Silver Mines Limited

ACN 107 452 942

HALF YEAR FINANCIAL REPORT

31 DECEMBER 2009

SILVER MINES LIMITED
DIRECTORS' REPORT

The Directors present their report together with the financial statements of Silver Mines Limited for the six months ended 31 December 2009

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

David Sutton (Non -Executive Chairman)
David Straw (Non-Executive Director)
Malcolm Bird (Non-Executive Director)
Kim Slater (Non-Executive Director) Resigned 9th December, 2009.

Principal Activities
The principal activity of the Company during the financial period was exploration of the Company's New England mineral tenements.

Review of Operations
During the period under review, the Company continued exploration on the New England mineral tenements. The Company recorded a loss from ordinary activities of $213,160 (2008: $389,372).

Webbs Silver Project – (EL5674, NSW - 100% SVL)

Metallurgy.

Work in the first half of the financial period focused on metallurgy. A combined ore sample was sent for Quantitative Mineralogical Analysis (QMA) in order to assist with flowsheet development and refining of metallurgical testwork parameters. The QMA was conducted by Ammtec using QEM*Scan and XRD technologies. The QMA enabled quantitative mineralogy and liberation of the economic sulphides and gangue minerals to be established.

This analysis established that the major economic minerals for silver, copper, lead and zinc were silver-bearing tetrahedrite, non-silver bearing tetrahedrite, galena and sphalerite. Liberation sizes were such that production of a silver / copper / lead concentrate and a separate zinc concentrate is technically feasible using the froth flotation process.

Testwork planned for the current quarter includes flotation testwork on a combined sample of historical surface dump material at Webbs Silver. This testwork will focus on establishing metal recoveries, likely concentrate grades and a flowsheet to concept study level.

In conjunction with the flotation testwork, gravity testwork will also be conducted using a Kelsey Jig. This process offers the advantage that it does not require reagents and it is cost effective at relatively coarse grind sizes.

Drilling

In October 2009, the Company undertook a 1,634 m reverse circulation (RC) drilling program. The drilling has extended high grade silver-rich polymetallic mineralisation at the Webbs Silver South and Adit Prospects to a total combined strike length of over 600m, and still remains open in all directions. The results show that the two previously identified high grade zones are part of a larger continuously mineralised multi-lode system rather than discrete pipes which should provide a significant tonnage upgrade on the previous resource estimate.

An updated 3-dimensional model of the mineralised system is currently under construction and will provide the Company and investors with insights into the shape, size and geometry of the mineralisation and resource. The model will also be an important tool for both future planning of drilling and mining studies as well as marketing for future financing of the Company. The model is expected to be completed by the end of March 2010.

A drilling program planned to begin in March-April 2010 will target strike extensions of the current mineralisation as well as provide geotechnical and metallurgical samples for the mining and processing programs currently underway.

EL 6269 – (Australia Oriental Minerals NL Joint Venture)

Under a Joint Venture Agreement, Silver Mines Ltd will earn 50% of EL 6269, owned by Australia Oriental Minerals NL (AOM) by expending $95,000 on exploration (current expenditure is approximately $60,000). This work has concentrated on the old Walla Walla Pb-Ag-Zn mine. In 2006, AOM undertook an extensive stream sediment and rock chip study of this area revealing a zone of prospective ground extending from north of the Walla Walla mine southward past the old Colandel mine. Silver Mines have followed this up with rock chip and most recently an IP (Induced Polarisation) survey over the Walla Walla workings and along strike from them.

The existing workings reached a recorded depth of 30 metres and extend north and south of the main shaft. It is understood that the workings were following a vertical vein type structure present within a fine grained sedimentary unit.

Induced Polarisation Survey

Between the period of 08/07/09 and 16/07/09, Fender Geophysics on behalf of Silver Mines carried out an IP survey over the historic Walla Walla silver. Map 3 shows a satellite image of the survey area with a chargeable zone identified. Four lines of IP survey were completed on a 200 metre line spacing with 50 metre spaced survey stations using a dipole-dipole configuration. All four lines show a chargeable zone starting at approximately 100 metres below surface consistent with disseminated mineralisation. The overall strike length to the IP anomaly is 600 metres. As the anomaly exists across all lines, it would indicate that the anomaly has not been closed off and could feasibly continue both north and south of the area surveyed.

The results recorded were quite conclusive in that there exists a clear IP anomaly around and below the historical workings with values reaching 40 millivolts/volt against background values of < 10 millivolts/volt. The IP response would appear to be caused by a feature that doesn't reach the surface and has a strike length of over 600 metres. The resistivity data has also been effective in identifying changes in the geology across the profile indicated by the presence of the resistive zone particularly to the west of the profile which coincides withthe fine grained mafic outcrop observed on site. (Modified from Fender Geophysics – IP Report Walla Walla September 09).
Silver Mines plan to extend the survey both to the north and south to close off the anomaly. It is expected that drilling will follow this work.

Between the period of 04/12/09 and 10/12/09 Silver Mines Limited carried out an IP (Induced Polarisation) survey over the historic Walla Walla silver mine just outside Boorowa, NSW. This survey was carried out as a follow-up to the previous survey conducted in July 2009 and is considered phase 2.

Three extra lines of dipole dipole were run, this time at 100m electrode spacing, i.e. 100m between electrodes as opposed to 50m spacing in the previous survey. This increase was in order to gain greater depth penetration. Lines 400N and 600N were run as infill lines either side of the historical main shaft and between already surveyed lines. Line 1000N was placed 100m to the north of the previously finished grid to test the extent of the chargeable zone and attempt to close it off to the north.

The results infer that the chargeability anomaly extends to a depth greater than was seen using the 50m spacing which suggests that the source of the anomaly has significant depth potential. It would also appear that chargeability is not closed off to the north as the anomaly still exists on line 1000N. Data inversions are expected to be completed in the coming weeks which will enable an accurate interpretation of the data collected and provide insights into the geometry of the anomaly and assist with defining drill targets.

Silver Mines considers the results of this Phase 2 work to be very promising given the size, depth continuity and strength of the chargeability. Drilling is now considered a priority and planning is underway for a program to begin as soon as possible.

Significant Changes in the State of Affairs

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

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

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the half-year ended 31 December 2009.

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

David Sutton
Chairman
Sydney 15th March 2010

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Silver Mines Limited

I declare that, to the best of my knowledge and belief, in relation to our review of Silver Mines Limited for the half-year ended 31 December 2009 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

Moyes Yong & Co

Chartered Accountants

Level 7, Norwich House.
6 O'Connell St.
Sydney. NSW.

William M Moyes - Principal

15th March, 2010

Statement of Comprehensive Income
for the Half-Year Ended 31 December 2009

	Notes	2009 $	2008 $
Revenue from continuing operations			
Other Income		4,569	32,410
Operating costs:			
- Accounting/ company secretarial		(24,000)	(18,000)
- Wages		(3,750)	(11,663)
- Share registry		(6,547)	(16,812)
- Stock exchange fees		(16,061)	(11,774)
- Bank fees		(910)	3,115
- Auditors		(13,442)	(10,950)
- Directors emoluments		(57,500)	(59,955)
- Office expenses		(12,472)	(9,057)
- IT & communications		(273)	(12,511)
- Rent		(18,627)	(20,772)
- Depreciation		(22,385)	(32,467)
- Insurance		(1,671)	-
- Professional advisors		-	(12,590)
- Plus Market Listing fees		(13,075)	(149,806)
- Other expenses from ordinary activities		(27,016)	(58,540)
Loss from continuing operations before income tax		**(213,160)**	**(389,372)**
Income tax expense		-	-
Loss from continuing operations after income tax expense		**(213,160)**	**(389,372)**

	Cents	Cents
Basic earnings per share	(0.01)	(0.01)
Diluted earnings per share	(0.01)	(0.01)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	$	**$**	**$**
Balance at 1 July 2008	5,571,400	(854,222)	4,717,178
Total comprehensive loss			
Loss for period	-	(389,372)	(389,372)
Total comprehensive loss for the period	-	(389,372)	(389,372)
Equity Issued			
Dividends paid or provided for	-	-	-
Balance at 31 December 2008	**5,571,400**	**(1,243,594)**	**4,327,806**
Balance at 1 January 2009	**5,571,400**	**(1,243,594)**	**4,327,806**
Total comprehensive loss			
Loss for period		(283,719)	**(283,719)**
Total comprehensive loss for the period		(283,719)	**(283,719)**
Equity Issued	176,392		**176,392**
Dividends paid or provided for			
Balance at 30 June 2009	**5,747,792**	**(1,527,313)**	**4,220,479**
Balance at 1 July 2009	5,747,792	(1,527,313)	**4,220,479**
Total comprehensive loss			
Loss for period		(213,160)	**(213,160)**
Total comprehensive loss for the period		(213,160)	**(213,160)**
Equity Issued	1,016,918		**1,016,918**
Dividends paid or provided for			
Balance at 31 December 2009	**6,764,710**	**(1,740,473)**	**5,024,237**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

SILVER MINES LIMITED

Consolidated Statement of Financial Position
for the Half-Year Ended 31 December 2009

	31 Dec 2009 $	30 June 2009 $
Current Assets		
Cash and cash equivalents	663,111	373,395
Trade and other receivables	206,269	50,516
Total Current Assets	**869,381**	**423,911**
Non-Current Assets		
Property plant & equipment	85,671	124,422
Other Financial Assets	60,550	75,550
Capitalised exploration and tenement expenditure	4,320,598	3,965,310
Total Non-Current Assets	**4,466,819**	**4,165,282**
Total Assets	**5,336,200**	**4,589,193**
Current Liabilities		
Trade and other payables	223,969	228,841
Employee provisions	1,108	7,934
Total Current Liabilities	**225,077**	**236,775**
Non Current Liabilities		
Payables	86,885	131,939
	86,885	**131,939**
Total Liabilities	**311,962**	**368,714**
Net Assets	**5,024,237**	**4,220,479**
Equity		
Issued capital	6,764,710	5,747,792
Accumulated losses	(1,740,473)	(1,527,313)
Total Equity	**5,024,237**	**4,220,479**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

SILVER MINES LIMITED

Statements of Cash Flows
For the half-year ended 31 December 2009

	Half Year Ended 31 Dec 2009 $	Half Year Ended 31 Dec 2008 $
Cash Flows From Operating Activities		
Interest received	4,569	32,410
Interest Paid	(2,410)	-
Payments to suppliers and employees	(381,850)	(310,022)
Net cash inflows (outflows) from operating activities	(379,691)	(277,612)
Cash Flows From Investing Activities		
Deferred Exploration	(355,288)	(764,375)
Exploration Bonds	15,000	50,000
Proceed on Sale of property plant & equipment	2,437	-
Net cash inflows (outflows) from investing activities	(337,851)	(714,375)
Cash Flows From Financing Activities		
Lease Liability	(9,660)	18,654
Equity Issued	1,016,918	
Share fund raising costs	-	-
Net cash inflows from financing activities	1,007,258	18,654
Net Increase (Decrease) in Cash Held	289,716	(973,333)
Cash at the Beginning of the Financial Year	373,395	1,491,991
Cash at the end of the Half-Year	**663,111**	**518,658**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

These general purpose financial statements for the interim half-year reporting period ended 31 December 2009 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Silver Mines Limited. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Company. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2009, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for the adoption of the following new and revised Accounting Standards.

Accounting Standards not Previously Applied

The Company has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the separate income statement/single statement approach to the presentation of the Statement of Comprehensive Income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third Statement of Financial Position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

Operating Segments

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Company's chief operating decision maker which, for the Company, is the board of directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the interim financial report have been included.

As a result of the adoption of the revised AASB 8, certain cash generating units have been redefined having regard to the requirements in AASB 136: Impairment of Assets.

These half-year financial statements do not include all the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial Report. Accordingly, these half-year financial statements are to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by Silver Mines Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in these half-year financial statements as compared with the most recent Annual Financial Report.

Significant Accounting Policies

The accounting policies applied by the company in this interim financial report are the same as those applied by the company in its financial report for the previous financial year and the corresponding interim reporting period.

Estimates

The preparation of these half-year financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these half-year financial statements, the significant judgements made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Companys' financial report as at and for the year ended 30 June 2009.

Going Concern

The directors believe that the going concern basis is appropriate for the preparation and presentation of the financial statements as the Company has sufficient cash to continue to operate for the foreseeable future. Further, the Company is confident of being able to raise additional funds through share placement which would enhance cash flow and allow a reduced exploration programme on the Company's New England leases.

The directors have prepared a forecast for the foreseeable future reflecting the abovementioned expectations and their effect on the Company. The achievement of the forecast is largely dependent upon the following matters, the outcomes of which are uncertain:

- The ability of the Company to raise additional equity capital, and or
- Farm-out some of the Company's interest in the New England leases.

The directors believe that they have sufficient cash for the Company to meet its debts as and when they become due and payable.

Contingent Liabilities

The Company has no contingent liabilities.

Events occurring after balance sheet date

There were no significant events after the reporting date.

Dividends

No dividends been paid during the period.

	31 Dec 2009 $	31 Dec 2008 $

2. REVENUE

	31 Dec 2009 $	31 Dec 2008 $
Revenue from outside the operating activities		
Interest received	32,410	32,410

3. CASH AND CASH EQUIVALENTS'

	31 Dec 2009 $	31 Dec 2008 $
Cash at bank – operating account	363,506	503,437
Deposit	298,594	15,000
Cash on hand	1,011	221
Cash at bank and on hand	663,111	518,658

4. SEGMENT INFORMATION

Business Segments

The Company operates in the mining industry in Australia only. Operations comprise the exploration, development and mining of precious minerals.

5. CAPITAL AND RESERVES

	Dec 2009	Half Year Dec 2009 Issue Price $	Dec 2009 $	Dec 2008 Number of shares	Half Year Dec 2008 Issue Price $	Dec 2008 $
Opening balance	43,447,505	-		43,497,505	-	5,571,400
Issues of Ordinary Shares During the Half-Year				-	-	-
C Straw Bonus	695,000	0.035	24,325			
Placement	3,200,000	0.035	112,000			
Placement	7,900,000	0.040	316,000			
Directors	1,957,687	0.046	90,000			
Placement	6,250,000	0.080	500,000			
Cost of Issue			(25,607)			
Closing balance	**68,805,192**		**6,764,509**	**43,497,505**	**-**	**5,571,400**

6. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

7. SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

SILVER MINES LIMITED

DIRECTORS DECLARATION

Declaration by Directors

The directors of the company declare that:

(a) The financial statements and notes set out on pages 5 to 12 are in accordance with the Corporations Act 2001 and:

(i) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

(ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2009 and of its performance for the half-year ended on that date.

(b) 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 and is signed for and behalf of the directors by:

Dated at Sydney this 15th day of March 2009

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David Sutton
Chairman

INDEPENDENT AUDITOR'S REVIEW REPORT - SILVER MINES LIMITED

To the members of Silver Mines Limited
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 31st December, 2009 and the Statement of Comprehensive Income, Statement of Changes in Equity, Statements of Cash Flows for the half-year ended on that date, a summary of significant accounting policies, other selected explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Half-Year Financial Report
The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Company's financial position as at 31 December 2009 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 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 Company's financial position as at 31 December 2008 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.

Moyes Yong & Co

Chartered Accountants

Level 7, Norwich House.
6 O'Connell St.
Sydney. NSW.

William M Moyes - Principal

15th March, 2010

SILVER MINES LIMITED
CORPORATE DIRECTORY

Directors

David Sutton *(Non -Executive Chairman)*
David Straw *(Non-Executive Director)*
Malcolm Bird *(Non-Executive Director)*

Auditors

Moyes Yong & Co
Level 7, Norwich House.
6 O'Connell St,
Sydney, NSW 2011

Company Secretary

Kevin Martin Lynn

Company's Solicitor

Peter Kemp Solicitors
Level 7, 60 Castlereagh Street
Sydney, NSW 2000

Australian Company Number

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345 George St
Sydney NSW 2000

Share Registry

Registries Limited
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Sydney, NSW, 2000