

Silver Mines Limited  
ACN 107 452 942



# **HALF YEAR FINANCIAL REPORT**

*For the period ended 31 December 2016*

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## **Corporate Directory**

### **Directors**

Keith Perrett	Non-executive Chairman
Anthony McClure	Managing Director
Peter Langworthy	Non-executive Director

### **Company Secretary**

Trent Franklin

### **Australian Company Number**

107 452 942

### **Registered Office**

Level 11, 52 Phillip Street  
Sydney, NSW, 2000

Post	GPO Box 225, Sydney NSW 2001
Tel	+61 2 8316 3997
Fax	+61 2 8316 3999
E-mail	info@silvermines.com.au
Website	www.silvermines.com.au

### **Share Registry**

Boardroom Pty Limited  
Level 12, 225 George Street  
Tel : +61 2 9290 9600  
Fax : +61 2 9279 0664  
Email: enquiries@boardroomlimited.com.au

### **Auditors**

Crowe Horwath Sydney  
Level 15  
1 O'Connell Street  
Sydney NSW 2000  
Tel: +61 2 9262 2155  
Fax: +61 2 9262 2190

## **DIRECTORS' REPORT**

The Directors present their report on Silver Mines Limited and its controlled entities (**the Group**) for the half-year ended 31<sup>st</sup> December 2016.

### **DIRECTORS**

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

Keith Perrett (Non-Executive Chairman) *Appointed 20<sup>th</sup> June 2016*

Anthony McClure (Managing Director) *Appointed 20<sup>th</sup> June 2016*

Peter Langworthy (Non-Executive Director) *Appointed 20<sup>th</sup> June 2016*

Nathan Featherby (Executive Chairman) *Resigned 26<sup>th</sup> August 2016*

### **Principal Activities**

The principal activities of the Company during the financial period was finalising its 100% ownership of the Bowdens Silver Project located in New South Wales, Australia and advancing its exploration and future development activities. Resource and exploration drilling was commenced along with the commencement of the Definitive Feasibility Study and Environmental Impact Statement. The Company also maintained the 100% owned Webbs Silver Project and the Conrad Silver Project in New South Wales, Australia.

### **Highlights of the Half-Year**

- Completion of 100% ownership of the Bowdens Silver Project.
- Commencement of 35,000 metre drilling program.
- Commencement of Definitive Feasibility Study and Environmental Impact Statement works.
- 20,000 kilometre aerial geophysical program completed.
- Capital raising complete with A\$5 million raised at a price of A\$0.165 per share.

### **OPERATIONS REVIEW**

During the period from 1<sup>st</sup> July 2016 to 31<sup>st</sup> December 2016, the Company's primary focus was the recommencement of activities at its flagship Bowdens Silver Project (Bowdens Silver). The Company's main objective is to fast-track progression towards mine development. Since 1<sup>st</sup> July 2016, the Bowdens Silver team have conducted comprehensive work in line with this strategy, significantly advancing the development of the Definitive Feasibility Study and the Environmental Impact Statement.

During the half-year, the Company commenced a substantial drilling program at Bowdens Silver, in addition to conducting a high resolution airborne geophysical program.

### **Projects**

Throughout the half-year, the Group controlled the following projects 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**

The Bowdens Silver Project is located in central New South Wales, approximately 26 kilometres east of Mudgee (Figure 1). The recently consolidated project area comprises 1,654 km<sup>2</sup> (408,000 acres) of titles covering approximately 80 kilometres of strike of the highly mineralised Rylstone Volcanics. Multiple target styles and mineral occurrences have potential throughout the district including analogues to Bowdens Silver, high-grade silver-lead-zinc epithermal and volcanogenic massive sulphide (VMS) systems and copper-gold targets.

Bowdens Silver is the largest undeveloped silver deposit in Australia with substantial resources and a considerable body of high quality technical work already completed. The projects boast outstanding logistics for future mine development.

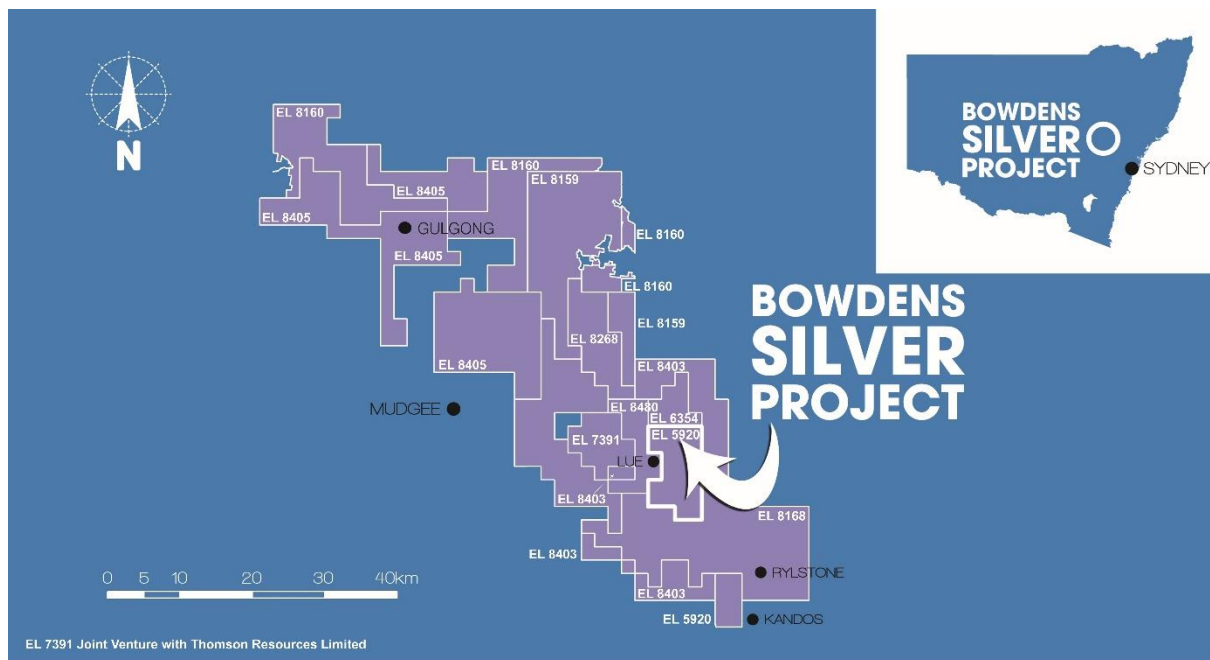


Figure 1. Bowdens Silver tenement holdings in the Mudgee district

### **Purchase of Bowdens Silver**

At the end of the previous half-year, Silver Mines Limited ("Silver Mines" or "the Company") completed the acquisition of the Bowdens Silver Project ("Bowdens Silver"). On 30<sup>th</sup> June 2016, the Company announced that it had entered into a Deed of Variation with Kingsgate Consolidated Limited (Kingsgate Consolidated) for the purchase of 100% of Bowdens Silver. A further amendment with regards to the final A\$5 million payment to Kingsgate Consolidated for the remaining 15% interest in Bowdens Silver was completed. A payment of A\$1 million was paid 30<sup>th</sup> September 2016 with the residual amount (plus 10% interest from 30<sup>th</sup> September 2016) paid prior to 31<sup>st</sup> December 2016, completing the Company's 100% ownership of Bowdens Silver.

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

It is the Company's priority to fast-track the Bowdens Silver Project to mine development. Part of the reassessment of the project and the Definitive Feasibility Study works is to examine a more capital cost-effective development with enhanced project economics.

The project has had a very substantial body of work completed covering all aspects of mine development. The components of the Definitive Feasibility Study are currently being re-evaluated and modified in conjunction with the Company's consultants including AMC Consultants and ATC Williams and other specialist consultants.

## **DIRECTORS' REPORT**

Initial pit optimisation and cost estimation work has been completed to pre-feasibility levels with initial work demonstrating robust project economics at current commodity prices.

Other works commenced include updated mineral resource modelling, mine planning and scheduling, and water and tailings management. Flowsheet development and process and plant design aspects of the Definitive Feasibility Study have commenced.

Environmental Impact Statement work to date by RW Corkery & Co has been comprehensive. Many elements requiring significant lead time are well advanced allowing the Company to expedite lodgement.

As part of the Environmental Impact Statement, Silver Mines will continue and expand upon all considerations with State and Local Government along with all stakeholders and community and interest groups.

The Company is targeting Definitive Feasibility Study completion and Environmental Impact Statement lodgement in the second half of calendar 2017.

### **Bowdens Silver Drilling**

A total of 15,000 metres of drilling has commenced with two diamond drill rigs operating on site. Initially, the program is planned to:

- increase silver resources both within and in the immediate vicinity of the current resource area;
- convert silver resources to higher levels of confidence as part of the Definitive Feasibility Study program; and
- further test high grade polymetallic mineralisation at depth below the current resource area.

Drilling during the half-year has recorded several high-grade silver intersections within a broad zone of silver mineralisation surpassing the Company's expectations in these areas of the deposit. These results will improve the existing resource model. The results from the zones intersected support the justification of further delineation of the extent of the high-grade core of silver mineralisation. These zones have the potential to considerably enhance the project economics currently being assessed in mine planning.

Furthermore, drilling has intersected mineralisation within the Ordovician basement sediments beneath the Rylstone Volcanics. These deeper intersections indicate the potential for feeder zones beneath the volcanics. Work is on-going to assess the significance of this deeper mineralisation.



## DIRECTORS' REPORT

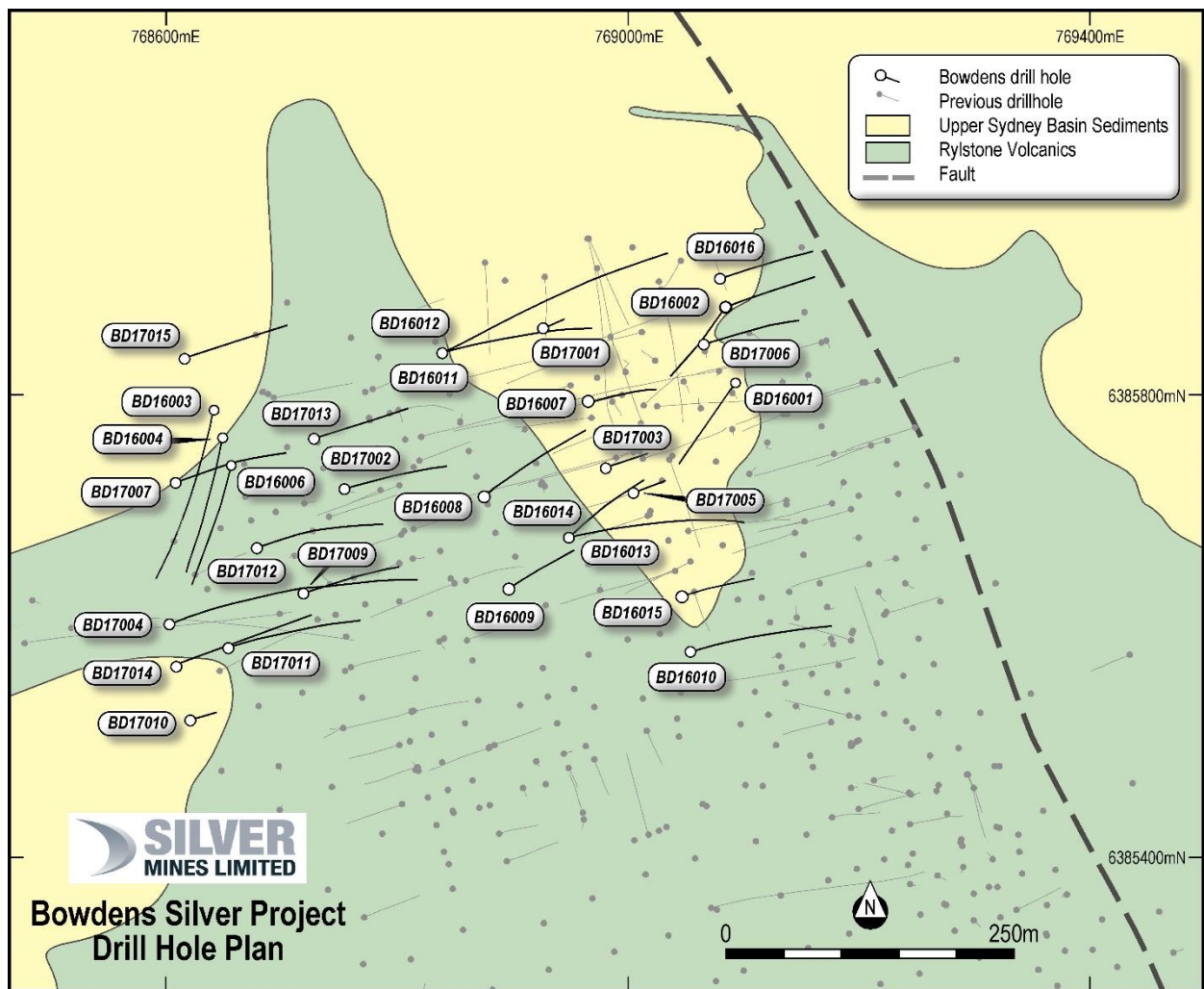


Figure 2. Bowdens Silver drill hole plan as at 10 March 2017

The current drill program involves infill drilling to convert inferred resources to measured and indicated resource categories as well as testing for potential extensions of the known mineralisation. The current program forms part of a larger diamond core and reverse circulation drilling program consisting of 178 holes for 38,000 metres.

The drill program follows approximately 63,000 metres of drilling that has been previously completed at Bowdens Silver with the current program providing tighter drill spacing along with testing of extensional targets. Included in the program is oriented diamond core drilling to provide structural geology information for targeting extensions of high-grade zones.

### **Gumarooka Intrusion**

During the half-year, the Company reported that it had completed a high resolution aerial geophysical survey covering over 20,000 line kilometres encompassing the entirety of the Bowdens Silver tenement area of 1,654 km<sup>2</sup>.

Preliminary interpretations of the new high resolution airborne magnetic and radiometric data has identified an elliptical body approximately 1,300 metres by 800 metres located immediately to the north-west of the Bowdens Silver epithermal deposit (Figure 3).

## DIRECTORS' REPORT

Apart from one drill hole of the northern margin, the magnetic body has not been previously drilled and is entirely covered by Shoalhaven Group sediments. Intrusions, such as the Gumarooka Intrusion, formed from hot-molten rock, are often the heat and metal sources for epithermal mineralisation such as that seen at Bowdens Silver.

In 2013, a drill hole (BD13147) on the northern margin of this magnetic body intersected an 89 metres zone (from 39.6 metres down hole) of a rock type interpreted, in hand-specimen, to be an andesite or trachy-andesite porphyry.

Based on modelling and observation from the drill core in BD13147, this rock is older than the overlying mid-Permian Shoalhaven Group sediments and younger than the early Permian Rylstone Volcanics making it approximately the same age as mineralisation at Bowdens Silver.

Geophysical modelling places the depth to the top of the main part of the intrusion at between 60 metres and 150 metres depth.

Given that this body is entirely covered by Shoalhaven sediments there is not any base metal or silver geochemistry soil anomaly associated with this body. However, previous soil geochemistry indicates that above the intrusion there is elevated manganese (>1000ppm Mn with up to 5000ppm Mn identified) which is often an indicator of mineralisation beneath. Furthermore, immediately south of Gumarooka is an undrilled silver-lead soil anomaly (>50ppm Pb) which may be the result of metal bleeding out from under the Shoalhaven Group sediments and the Gumarooka Intrusion to the north.

The entire Gumarooka Intrusion lies 100% within tenements held by Bowdens Silver (Exploration License EL 5920 along with all surface rights).

Detailed exploration is currently being scheduled for Gumarooka with drilling being planned to commence during the current half-year.

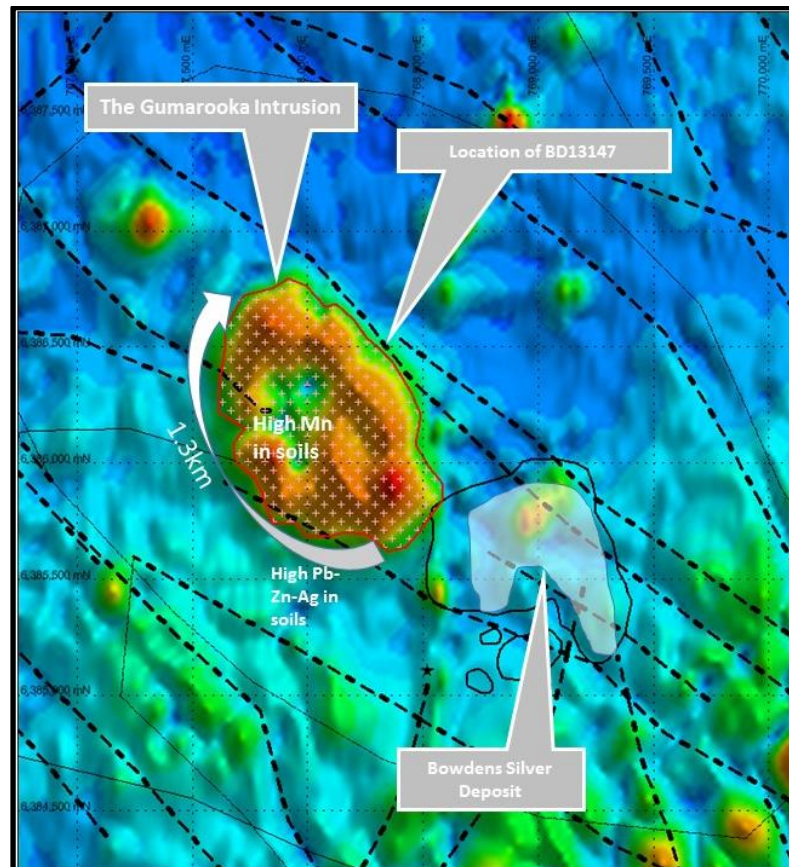


Figure 3. Magnetics image (analytical signal) of Bowdens area showing the Gumarooka intrusion. Black dashed lines are interpreted, from magnetics data to be faults. Grid = 500m



## DIRECTORS' REPORT

Outside of Gumarooka, several areas currently being assessed include;

**Gulgowra** - Located approximately four kilometres north-west and along strike from Bowdens Silver interpreted with alteration within Rylstone Volcanics coinciding with anomalous surface geochemistry.

**Bara Mine** - Historic mineral occurrences of sediment hosted copper-lead-silver-zinc deposits located approximately 10 kilometres north-west of Bowdens Silver. Interpretation highlights geological structures associated with a granitoid intrusion.

**Havilah** - Magnetic interpretation in this Joint Venture area located to the west of Bowdens Silver indicates historical mineral occurrences and substantial anomalous surface geochemistry coinciding with granitic dykes. There are several undrilled targets in this area.

The Company is continuing to further interpret these prospects and other areas within the aerial magnetic and radiometric data capture data, with the intention of mapping key geological units and generating new mineral deposit targets.

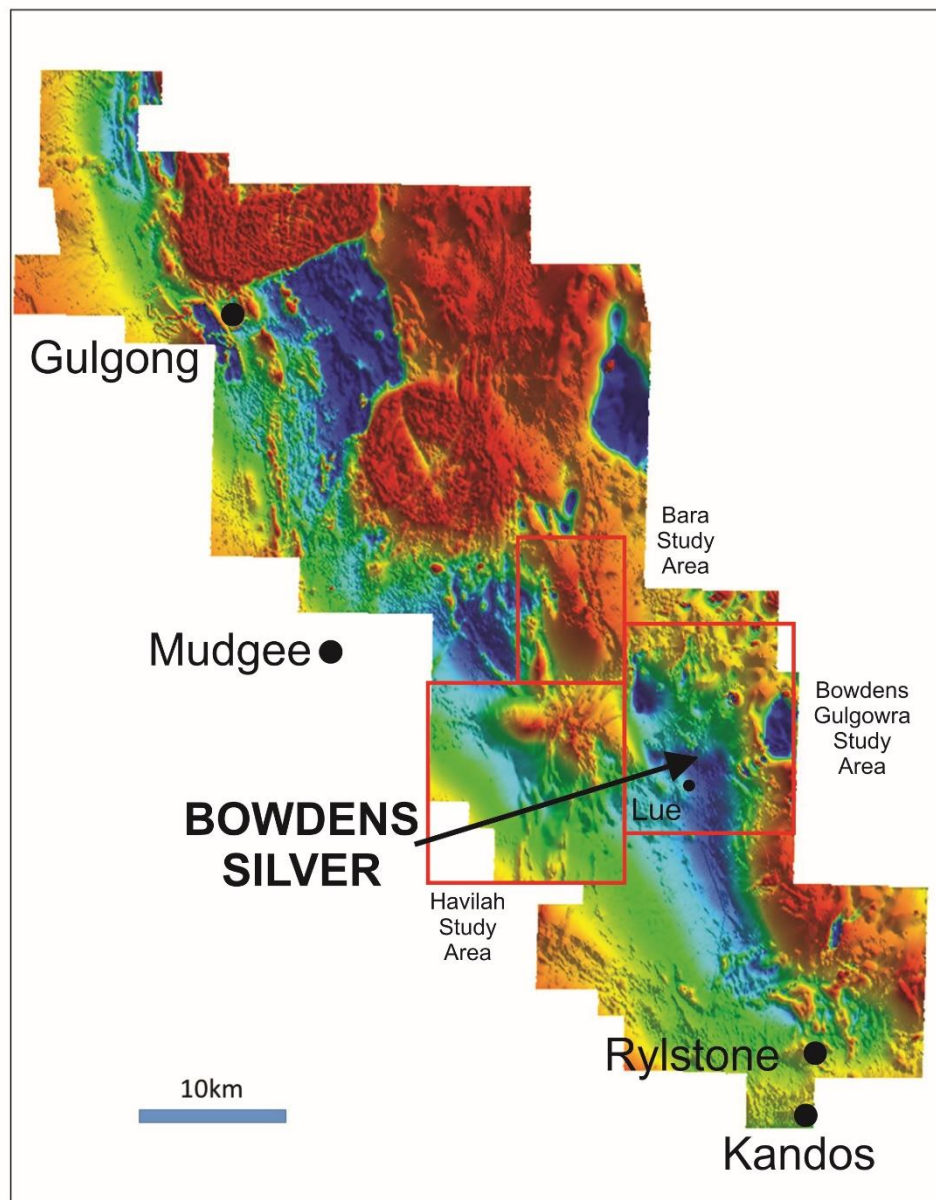


Figure 4. Full extent of new aerial magnetics data over Silver Mines Exploration License Portfolio in the Mudgee region

## **DIRECTORS' REPORT**

### **Farm-In and Joint Venture:**

During the half-year, the Company completed farm-in and joint venture documentation with Thomson Resources Limited regarding a farm-in to EL 7391. EL 7391 is contiguous to the Bowdens Silver Project, consolidating the acreage position of the Company.

Under the farm-in, the Company will acquire an 80% interests in EL 7391 through a \$300,000 expenditure program, in addition to completion 1000 metres of drilling prior to December 2018. The Company will be the manager of the program and Thomson Resources' interests will be free carried until the completion of a Feasibility Study.

### **Government and Community Engagement**

Silver Mines continues an expansive program of consultation with 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 also the wider area where the Company is commencing exploration programs.

### **Other Projects**

The Company did not undertake work on the Webbs Silver Project, Conrad Silver Project or the Tuena Project during the half-year. The Company intends to undertake a technical review program to assess the Company's options in respect of these projects.

## **CORPORATE ACTIVITIES**

### **Placement**

In December 2016, the Company conducting a placement to institutional, professional and sophisticated investors, raising A\$5 million placement (net of fees). Funds raised under this placement were used to complete the purchase of the remaining 15% of the Bowdens Silver Project, completing the Company's 100% ownership.

### **Appointment of Non-Executive Chairman and Resignation of Director**

In August 2016, the Company announced the appointment of Mr Keith Perrett as Non-Executive Chairman of Silver Mines. Mr Perrett had been a Non-executive Director of the Company since June 2016.

The above appointment followed the resignation of Mr Nathan Featherby, Executive Chairman.

### **Financial Results**

For the half-year reporting period to 31 December 2016, the Group recorded a loss of \$1,776,910 (31 December 2015: loss \$2,665,462).

The Group incurred exploration and development expenditure of \$3,814,720 during the current half-year to 31 December 2016 (31 December 2015: \$50,646). The total net assets of the Group stands at \$49,950,120 (June 2016: \$46,873,519) of which investment in exploration expenditure accounts for \$35,858,206 (June 2016: \$32,043,486).

## **DIRECTORS' REPORT**

### **Significant Changes in the State of Affairs**

There were no significant changes in the state of affairs of the Group during the half-year.

### **Subsequent Events**

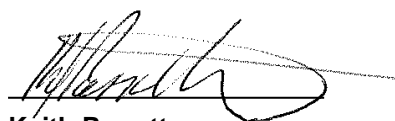
There are no matters or circumstances that have arisen since the end of the half-year which significantly affect, or may significantly affect, the operations, results or state of affairs of the economic entity that have not otherwise been disclosed elsewhere in this report, except as outlined below:

- Continued drilling at Bowdens Silver and further advancement of the Feasibility Study and development of the Environmental Impact Statement.
- Company commencing a Share Purchase Plan to raise up to A\$3 million.
- Company commencing a buy-back of share parcels valued at less than A\$500.

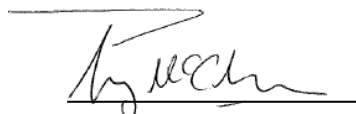
### **Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001***

The auditor's independence declaration is set out on page 12 for the half-year ended 31 December 2016.

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



**Keith Perrett**  
Non-executive Chairman



**Anthony McClure**  
Managing Director

15<sup>th</sup> March 2017

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 2016, 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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**AND OTHER COMPREHENSIVE INCOME**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	31-Dec-16 \$	31-Dec-15 \$
Revenue	26,079	-
Cost of sales	(16,281)	-
<b>Gross Profit from continuing operations</b>	<b>9,798</b>	<b>-</b>
Share registry and exchange fees	(87,390)	(58,118)
Auditors	(24,000)	(24,800)
Marketing	(57,337)	(160,683)
Office expenses	(55,514)	(110,188)
IT and communication	(18,483)	(7,340)
Depreciation	(125,714)	(8,949)
Accountancy	(25,500)	(103,592)
Professional and technical advisors	(188,849)	(1,433,754)
Employee benefits expenses	(928,375)	-
Travel and accommodation	(91,936)	(328,534)
Impairment of exploration assets	-	(50,646)
Impairment of investments	-	(100,000)
Gain on sales of non-current assets	1,798	-
Other expenses	(128,812)	(25,448)
<b>Loss from continuing operations before interest and income tax</b>	<b>(1,720,314)</b>	<b>(2,412,052)</b>
Interest income	42,022	4,779
Finance costs	(98,618)	(258,189)
<b>Loss from continuing operations before income tax</b>	<b>(1,776,910)</b>	<b>(2,665,462)</b>
Income tax	-	-
<b>Loss from continuing operations after income tax</b>	<b>(1,776,910)</b>	<b>(2,665,462)</b>
Comprehensive income	-	-
<b>Total comprehensive loss for the period</b>	<b>(1,776,910)</b>	<b>(2,665,462)</b>
<b>Total comprehensive income (loss) attributable to owners of the company</b>	<b>(1,776,910)</b>	<b>(2,665,462)</b>
<b>Earnings per share (cents per share)</b>		
Basic earnings per share	(0.51)	(0.0885)
Diluted earnings per share	(0.51)	(0.0885)

The accompanying notes form part of these financial statements.



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016**

	Note	31-Dec-16	30-Jun-16 *Restated
		\$	\$
<b>Current assets</b>			
Cash and cash equivalent	2	7,326,466	11,557,239
Receivables	3	510,783	2,472,002
Inventory - livestock		103,200	117,550
<b>Total current assets</b>		<b>7,940,449</b>	<b>14,146,791</b>
<b>Non-current assets</b>			
Financial assets		50,000	150,000
Deferred exploration and development	4	35,858,206	32,043,486
Intangible assets	5	775,000	-
Land and buildings	6	7,764,653	7,805,381
Property, plant and equipment		459,667	180,896
<b>Total non-current assets</b>		<b>44,907,526</b>	<b>40,179,763</b>
<b>Total assets</b>		<b>52,847,975</b>	<b>54,326,554</b>
<b>Current liabilities</b>			
Payables		2,834,655	7,406,458
Employee provisions		63,200	46,577
<b>Total current liabilities</b>		<b>2,897,855</b>	<b>7,453,035</b>
<b>Total liabilities</b>		<b>2,897,855</b>	<b>7,453,035</b>
<b>Net assets</b>		<b>49,950,120</b>	<b>46,873,519</b>
<b>Equity</b>			
Contributed equity	7	68,355,598	63,502,086
Reserve		4,000,000	4,000,000
Accumulated losses		(22,405,478)	(20,628,567)
<b>Total Equity</b>		<b>49,950,120</b>	<b>46,873,519</b>

\*Refer to note 1g for details regarding the restatement as a result of an error.

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	Note	Ordinary Shares \$	Share capital reserve \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2015</b>		<b>19,884,707</b>	<b>-</b>	<b>(15,150,084)</b>	<b>4,734,623</b>
<b>Transactions with owners, in their capacity as owners</b>					
Share-based payments during the year		430,000	-	-	430,000
Rights issue and placement of shares		3,588,983	-	-	3,588,983
Equity funds received, issue of shares pending as at half-year		562,475	-	-	562,475
Cost of funds raised		(58,177)			(58,177)
Total transactions with owners, in their capacity as owners		4,523,281	-	-	4,523,281
<b>Comprehensive income for period</b>					
Loss attributable to owners of the company		-	-	(2,665,462)	(2,665,462)
Total comprehensive income for the period		-	-	(2,665,462)	(2,665,462)
<b>Balance at 31 December 2015</b>		<b>24,407,988</b>	<b>-</b>	<b>(17,815,546)</b>	<b>6,592,442</b>
<b>Balance at 1 July 2016</b>		<b>63,502,087</b>	<b>-</b>	<b>(20,628,567)</b>	<b>42,873,520</b>
Correction of error		-	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
Costs of funds raised		(463,426)	-	-	(463,426)
Total transactions with owners, in their capacity as owners		4,853,511	-	-	4,853,511
<b>Comprehensive income for period</b>					
Loss attributable to owners of the company		-	-	(1,776,910)	(1,776,910)
Total comprehensive income for the period		-	-	(1,776,910)	(1,776,910)
<b>Balance at 31 December 2016</b>	<b>7</b>	<b>68,355,598</b>	<b>4,000,000</b>	<b>(22,405,477)</b>	<b>49,950,121</b>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	Note	31-Dec-16 \$	31-Dec-15 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		1,999,082	-
Payments to suppliers & employees		(1,097,330)	(2,669,370)
Interest received		42,022	4,779
Finance costs		(98,618)	-
		<hr/>	<hr/>
Net cash outflows from operating activities		845,156	(2,664,591)
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Proceeds from development bond		100,000	10,000
Repayment of loan		-	(289,300)
Payments for deferred exploration		(8,892,481)	(450,000)
Payment to acquire financial asset		(775,000)	(200,000)
Purchase of property, plant and equipment		(364,232)	-
Proceeds from sale of PPE		2,273	-
Loan for acquisition of exploration project		-	(300,000)
		<hr/>	<hr/>
Net cash outflows from investing activities		(9,929,440)	(1,229,300)
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Proceeds from issues of equity		5,316,935	4,523,281
Payments for capital raising costs		(463,424)	-
		<hr/>	<hr/>
Net cash inflows from financing activities		4,853,511	4,523,281
		<hr/>	<hr/>
<b>Net (decrease)/increase in cash held</b>		<b>(4,230,773)</b>	<b>50,418</b>
Cash at the beginning of the period		11,557,239	629,390
		<hr/>	<hr/>
<b>Cash at the end of the period</b>	2	<b>7,326,466</b>	<b>679,808</b>
		<hr/>	<hr/>

The accompanying notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

**a. Basis of Preparation**

The financial statements are general purpose interim financial statements that have been prepared in accordance with Australian Accounting Standard 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 2016, 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 has sufficient cash and liquid assets or can access cash to continue operations. The cash is managed through:

- a) Tight control of operational and administrative expenses.
- b) Currently the Group is raising \$3 million and will raise share capital, for which the company has a history of raising funds.

The directors have prepared a forecast for the foreseeable future reflecting the above mentioned 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 recent acquisition of Bowdens Silver Pty Limited 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 2016 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'.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

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

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.

**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 judgements used in applying accounting policies**

The critical estimates and judgments are consistent with those applied and disclosed in the June 2016 annual report.

**g. Correction of error 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 group are to be issued as a deferred consideration. On review of the accounting for the acquisition, the company discovered the recognition of the deferred consideration had been misinterpreted. The error has been corrected by restating the deferred exploration and development expenditure and share capital reserve.

**NOTE 2: CASH AND CASH EQUIVALENTS**

	<b>31-Dec-16</b>	<b>30-Jun-16</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and on hand	7,326,466	11,557,239



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**NOTE 3: RECEIVABLES**

	31-Dec-16	30-Jun-16
<b>Current</b>	<b>\$</b>	<b>\$</b>
Receivables	510,783	2,472,002

**NOTE 4: DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE**

	31-Dec-16	30-Jun-16
<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	32,043,486	5,170,000
Expenditure in the period	3,814,720	26,873,486
Expenditure written off	-	-
	<u>35,858,206</u>	<u>32,043,486</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 2016**

**NOTE 5: INTANGIBLE ASSETS**

The company has entered into two agreements to purchase the property adjoining the tenements. As part of these agreements the company has paid two deposits of \$500,000 and \$275,000 for the right to purchase the property at the execution date. However, if the company choose not to execute the agreements, the rights will be forfeited and the amount will be written off through the Profit and Loss statement.

**NOTE 6: LAND AND BUILDINGS**

	31-Dec-16	30-Jun-16
	\$	\$
Properties at cost	8,140,619	8,134,619
Accumulated Depreciation	(375,966)	(329,238)
	7,764,653	7,805,381

**NOTE 7: CAPITAL AND RESERVES**

	Half-year			Half-year		
	Dec-16	Dec-16	Dec-16	Dec-15	Dec-15	Dec-15
	Shares No.	Issue price \$	\$	Shares No.	Issue price \$	\$
<b>Opening balance</b>	<b>340,475,296</b>	-	<b>63,502,087</b>	<b>692,922,714</b>	-	<b>19,884,707</b>
Issues of ordinary shares during the half-year less costs	32,223,856	0.165	4,853,511	4,018,795,231	0.001	4,000,156
Equity funds received, issue of shares pending as at half-year less costs	-	-	-	-	-	523,125
<b>Closing balance</b>	<b>372,699,152</b>		<b>68,355,598</b>	<b>4,711,717,945</b>	-	<b>24,407,988</b>

**NOTE 8: CONTINGENT LIABILITIES, CAPITAL EXPENDITURES AND MINING TENEMENT COMMITMENTS**

The board of directors believe there are mining tenement commitments for \$735,000 per annum but no capital commitments up to or subsequent to 31 December 2016 (30 June 2016: Nil).

Management noted the following contingent liabilities as at 31 December 2016:

As part of the royalty deed signed with Royalco Resources Limited, Silver Mines Ltd has a contingent 2% net smelter royalty up to the value of US\$5 million over 100% of the EL 5920 which will reduce to 1% after the payment of US\$5 million.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**NOTE 9: SUBSEQUENT EVENTS**

Company announced a Share Purchase Plan to raise up to A\$3 million and buy-back of share parcels valued at less than A\$500 on 8 March 2017.

As part of the royalty deed agreed with Ochre Capital Management Pty Ltd, Silver Mines Ltd has a contingent royalty payable to the value of 1% of gross revenue received by Bowdens Silver Pty Ltd in respect of 85% percentage share of the sale of all products recovered and sold in each Royalty Period.

There are no other matters or circumstances that have arisen since the end of the half-year which significantly affect, or may significantly affect, the operations, results or state of affairs of the economic entity that have not otherwise been disclosed elsewhere in this report, except as outlined below:

**NOTE 10: RELATED PARTIES**

**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
Trent Franklin	Corporate Secretary

**b. Trading transactions**

During the half-year, the Group entered into the following trading transactions with related parties:

- (i) Ochre Group Holding Limited (OGH), an entity associated with Mr Nathan Featherby, received \$575,000 (Dec 2015: \$262,352) in relation to strategic advice provided to the Group. As at balance date the Group owed \$Nil (Dec 2015: \$37,859) to Ochre.
- (ii) Mancora Capital Pty Limited (Mancora), an entity controlled by Mr Nathan Featherby, received \$68,417 (Dec 2015: \$35,960) from the Group, in relation to advisory services to the Company. As at balance date the Group owed \$Nil (Dec 2015: \$37,859) to Mancora.
- (iii) Enrizen Capital Pty Ltd (EC), an entity associated with Trent Franklin, was issued 1 million fully paid ordinary shares in the Company at an issue price of \$0.15 to EC, received \$150,000 (Dec 2015: \$Nil), in relation to capital raising services to the Group. As at balance date the Group owed \$Nil (Dec 2015: \$Nil) to EC.
- (iv) Enrizen Pty Ltd (EPL), an entity associated with Trent Franklin, was paid \$1,705 (Dec 2015: \$Nil) in relation to insurance services to the Group, and as of balance date, the Group owed \$55 (Dec 2015: \$Nil) to EPL.
- (v) Enrizen Lawyers Pty Ltd (EL), an entity associated with Trent Franklin, was paid \$2,550 (Dec 2015: \$Nil) in relation to legal services provided to the Group, and as of balance date, the Group owed \$14,025 (Dec 2015: \$Nil) to EL.
- (vi) Enrizen Accounting Pty Ltd (EA), an entity associated with Trent Franklin, was paid \$17,000 in relation to corporate secretarial and accounting services. As at balance date the Group owed \$8,500 (Dec 2015: \$Nil).

## **DIRECTORS' DECLARATION**

### **DIRECTORS DECLARATION**


The Directors of the Group declare that;

1. The financial statements and notes, as set out on pages 7-22 are in accordance with the *Corporations Act 2001*, including:
  - a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
  - b. giving a true and fair view of the company's financial position as at 31 December 2016 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company 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**  
**Non-executive Chairman**



**Anthony McClure**  
**Managing Director**

**15<sup>th</sup> March 2017**

## 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 2016, 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 2016 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 2016 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

Date this 15<sup>th</sup> day of March 2017