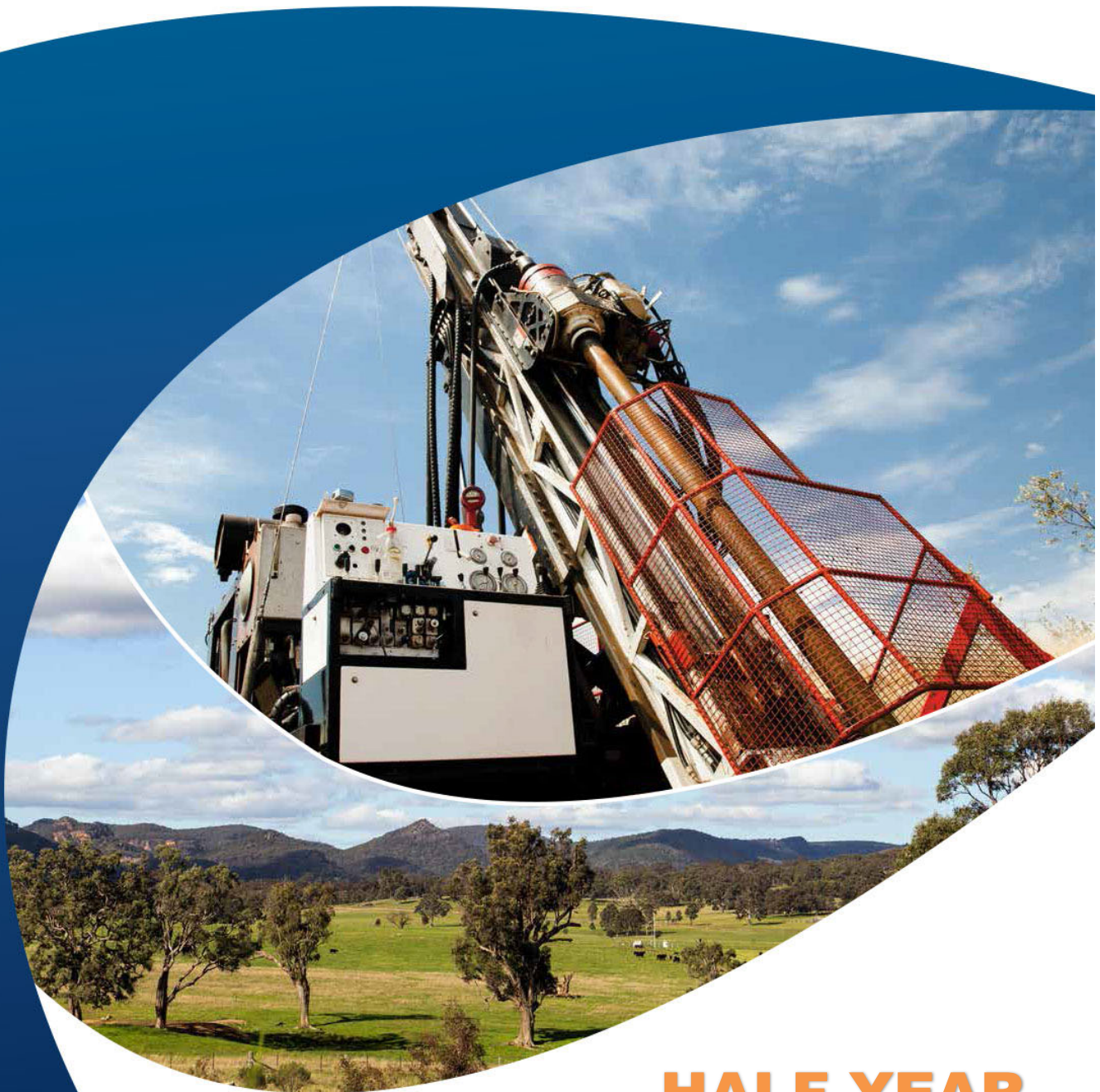




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HALF YEAR FINANCIAL REPORT

For the period ended 31 December 2019

CONTENTS

CORPORATE DIRECTORY 3

DIRECTOR REPORT 4

AUDITORS' INDEPENDENCE DECLARATION 22

INDEPENDENT AUDITORS' REVIEW REPORT 23

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 26

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 27

CONSOLIDATED STATEMENT OF CASH FLOWS 28

NOTES TO THE FINANCIAL STATEMENTS 29

DIRECTORS' DECLARATION 35

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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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52 Phillip Street
Sydney NSW 2000
Australia

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Share Registry

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Fax: +61 2 9262 2190

DIRECTORS' REPORT

The Directors present their report on Silver Mines Limited and its controlled entities for the half-year ended 31 December 2019.

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 2020 Financial Year has involved continuing to advance the Bowdens Silver Project, including progressing the Environmental Impact Statement. Exploration works continued at the Barabolar Project while detail exploration at the Tuena Project commenced. The Company and its wholly owned subsidiaries (together, 'the Group') also continued to maintain the Webbs and Conrad Projects.

HIGHLIGHTS FOR THE HALF YEAR

- Continued advancement of the Bowdens Silver Environmental Impact Statement.
- Continued exploration in the Company's exploration and drilling programs.
- Share placements raising approximately A\$12.75 million.

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);**
- **Barabolar Project (copper/gold);**
- **Tuena Project (gold/silver).**

- **Webbs Project (silver/polymetallic); and**
- **Conrad Projects (silver/polymetallic).**

DIRECTORS' REPORT

BOWDENS SILVER AND BARABOLAR PROJECTS

Introduction

The Bowdens Silver and Barabolar Project are located in central New South Wales, approximately 26 kilometres east of Mudgee. (See Figure 1). The project area comprises 2,007 km² (496,000 acres) of titles covering approximately 80 kilometres of strike in the highly mineralised Rylstone Volcanics.

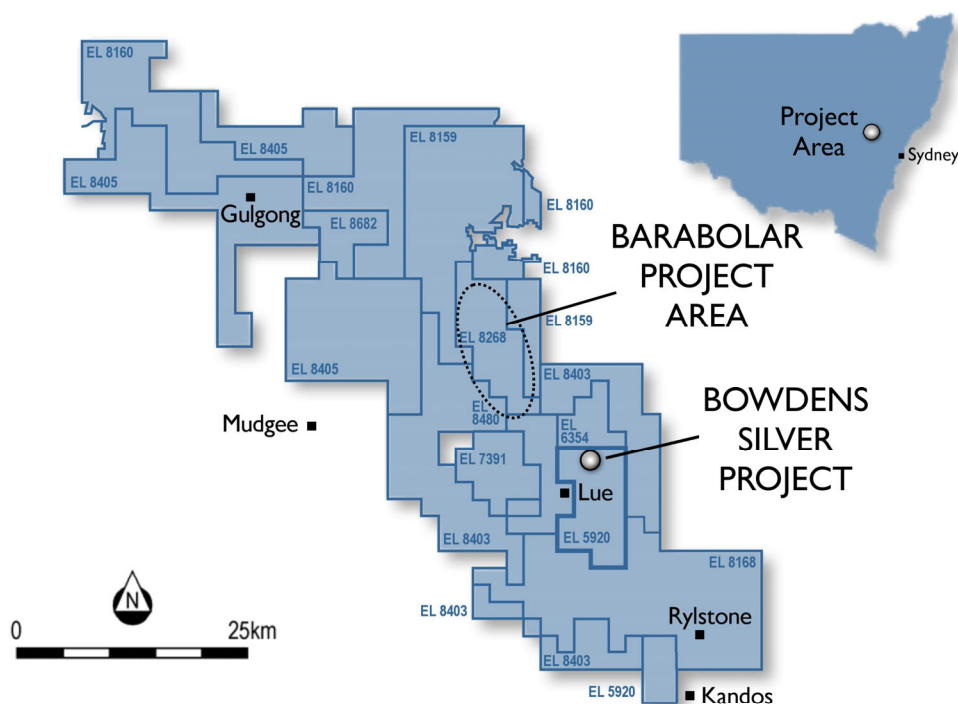


Figure 1. Bowdens Silver tenement holdings in the Mudgee district.

Description

The Bowdens Silver Project is the largest known 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, EL8480 and EL8682. In addition, the Group is earning 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.

DIRECTORS' REPORT

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.

Bowdens Silver Project

During the first half of the 2020 Financial Year, the Company continued with the finalisation of the Environmental Impact Statement ('EIS') for the proposed development of the Bowdens Silver Project.

Bowdens Silver comprises an open-cut mine feeding a new processing plant comprising a conventional milling circuit and differential flotation to produce two concentrates that will be sold for smelting off site. Plant capacity is designed for 2.0 million tonnes per annum with a project life of 17 years. Life of mine production is planned to be approximately 53 million ounces of silver, 116,000 tonnes of zinc and 83,000 tonnes of lead.

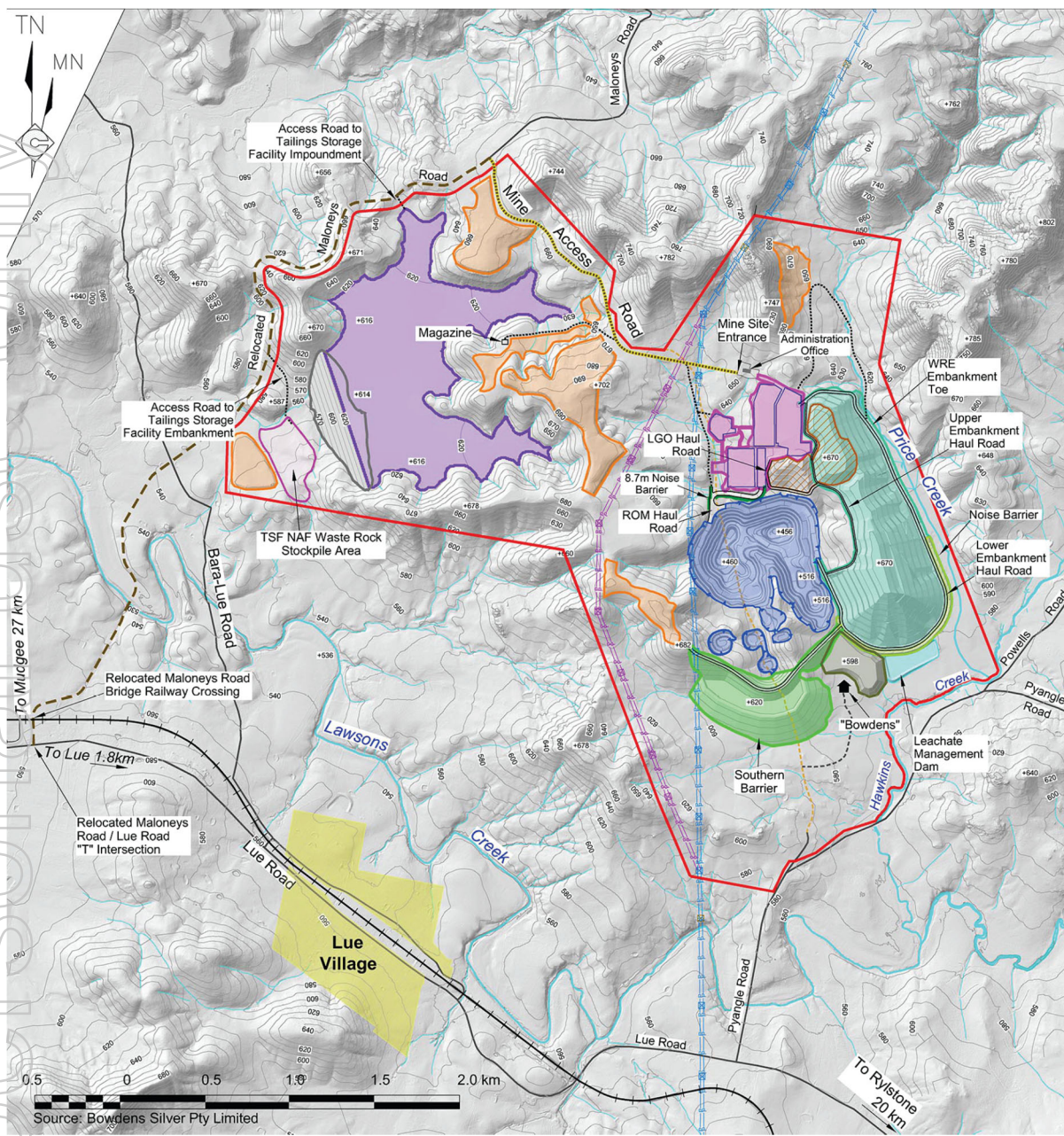
The Company is in the final stages of completing the EIS and expects to lodge to the NSW Department of Planning and Environment in the coming months. A Mining Lease application and a Development Application (DA) will be lodged in conjunction with the EIS.

During the previous half year, the Company reported results from preliminary key components of the EIS with positive outcomes (Refer to ASX release of 21st June 2019). In the release, Managing Director Anthony McClure, stated "Baseline environmental data capture at Bowdens has been ongoing for approximately eight years so we have a comprehensive dataset to draw from. Since acquiring the project in mid-2016, we have progressed with a methodical de-risking and we are delighted to announce that the preliminary key components of the EIS have been successfully determined with particularly favourable outcomes."

Government and Community Engagement

Silver Mines continues an extensive program of consultation with the relevant Government departments, local communities, and other interested stakeholders. The program examines the potential impacts and benefits of exploration and development across the substantial Bowdens Silver tenement portfolio. Consultation processes focus on the current potential mine development area and the wider area where the Company is commencing or undertaking exploration programs.

DIRECTORS' REPORT



- | | |
|--|--|
| <p>REFERENCE</p> <ul style="list-style-type: none"> — Mine Site Boundary — Contour (m AHD) (Interval = 10m) + Spot Height (m AHD) — Existing Watercourse / Drainage Line — Road — Closed Railway Line — Existing Power Line (500kV) / Tower — Maloneys Road (Section to be closed) <p>Note:
 LGO = Low-grade Ore
 NAF = Non-acid Forming
 ROM = Run of Mine
 TSF = Tailings Storage Facility
 WRE = Waste Rock Emplacement</p> | <p>Proposed Component</p> <ul style="list-style-type: none"> — Re-aligned Power Line (500kV) / Tower — Relocated Maloneys Road — Mine Access Road — Internal Road — Haul Road / Indicative Haul Road — Open Cut Pit — Tailings Storage Facility — Processing Plant/ROM Pad/Mining Facility Area — Soil Stockpile Area — Low-grade Ore Stockpile Area — TSF NAF Waste Rock Stockpile Area — Southern Barrier — Waste Rock Emplacement — Oxide Ore Stockpile — Lower Embankment Noise Barrier — Noise Barrier |
|--|--|

Figure 2. Bowdens Silver Preliminary Mine Site Layout.

DIRECTORS' REPORT

Bowdens Project Exploration

During the first half of the 2020 Financial Year a detailed ground-based gravity geophysical survey was completed over the Bowdens Silver regional project area. The purpose of the survey was to assist in establishing regional structural controls on mineralised trends and to search for possible mineralised heat-sources, such as buried intrusive (porphyry) centres. Modelling and interpretation has been completed with the existing body of high-quality technical work providing a number of compelling drill targets. The modelling process accounted for overlying Sydney basin cover that has hampered previous exploration efforts (refer to Figure 3).

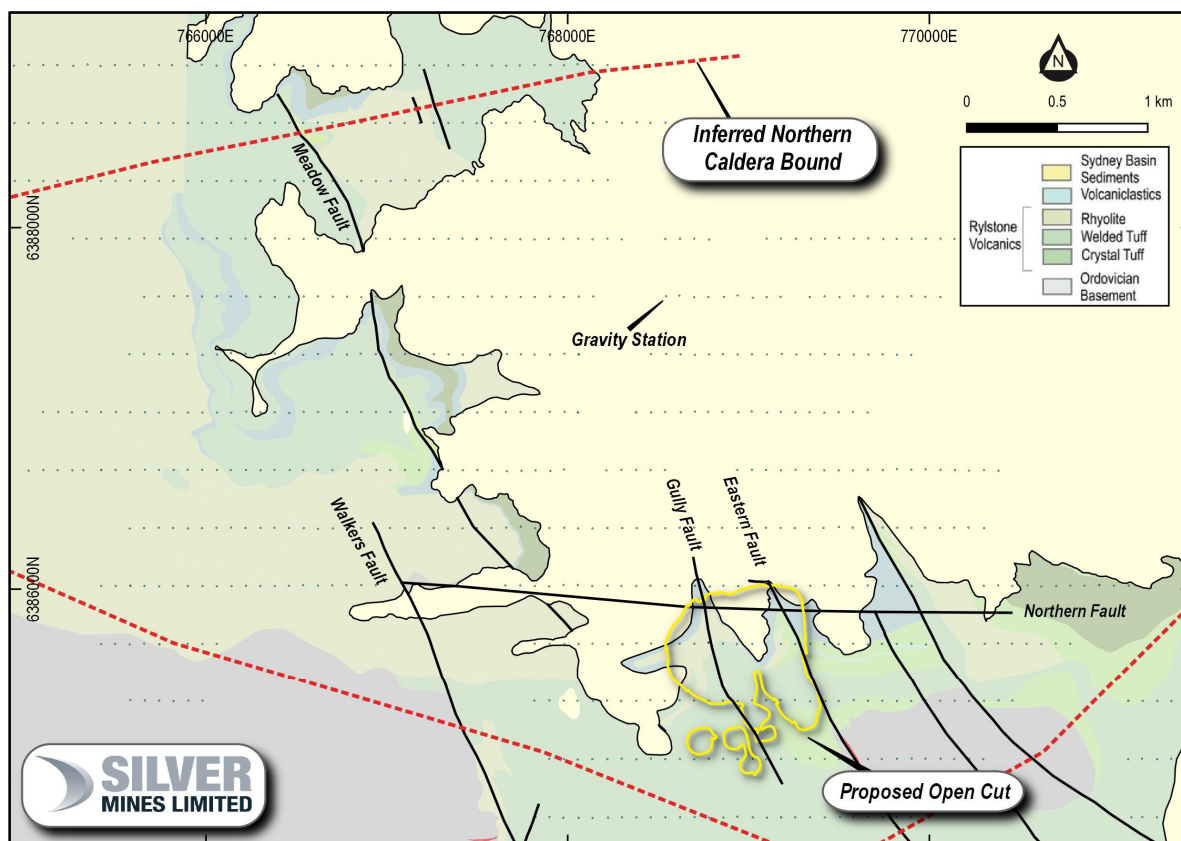


Figure 3. Geology of the Bowdens Silver Exploration Area.

The targets to be tested by upcoming drilling are both low and high gravity responses. The low responses are interpreted to be intrusive (porphyry or intrusion related gold/silver [IRG] targets); the high responses are interpreted to be potential analogues to the main Bowdens silver and base metal systems (refer to Figure 4).

DIRECTORS' REPORT

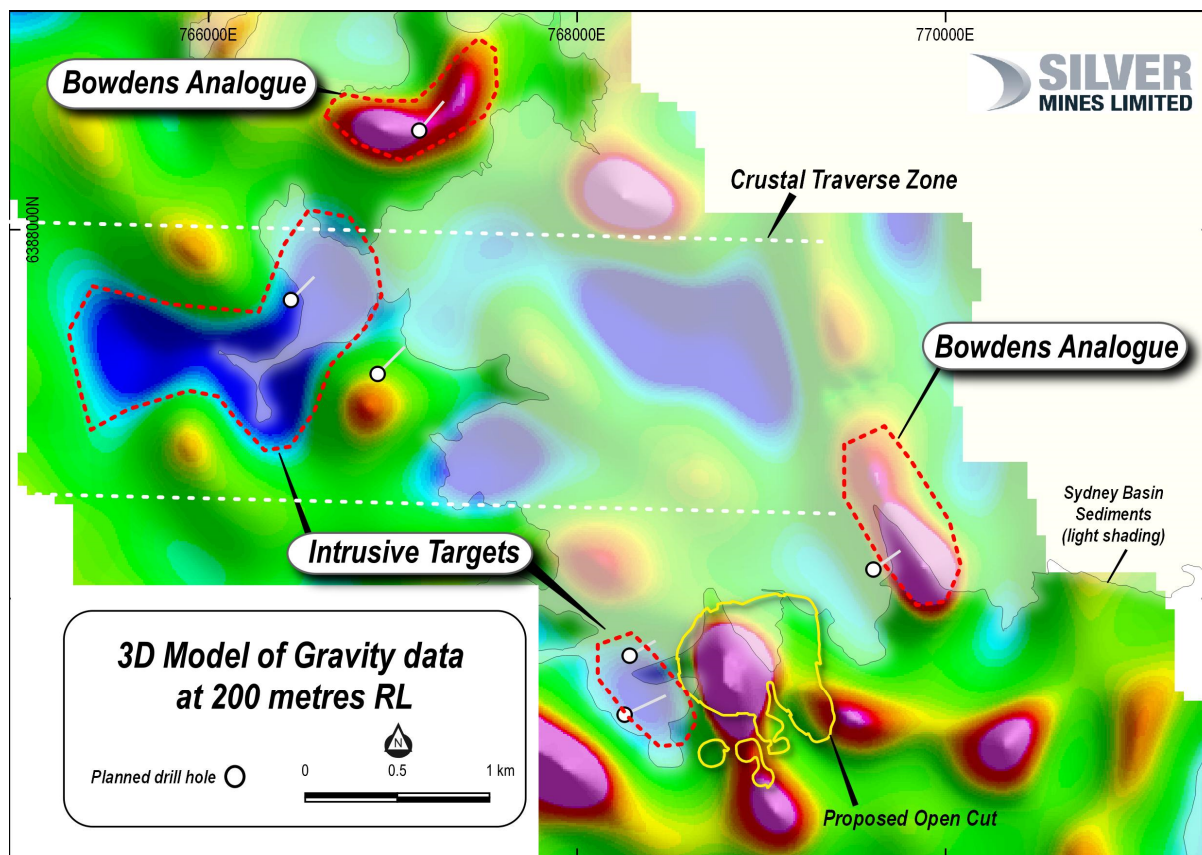


Figure 4. Slice through the 3D model of gravity data at 200 metres RL (~300 metres below surface) with priority targets and Permian cover sediments.

Interpretation of the gravity model suggests that the Rylstone Volcanics have formed above a crustal scale traverse fault zone. This crustal scale fault system is associated with the voluminous Rylstone volcanic units extruded from a Permian age central caldera or series of volcanic vents. The extensive gravity lows within this traverse zone are possible felsic intrusives with the potential to be a source to the mineralisation at the Bowdens Silver Deposit.

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DIRECTORS' REPORT

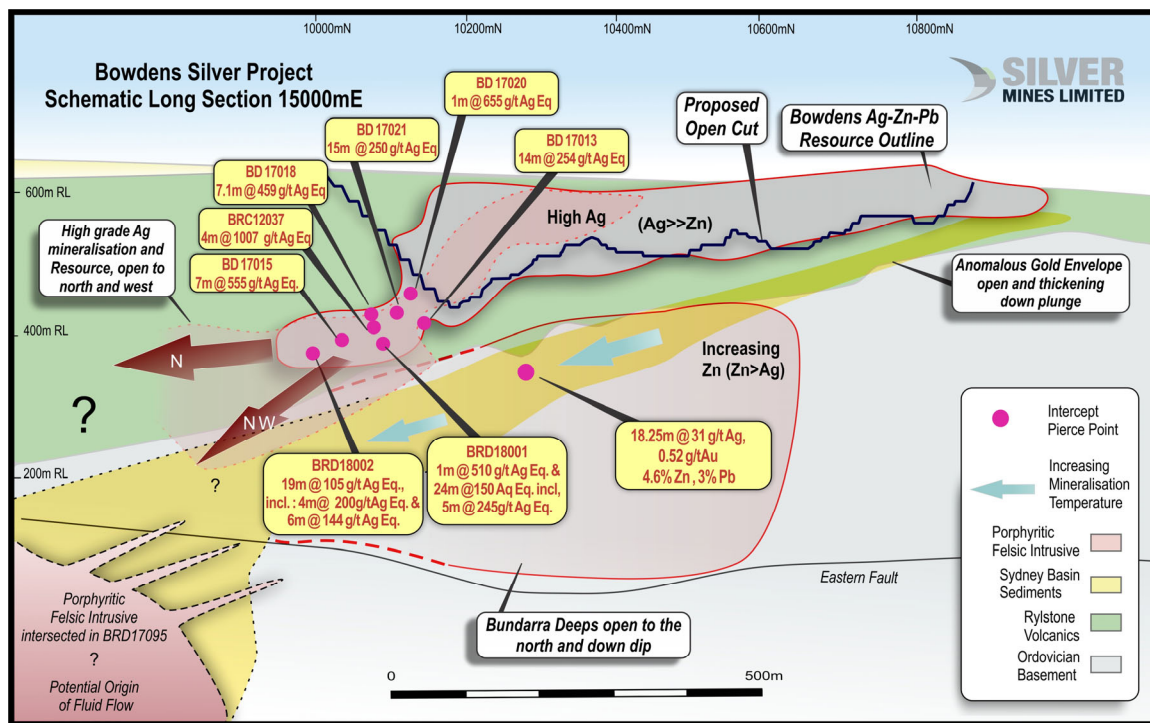


Figure 5. Schematic long-section Northwest Zone - a high-grade extension to Bowdens

In addition to the high-grade Northwest Zone, massive to semi-massive sulphide bodies have been intersected in the basement Ordovician rocks. The massive sulphide zone, known as the Bundarra Deeps, appear as flat lenses of mineralisation within the Ordovician stratigraphy that gently dip to the west. Both Bundarra Deeps and the Northwest Zone remain open to the west and present excellent high-grade drill targets (refer to Figure 5).

Drilling

The Company has planned for a diamond drilling program of up to 4,000 metres to test priority responses from the integration of the gravity data with the information determined from techniques developed under the Company's R&D programs. The drilling will test the gravity highs for analogues to the Bowdens Silver Deposit, as well as the gravity lows for porphyry and intrusive sources. Further to this, the extent of the high-grade Northwest zone will be tested >200 metres down dip from current drilling to the west.

Subsequent to the end of the first half of the 2020 Financial Year, the Company received final environmental approvals for the recommencement of exploration drilling activities at Bowdens with the drilling program commenced.

Exploration success in proximity to the Bowdens Silver Deposit may provide a positive advantage to the long-term success of the project.

Barabolar Project

During the first half of the 2020 Financial Year, the Company continued exploration activities at the Barabolar Project, which is located approximately 26 kilometres east of Mudgee in central New South Wales and 10 kilometres northwest of the Company's Bowdens Silver Project.

DIRECTORS' REPORT

Exploration work continued to expand at the Barabolar Project area with a regional soil sampling program completed to the west of the Mt Laut Pyrophyllite alteration zone, and west of the Cringle Prospect. This area has had limited previous exploration and is dominated by andesitic volcanics and volcanoclastics of Ordovician age. Multiple alluvial gold occurrences are situated within drainage channels sourced from the area including the historic Pipeclay and Budgee Budgee workings. The source of this gold is postulated to be related to the hydrothermal activity observed within the Project such as at the Mt Laut Pyrophyllite zone.

A broad project wide gravity survey was completed during the period to assist in defining structure throughout the region, especially the Mt Bara Thrust Fault, and to identify buried source intrusions. Data acquired from the gravity survey continues to be modelled and analysed along with results from the regional soils program.

The modelling and analysis is expected to be completed during the second half of the 2020 Financial Year along with the planning for an expanded and deep drilling program. This program will have the intention of targeting major porphyry related mineral systems at depth.

The rocks of the Barabolar Project area are Ordovician age (the same age as the giant Cadia-Ridgeway porphyry copper-gold project located near Orange, NSW) and include sedimentary and volcanic rocks, an extensive skarn (highly altered microdiorite), and several porphyritic intrusions (refer to Figure 6). The presence of pyrophyllite alteration along with areas of intensive silicification, and argillic alteration are indicative of high-sulphidation epithermal systems consistent with copper-gold porphyry targets and peripheral low-sulphidation epithermal targets.

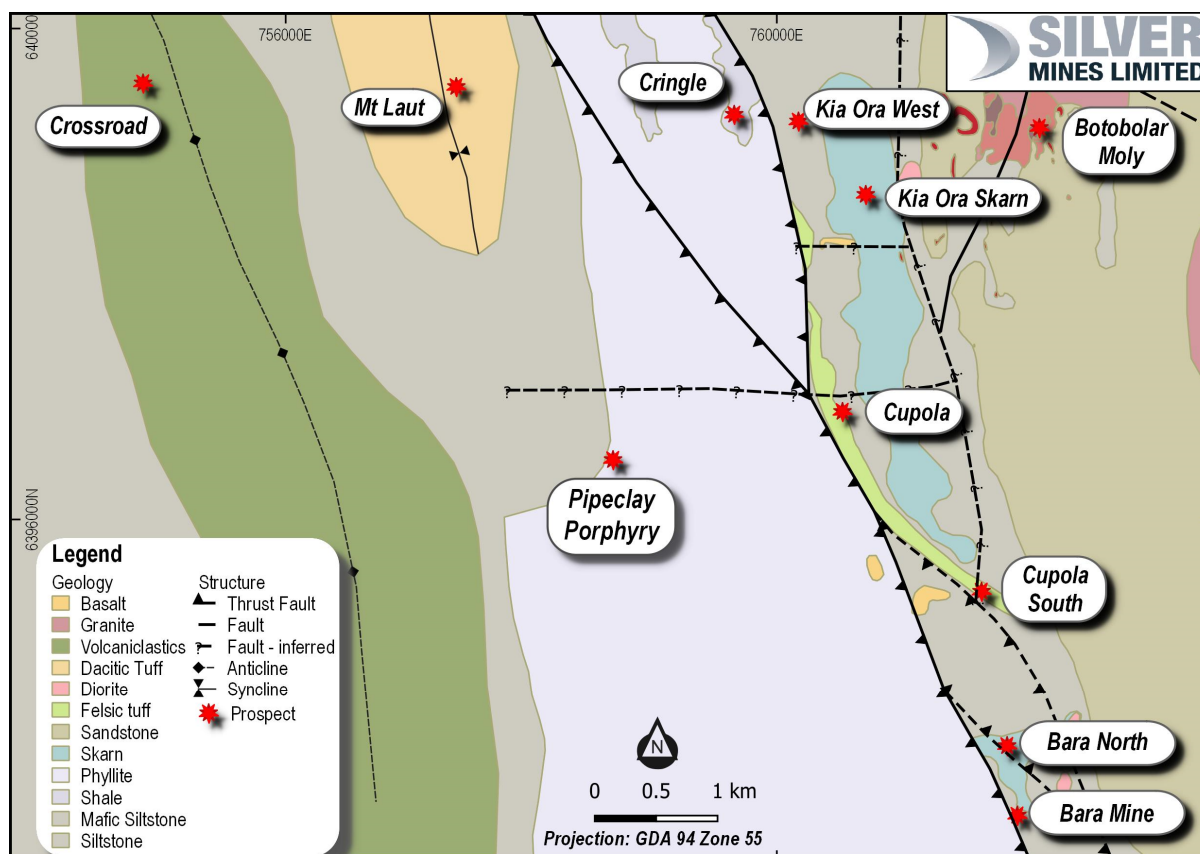


Figure 6. Barabolar Project geology with prospects

DIRECTORS' REPORT

Tuena Gold Project

During the first half of the 2020 Financial Year, the Company continued with geological reconnaissance work and completed an airborne magnetic and radiometric program at the highly prospective Tuena Gold Project (EL8526) located 80 kilometres south of the city of Orange in New South Wales (refer to Figure 7). The Project is a regional exploration project that consists of a single exploration license covering approximately 175 square kilometres.

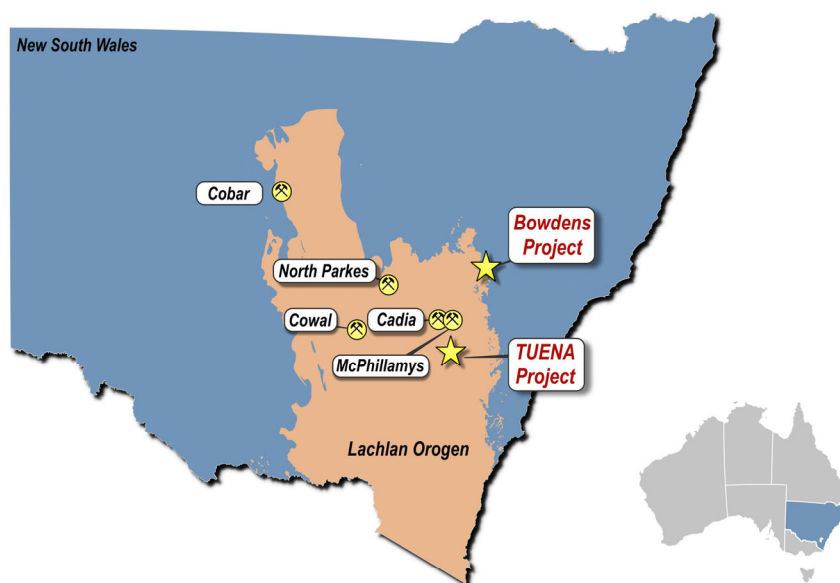


Figure 7. Tuena Project location

The Tuena Gold Project consists of an extensive series of historic hard-rock and alluvial gold mines which operated from the 1850s until the early 1900s. Mineralisation, as indicated by historic shafts and adits, can be mapped over several kilometres of strike. The Tuena Gold Project is situated at the southern end of the highly prospective Hill End Trough within volcanic and sedimentary rocks of Silurian and early Devonian age. Mineralisation occurs within splay/horsetail structures associated with an inflection in the Copperhania/Lake George Thrust Faults. This structure is the continuation of the major Godolphin Fault, which is closely associated with mineralisation at the multi-million ounce McPhillamys gold project located 60 kilometres to the north (refer to Figure 8). The Company is exploring for both orogenic gold and volcanogenic massive sulphide gold+base metal systems.

Work Program

During the first half of the 2020 Financial Year, the Company completed a second phase of soil sampling at Tuena. This program follows from an earlier reconnaissance soil sampling that revealed anomalism related to the known historic workings. The second phase consists of approximately showing gold anomalism >8ppb traced along several geological structures over a strike length of 5.4 kilometres within a corridor of mineralisation up to 1.5 kilometres wide. As well as extensive gold anomalism, arsenic anomalism also successfully maps the system and is an important pathfinder

DIRECTORS' REPORT

element. In addition to the soil sampling, Company geologists have also conducted a first pass reconnaissance mapping and rock sampling program.

Several individual prospects show extensive higher-tenor gold anomalism.

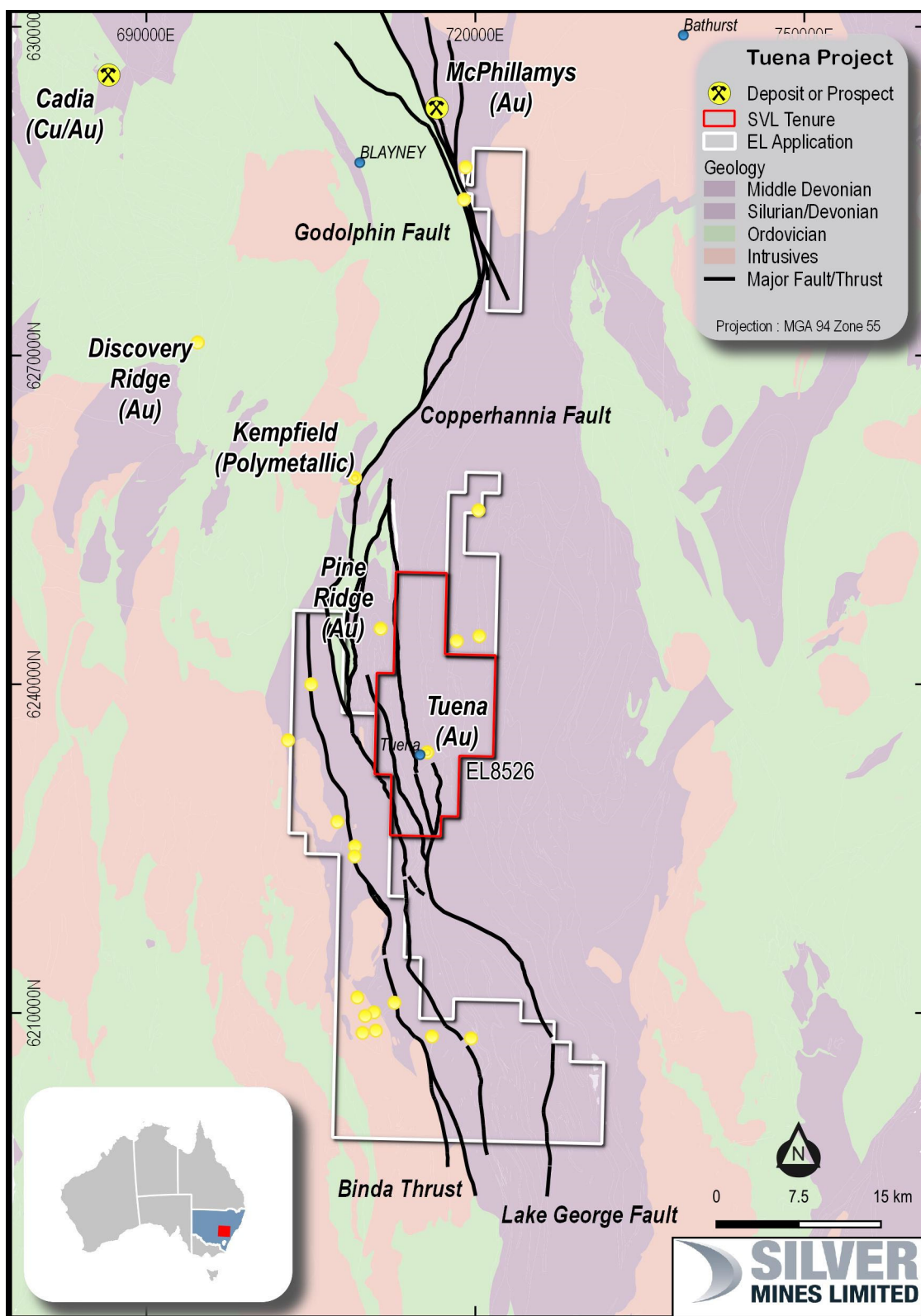
Also during the period, the Company completed an airborne magnetic and radiometric survey. This survey covered the entirety of EL8526 and will aid in the mapping of magnetite-hematite bodies which are proximal to mineralised shear zones and also provide confirmation of the controlling structures.

Initial interpretation of the airborne magnetic data has shown a clear structural and geological link between the historic gold workings of Lucky Hit and Golden Dyke in the south through to Cooper & McKenzie and Markhams Mine in the north. Geological mapping has shown the trend of magnetic response associated with the historic gold workings to be a result of highly metamorphosed mafic volcanics. The magnetic response clearly shows zones of thinning and thickening of the mafic volcanics from local structural controls and ironstone bodies associated with magnetite alteration. It is in these structurally complex/highly altered zones and traps around fold closures that have the greatest potential for hydrothermal fluid flow and to deposit gold mineralisation.

Following the completion of the modelling and analysis of the completed programs, the Company will plan the first round of exploration drilling on this project.

Due to the success of the work to date in the Tuena area the Company has expanded its interests with a further 634 square kilometres of exploration titles under application.

DIRECTORS' REPORT



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DIRECTORS' REPORT

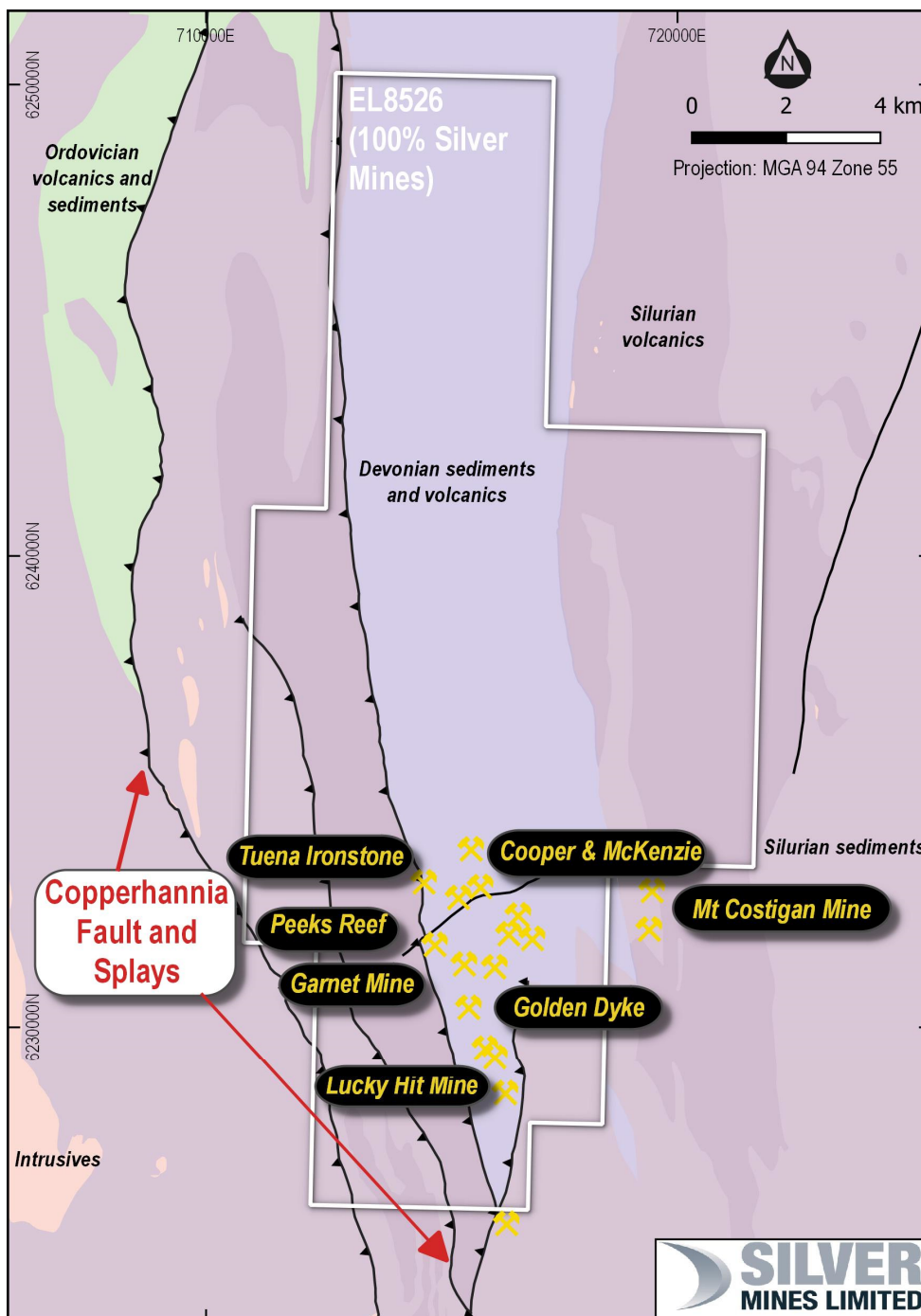


Figure 9. General geology and prospect map of EL8526 showing historic gold working locations.

Other Projects

During the first half of the 2020 Financial Year, the Company continued environmental remediation work at the Webbs and Conrad areas in New South Wales. The Company continues to assess exploration options and other options for these prospective projects.

DIRECTORS' REPORT

Research and Development Update

The Company has an active research and development ('R&D') program to better map and understand the Permian volcanics and basement Palaeozoic (Ordovician and Silurian) rocks of the Company's exploration licenses. The R&D programs have been led by the Company's geologists and external consultants. The R&D programs are on-going and have, over the past three years, involved collaboration with researchers from the University of Technology Sydney, the University of New South Wales and Macquarie University. Several industry consultants and data collection contractors have also assisted in analysing and providing base datasets for the R&D program.

The R&D project involves developing innovative new technologies and processes, which have been applied to geological studies on the Bowdens Silver Deposit and particularly the basement rocks and the search for a porphyry source. In addition, research has been applied to the Barabolar Project area and elsewhere in the Company's portfolio. The Company has developed and continues to develop new technologies for multivariate geochemical analysis; automated mapping of geology from geochemistry data; and predictive geochemistry modelling using machine learning techniques. These R&D programs have developed further hypotheses for mineralisation in areas such as basement rocks beneath the main volcanic host at the Bowdens Silver Deposit; Bowdens northern and north-westerly extensions; and several targets in the Barabolar Corridor including the Cringle prospect area. Much of the Company's exploration drilling is considered as a test of hypotheses developed under these R&D programs.

During the first half of the 2020 Financial Year, the development and application of the machine learning predictive geochemistry technology continued. The Company is now establishing programs to test its machine learning technologies on targeting outside of the Bowdens-Barabolar district to establish if such technologies are applicable to other geological domains. In particular, the Tuena Gold Project has a multi-element association of gold mineralisation along with complex structure, established through analysis of elevation and geophysical datasets. The main southern area of the Tuena Gold Project has gentle rolling hills and ready access, yet the balance of the project is in rugged terrain requiring further access to be established. As such, the Company is looking to modify its developed multivariate geochemical analysis; automated mapping of geology from geochemistry data; and predictive geochemistry modelling using machine learning techniques; to regional target generation within the district (inclusive of further areas currently under licence application).

DIRECTORS' REPORT

COMPETENT PERSONS STATEMENT

The information in this report that relates to mineral exploration from the Bowdens Silver, Barabolar and Tuena projects is based on information compiled by the Bowdens Silver team and reviewed by Mr Darren Holden who is an advisor to the Company. Mr Holden is a member of the Australasian 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 Holden consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

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DIRECTORS' REPORT**TENEMENT INFORMATION AS AT 31st DECEMBER 2019**

Tenement	Project Name	Location	Silver Mines Ownership
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 ¹	Bowdens Silver	NSW	0%
EL 8403	Bowdens Silver	NSW	100%
EL 8405	Bowdens Silver	NSW	100%
EL 8480	Bowdens Silver	NSW	100%
EL 8682	Bowdens Silver	NSW	100%
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

During the half-year, the Company conducted two placements to institutional, professional and sophisticated investors, with Patersons Securities Limited acting as Lead Manager.

The placement conducted in July 2019 was fully subscribed and conducted at an issue price of \$0.05 per share, with participants receiving one SVLOB option (\$0.06 exercise price, expiry 6 September 2021) for every two shares for which they subscribed ('July Placement'). The July Placement resulted in the issue of 55,000,000 fully paid ordinary shares and 27,500,000 options, raising \$2.75 million (before costs).

The placement carried out in September 2019 was conducted at an issue price of \$0.10 per share raising of \$10 million (before costs), via the issue of 100,000,000 fully paid, ordinary shares ('September Placement').

Funding raised under the July Placement and September Placement have and will continue to be applied towards funding exploration at the Bowdens Silver Project and Barabolar Project, other exploration activities, the completion of the Environmental Impact Statement for the Bowdens Silver Project, associated land acquisitions and for corporate and general working capital purposes. Following the capital raisings, the Company's subsidiary Bowdens Silver Pty Ltd settled on the purchase of a property in proximity to the Bowdens Silver Project and is associated to land requirements as part of future mining activities.

Throughout the half-year, the Company also made an offer of 8,500,000 options to eligible participants under its Employee Incentive Plan. The options were and are a new class of unquoted options with an exercise price of \$0.10 and an expiry date of 1 August 2021.

In total 11,523,398 SVLOB options (\$0.06 exercise price expiring 6 September 2021) were exercised during the half-year period.

RESULTS AND DIVIDENDS

For the half-year reporting period to 31 December 2019, the Group recorded a loss of \$882,942 (31 December 2018: loss \$929,203).

The Group incurred exploration and development expenditure of \$2,651,205 during the current half-year to 31 December 2019 (31 December 2018: \$1,360,203). The total net assets of the Group stands at \$73,074,726 (June 2019: \$61,102,466) of which investment in exploration expenditure accounts for \$53,982,846 (June 2019: \$53,331,641).

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 and after the end of the reporting period.

DIRECTORS' REPORT

EVENTS SUBSEQUENT TO REPORTING DATE

Purchase of Existing Bowdens Silver Royalty

Silver Mines received notice from Ochre Group Holdings Ltd ('Ochre Group') of a proposal to sell its historical 0.85% gross royalty over Bowdens and the wider project area to SilverStream SEZC ('SilverStream'). The proposed purchase consideration for the royalty is approximately A\$3.03 million at current USD/AUD exchange rates.

Under the terms of the royalty deed, Silver Mines had a Right of First Refusal ('ROFR') over any proposed transaction concerning the royalty. Pursuant to this right, the Company has elected not to exercise its ROFR, and has provided notice to Ochre Group that it may proceed with the SilverStream transaction.

Separately, Silver Mines entered into an agreement to purchase back a historical 1.0% gross revenue royalty over the Stage 1 production (first four years) from the Bowdens Silver Project, estimated to amount to the first 20 million ounces of silver produced (Royalty Buy-Back). The Royalty Buy-Back also includes revenue credits from zinc and lead production.

The Royalty Buy-Back from a private consortium was settled by way of the issue of 12,000,000 ordinary fully paid shares in the Company at an issue price of \$0.10 each, and 12,000,000 SVLOB options at an issue price of \$0.06 each, for a total consideration of approximately A\$1.9 million.

Deep Drilling Program at Bowdens Silver Project

A new diamond drilling campaign commenced at the Bowdens Silver Project, near the town of Mudgee in NSW, which has targeted analogues and potential intrusive sources of the Bowdens deposit after the Company received final environmental approvals for the recommencement of exploration drilling activities at Bowdens.

Local Orange-based drill service provider, Ophir Drilling, was contracted to complete six holes and up to 4000 metres of diamond core drilling.

Interpretation of the gravity model suggested that the Rylstone Volcanics have formed above a crustal scale traverse fault zone. This crustal scale fault system is associated with the voluminous Rylstone volcanic units extruded from a central caldera or series of volcanic vents. The extensive gravity lows within this traverse zone are possible felsic intrusives with the potential to be a source to the mineralisation at the Bowdens Silver Deposit.

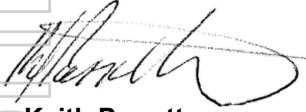
Initial results from the program are expected from the end of the March quarter 2020.

DIRECTORS' REPORT

AUDITORS INDEPENDENCE DECLARATION

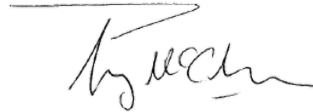
A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is enclosed and forms part of this half-year report.

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



**Keith Perrett
Chairman**

13 March 2020



**Anthony McClure
Managing Director**

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13 March 2020

The Board of Directors
Silver Mines Limited
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Australia

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Fax +61 2 9262 2190
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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 financial report of Silver Mines Limited and its controlled entities for the period ended 31 December 2019, 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 Sydney



Suwarti Asmono
Partner

The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

Findex (Aust) Pty Ltd, trading as Crowe Australasia is a member of Crowe Global, a Swiss Verein. Each member firm of Crowe Global is a separate and independent legal entity. Findex (Aust) Pty Ltd and its affiliates are not responsible or liable for any acts or omissions of Crowe Global or any other member of Crowe Global. Crowe Global does not render any professional services and does not have an ownership or partnership interest in Findex (Aust) Pty Ltd. Services are provided by Crowe Sydney, an affiliate of Findex (Aust) Pty Ltd. Liability limited by a scheme approved under Professional Standards Legislation.

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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 consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated 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.

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 a 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 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 Silver Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

Findex (Aust) Pty Ltd, trading as Crowe Australasia is a member of Crowe Global, a Swiss verein. Each member firm of Crowe Global is a separate and independent legal entity. Findex (Aust) Pty Ltd and its affiliates are not responsible or liable for any acts or omissions of Crowe Global or any other member of Crowe Global. Crowe Global does not render any professional services and does not have an ownership or partnership interest in Findex (Aust) Pty Ltd. Services are provided by Crowe Sydney, an affiliate of Findex (Aust) Pty Ltd. Liability limited by a scheme approved under Professional Standards Legislation.

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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 other 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*.

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:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 1(b) in the half-year financial report, which indicates that the Group will require further funding in the next twelve months from the date of this report to fund its planned exploration and development projects and operating costs. These conditions, along with other matters as set forth in Note 1(b), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect to this matter.

Crowe Sydney

Crowe Sydney



Suwarti Asmono
Partner

Dated at Sydney this 13th day of March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	31-Dec-19 \$	31-Dec-18 \$
Revenue	64,097	126,136
Cost of sales	(36,055)	(39,476)
Gross Profit from continuing operations	28,042	86,660
Other income	84,324	33,050
Share registry and exchange fees	(104,266)	(129,572)
Auditing fees	(17,953)	(18,004)
Marketing expenses	(70,734)	(58,941)
Office expenses	(15,484)	(74,933)
IT and communication expenses	(9,737)	(2,729)
Depreciation	(79,643)	(88,576)
Accountancy expenses	(42,500)	(52,000)
Professional and technical advisors expenses	(266,334)	(187,605)
Employee benefits expenses	(282,336)	(311,767)
Travel and accommodation expenses	(23,490)	(69,116)
Farm operations expenses	(32,904)	-
FV gain/loss on initial recognition of livestock	69,723	-
Foreign exchange gains/(losses)	-	(226)
Share based payment expenses	(73,818)	-
Other expenses	(50,951)	(61,399)
Loss from continuing operations before interest and income tax	(888,061)	(935,158)
Interest income	32,112	9,227
Finance costs	(26,993)	(3,272)
Loss from continuing operations before income tax	(882,942)	(929,203)
Income tax expense	-	-
Loss from continuing operations after income tax	(882,942)	(929,203)
Other comprehensive income	-	-
Total comprehensive income (loss) (attributable to owners of the company)	(882,942)	(929,203)
Earnings per share (cents per share)		
Basic & diluted earnings per share	(0.11)	(0.16)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	31-Dec-19 \$	30-Jun-19 \$
Current assets			
Cash and cash equivalent	2	7,333,186	633,820
Receivables		132,739	166,427
Inventory - livestock		227,156	184,440
Other assets		12,580	14,148
Total current assets		7,705,661	998,835
Non-current assets			
Financial assets		294,674	274,000
Deferred exploration and development	3	53,982,846	51,331,641
Intangible assets	4	350,000	1,740,000
Land and buildings	5	12,541,978	8,681,045
Property, plant and equipment	6	220,465	261,604
Total non-current assets		67,389,963	62,288,290
Total assets		75,095,624	63,287,125
Current liabilities			
Payables	7	791,890	967,173
Employee provisions		219,771	207,486
Loans and borrowings		1,009,237	1,010,000
Total current liabilities		2,020,898	2,184,659
Total liabilities		2,020,898	2,184,659
Net assets		73,074,726	61,102,466
Equity			
Contributed equity	8	96,574,797	83,867,293
Reserve	9	4,147,698	4,000,000
Accumulated losses		(27,647,769)	(26,764,827)
Total Equity		73,074,726	61,102,466

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 2019**

Notes	Ordinary Shares \$	Share capital reserve \$	Share based payment reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2018	77,764,760	4,000,000	-	(24,973,907)	56,790,853
Transactions with owners, in their capacity as owners					
Equity funds received, issue of shares	3,846,006	-	-	-	3,846,006
Shares buy-back	-	-	-	-	-
Cost of funds raised	(330,941)	-	-	-	(330,941)
Total transactions with owners, in their capacity as owners	3,515,065	-	-	-	3,515,065
Comprehensive income for period					
Loss attributable to owners of the company	-	-	-	(929,203)	(929,203)
Total comprehensive income for the period	-	-	-	(929,203)	(929,203)
Balance at 31 December 2018	81,279,825	4,000,000	-	(25,903,110)	59,376,715
Balance at 1 July 2019	83,867,293	4,000,000	-	(26,764,827)	61,102,466
Transactions with owners, in their capacity as owners					
Equity funds received, issue of shares	13,591,404	-	-	-	13,591,404
Options issued in the period	-	-	147,698	-	147,698
Costs of funds raised	(883,900)	-	-	-	(883,900)
Total transactions with owners, in their capacity as owners	12,707,504	-	147,698	-	12,855,202
Comprehensive income for period					
Loss attributable to owners of the company	-	-	-	(882,942)	(882,942)
Total comprehensive income for the period	-	-	-	(882,942)	(882,942)
Balance at 31 December 2019	96,574,797	4,000,000	147,698	(27,647,769)	73,074,726

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 2019

	Notes	31-Dec-19 \$	31-Dec-18 \$
Cash flows from operating activities			
Receipts from customers		148,056	135,904
Payments to suppliers & employees		(1,027,543)	(2,029,737)
Interest received		32,112	9,227
Finance costs		(25,424)	(3,272)
		<hr/>	<hr/>
Net cash outflows from operating activities		(872,799)	(1,887,878)
Cash flows from investing activities			
Payments for deferred exploration		(3,363,205)	(1,473,644)
R&D Tax Benefit		663,423	651,031
Payment to acquire intangible		(740,000)	(1,008,589)
Payment for property, plant and equipment		(1,769,437)	(35,000)
Proceeds from sale of property, plant and equipment		-	57,900
		<hr/>	<hr/>
Net cash outflows from investing activities		(5,209,219)	(1,808,302)
Cash flows from financing activities			
Proceeds from issues of shares		12,901,500	3,846,006
Option conversion		689,904	-
Payments for capital raising costs		(810,020)	(330,941)
		<hr/>	<hr/>
Net cash inflows from financing activities		12,781,384	3,515,065
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalent		6,699,368	(181,115)
Cash and cash equivalent at the beginning of the financial year		633,820	730,679
		<hr/>	<hr/>
Cash and cash equivalent at the end of the financial year	2	7,333,186	549,564
		<hr/>	<hr/>

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 2019

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 2019, 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 minimal 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 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 a capital raise is not completed, or for a sufficient quantum and 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 2019 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 2019**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

d. New, revised or amending Accounting Standards and Interpretations adopted

The following new, revised or amending Accounting Standard and Interpretations issued by the Australian Accounting Standards Board ('AASB') are mandatory for the current reporting period.

- AASB 16 Leases.

The standard does not apply to the Group.

Any new, revised or amending 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 2019 annual report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 2: CASH AND CASH EQUIVALENTS

	31-Dec-19	30-Jun-19
Current	\$	\$
Cash at bank and on hand	5,809,329	633,820
Redeemable preference shares	1,523,857	-
	<u>7,333,186</u>	<u>633,820</u>

NOTE 3: DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE

	31-Dec-19	30-Jun-19
Non-current	\$	\$
Exploration expenditures		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phase		
Opening balance	51,331,641	47,373,902
R&D tax benefit	(646,838)	(631,456)
Expenditure in the period	3,298,043	4,589,195
Closing balance	<u>53,982,846</u>	<u>51,331,641</u>

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 2019

NOTE 4: INTANGIBLE ASSETS

	31-Dec-19 \$	30-Jun-19 \$
Non-current		
Opening balance	1,740,000	1,770,000
Additions	740,000	1,118,589
Exercised	(2,130,000)	(1,148,589)
Closing balance	<u>350,000</u>	<u>1,740,000</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 \$740,000 (June 2019: \$1,008,589) during the period. On 7 November 2019, following the exercise of one of these option agreements, the Group converted an option to acquisition for \$2,130,000. At 31 December 2019, the Group had one remaining option agreement. If the Group chooses not to exercise this option, the rights to purchase the land will be forfeited and the amount will be written off through the Profit and Loss statement.

NOTE 5: LAND AND BUILDINGS

	31-Dec-19 \$	30-Jun-19 \$
Non-current		
Land and buildings	13,196,557	9,289,208
Accumulated Depreciation	(654,579)	(608,163)
	<u>12,541,978</u>	<u>8,681,045</u>

	Land \$	Buildings \$	Buildings improvements \$	Total \$
Consolidated				
Balance at 1 July 2018	7,181,532	224,336	219,145	7,625,013
Additions	1,148,589	-	-	1,148,589
Disposals	-	-	-	-
Depreciation expense	-	(6,750)	(85,807)	(92,557)
Balance at 30 June 2019 and 1 July 2019	8,330,121	217,586	133,338	8,681,045
Additions	3,498,249	409,100	-	3,907,349
Disposals	-	-	-	-
Depreciation expense	-	(3,393)	(43,023)	(46,716)
Balance at 31 December 2019	<u>11,828,370</u>	<u>623,293</u>	<u>90,315</u>	<u>12,541,978</u>

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	31-Dec-19 \$	30-Jun-19 \$
Plant and equipment - at cost	936,740	957,778
Less: accumulated depreciation	(716,275)	(696,174)
	<u>220,465</u>	<u>261,604</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 7: PAYABLES

	31-Dec-19 \$	30-Jun-19 \$
Current		
Trade creditors and accruals	791,890	967,173

NOTE 8: CAPITAL

	Half-year			Half-year		
	Dec-19 Shares No.	Dec-19 Issue price \$	Dec-19 \$	Dec-18 Shares No.	Dec-18 Issue price \$	Dec-18 \$
Opening balance	698,004,195		83,867,293	512,800,856		77,764,760
Issues of ordinary shares during the half-year less costs	58,000,000	0.05	2,720,651	128,200,214	0.03	3,515,065
Exercise of options during the half-year	100,000,000	0.1	9,295,449			
	11,523,398	0.06	691,404	-		-
Closing balance	867,527,593		96,574,797	641,001,070		81,279,825

NOTE 9: RESERVE

	31-Dec-19 \$	30-Jun-19 \$
Share capital reserve	4,000,000	4,000,000
Share based payment reserve	147,698	-
	<u>4,147,698</u>	<u>4,000,000</u>

NOTE 10: RELATED PARTY TRANSACTIONS

(a) Directors

The names and positions held of Group key personnel are:

Key Management Person	Position
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 Company entered into the following trading transactions with related parties of Trent Franklin, the Company Secretary, as follows: Enrizen Pty Ltd received \$76,404 (Dec 2018: \$2,000) in relation to insurance services; Enrizen Lawyers Pty Ltd received \$30,927 (Dec 2018: \$47,112) in relation to legal services; Enrizen Capital Pty Ltd received \$40,000 (Dec 2018: \$nil) in relation to capital raising services; and Enrizen Accounting Pty Ltd received \$51,000 (Dec 2018: \$52,000) in relation to company secretarial and accounting services; and the Company invested \$1,500,000 (Dec 2018: \$Nil) in Redeemable Preference Shares in Enable Investments Pty Ltd receiving a 6% p.a. rate of return. During the period, the Company earned \$23,857.02 which was reinvested.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 11: COMMITMENTS

	31-Dec-19	30-Jun-19
	\$	\$

Capital commitments- option

Committed at the reporting date but not recognised as liabilities, payable:

Intangible assets	<u>4,427,500</u>	<u>4,690,000</u>
Tenement minimum spend for a year	<u>3,088,376</u>	<u>3,164,500</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.

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

NOTE 12: EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to the end of the December 2019 quarter, Silver Mines has received notice from Ochre Group Holdings Ltd ('Ochre Group') of a proposal to sell its historical 0.85% gross royalty over Bowdens and the wider project area to SilverStream SEZC ('SilverStream'). The proposed purchase consideration for the royalty is approximately A\$3.03 million at current USD/AUD exchange rates.

Under the terms of the royalty deed, Silver Mines had a Right of First Refusal ('ROFR') over any proposed transaction concerning the royalty. Pursuant to this right, the Company has elected not to exercise its ROFR, and has provided notice to Ochre Group that it may proceed with the SilverStream transaction.

Separately, Silver Mines has entered into an agreement to purchase back a historical 1.0% gross revenue royalty over the Stage 1 production (first four years) from the Bowdens Silver Project, estimated to amount to the first 20 million ounces of silver produced (Royalty Buy-Back). The Royalty Buy-Back also includes revenue credits from zinc and lead production.

The Royalty Buy-Back from a private consortium will be settled by way of the issue of 12,000,000 ordinary fully paid shares in the Company at an issue price of \$0.10 each, and 12,000,000 SVLOB options at an issue price of \$0.06 each, for a total consideration of approximately A\$1.9 million.

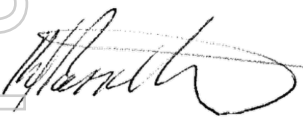
No other matter or circumstance has arisen since the reporting date that has significantly affected or may significantly affect the consolidated entity's operations, the results of those operations or the consolidated entity's state of affairs in future financial years.

DIRECTORS' DECLARATION

In the directors' opinion:

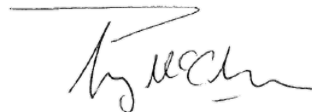
- 1 the financial statements and notes, as set out on pages 25 to 34 are in accordance with the Corporations Act 2001, the Corporations Regulations 2001 and other mandatory professional reporting requirements:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) give a true and fair view of the financial position as at 31 December 2019 and of the performance for the half-year ended on that date of the Group;
- 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

13 March 2020



Anthony McClure
Managing Director