,325         | 32,223,856              | 0.165                       | 4,853,511         |
| Excise of options during the half-year                    | 2,000                   | 0.30                        | 600               |                         |                             |                   |
| <b>Closing balance</b>                                    | <b>444,050,856</b>      | -                           | <b>75,133,739</b> | <b>372,699,152</b>      |                             | <b>68,355,598</b> |

### **NOTE 9: RELATED PARTY TRANSACTIONS**

#### **(a) Directors**

The names and positions held of Group key personnel are:

| <b>Key Management Person</b> | <b>Position</b>        |
|------------------------------|------------------------|
| Keith Perrett                | Non-Executive Chairman |
| Anthony McClure              | Managing Director      |
| Peter Langworthy             | Non-Executive Director |
| Jonathan Battershill         | Non-Executive Director |
| Trent Franklin               | Company Secretary      |

#### **(b) Trading transactions**

During the half-year, the Group entered into the following trading transactions with related parties. The amounts below relating to trading transactions are including GST where applicable:

- (i) Enrizen Pty Ltd, (EPL) an entity associated with Trent Franklin, was paid \$16,885 (Dec 2016: \$1,705) in relation to insurance services to the Group. As at balance date the Group owed \$Nil (Dec 2016: Nil) to EPL.
- (ii) Enrizen Lawyers Pty Ltd, (EL) an entity associated with Trent Franklin, was paid \$2,250 (Dec 2016: \$2,550) in relation to legal services provided to the Group. As at balance date the Group owed nil to EL (Dec 2016: \$14,025).
- (iii) Enrizen Accounting Pty Ltd (EA), an entity associated with Trent Franklin, was paid \$51,000 (Dec 2016: \$17,000) in relation to company secretarial and accounting services provided to the Group. As at balance date the Group owed \$350 (Dec 2016: \$8,500) to EA.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**NOTE 10: COMMITMENTS**

|                                                                             | <b>31-Dec-17</b> | <b>30-Jun-17</b> |
|-----------------------------------------------------------------------------|------------------|------------------|
|                                                                             | <b>\$</b>        | <b>\$</b>        |
| <i>Capital commitments - option</i>                                         |                  |                  |
| Committed at the reporting date but not recognised as liabilities, payable: |                  |                  |
| Intangible assets                                                           | <u>2,600,000</u> | <u>3,465,000</u> |
| <i>Lease commitments - operating</i>                                        |                  |                  |
| Committed at the reporting date but not recognised as liabilities, payable: |                  |                  |
| Within one year                                                             | <u>10,213</u>    | <u>18,962</u>    |
| Tenement minimum spend for a year                                           | <u>4,483,000</u> | <u>4,395,000</u> |

Capital commitments include contracted amounts for options agreement for the right to purchase properties at the execution date. However, if the company chooses not to execute the agreements, the rights will be forfeited and the amount will be written off through the Profit and Loss statement.

Operating lease commitments include contracted amounts for motor vehicle operating leases expiring within one year.

To maintain the right to a tenement, the Group is committed to a minimum spend on the tenement in a 12 month period

**NOTE 11: EVENTS SUBSEQUENT TO REPORTING DATE**

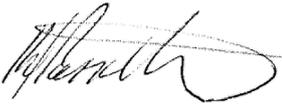
No matter or circumstance has arisen since the reporting date that has significantly affected or may significantly affect the consolidated entity's operations, the results of those operations or the consolidated entity's state of affairs in future financial years.

## **DIRECTORS' DECLARATION**

The directors declare that:

- 1 The financial statements and notes, as set out on pages 15 to 24 are in accordance with the Corporations Act 2001, the Corporations Regulations 2001 and other mandatory professional reporting requirement including:
  - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting; and
  - (b) giving a true and fair view of the financial position as at 31 December 2017 and of the performance for the half-year ended on that date.
- 2 In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



**Keith Perrett**  
Chairman

**15th March 2018**



**Anthony McClure**  
Managing Director

## Silver Mines Limited and its Controlled Entities

### Independent Auditor's Review Report to the Members of Silver Mines Limited

#### Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Silver Mines Limited (the Company), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year ended on that date, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

#### Directors' Responsibility for the Half-year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Silver Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Silver Mines Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

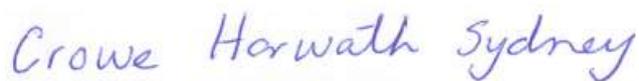
**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Silver Mines Limited is not in accordance with the *Corporations Act 2001* including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

**Emphasis of Matter Regarding Going Concern**

Without qualifying our opinion, we draw attention to Note 1 'Going Concern' in the financial report. As a result of the matters described in Note 1 there is material uncertainty whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

**CROWE HORWATH SYDNEY****LEAH RUSSELL**

Senior Partner

Dated this 15<sup>th</sup> day of March 2018