

FRIDAY 31 OCTOBER, 2008

## ACTIVITIES REPORT

For the Quarter Ended 30th September 2008

### EXPLORATION

#### Webbs Silver Project – EL5674

The programs completed included transient electromagnetic geophysics (TEM) which is used to identify conductive bodies underground; which may be indicative of massive sulphide mineralisation, as well as detailed mapping and geochemical sampling. Results from these programs have been very encouraging with seven highly anomalous zones delineated thus far within the Webbs mineralised corridor (Figure 1). So far four of the zones have been drilled with high grade mineralisation returned at all, the most important at the Webbs Silver South prospect, which remains open along strike and down dip. This success to date demonstrates that the techniques are proving to be an excellent targeting tool and as such will be used on our other projects where similar targets are being sort.

#### Mole River

During the September Quarter this year Silver Mines Limited (SVL) has continued with its exploration programs on its New England tenement suite in north eastern NSW with geochemical and geophysical surveys completed on our 100% owned Mole River projects (ELs 6114, 6512 and 6771).

Work has included an airborne geophysical survey, prospect evaluation and rock chip and soil sampling directed to the silver and base metal potential of the ground. A number of significant silver and base metal anomalies have been identified at several prospects and further evaluation of these is continuing with a view to defining drill targets.

A strong regional lineation or jointing strikes NNE, and high grade polymetallic vein mineralisation parallels the regional structural trend in a number of areas (e.g. the Avenue, Mosman, Spring Road) and thus cuts across the NW trend of the lithologies. This dominant NNE-trending polymetallic vein mineralisation is considered to be related to the intrusion of the Mole Granite. A second style of mineralisation features stockwork and/or sheeted veins developed within interpreted possible fault splays, developed subsidiary to regionally extensive ENE-WSW trending shears; possible examples of this style are Bondonga and Spring Road.

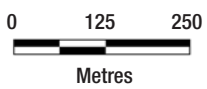
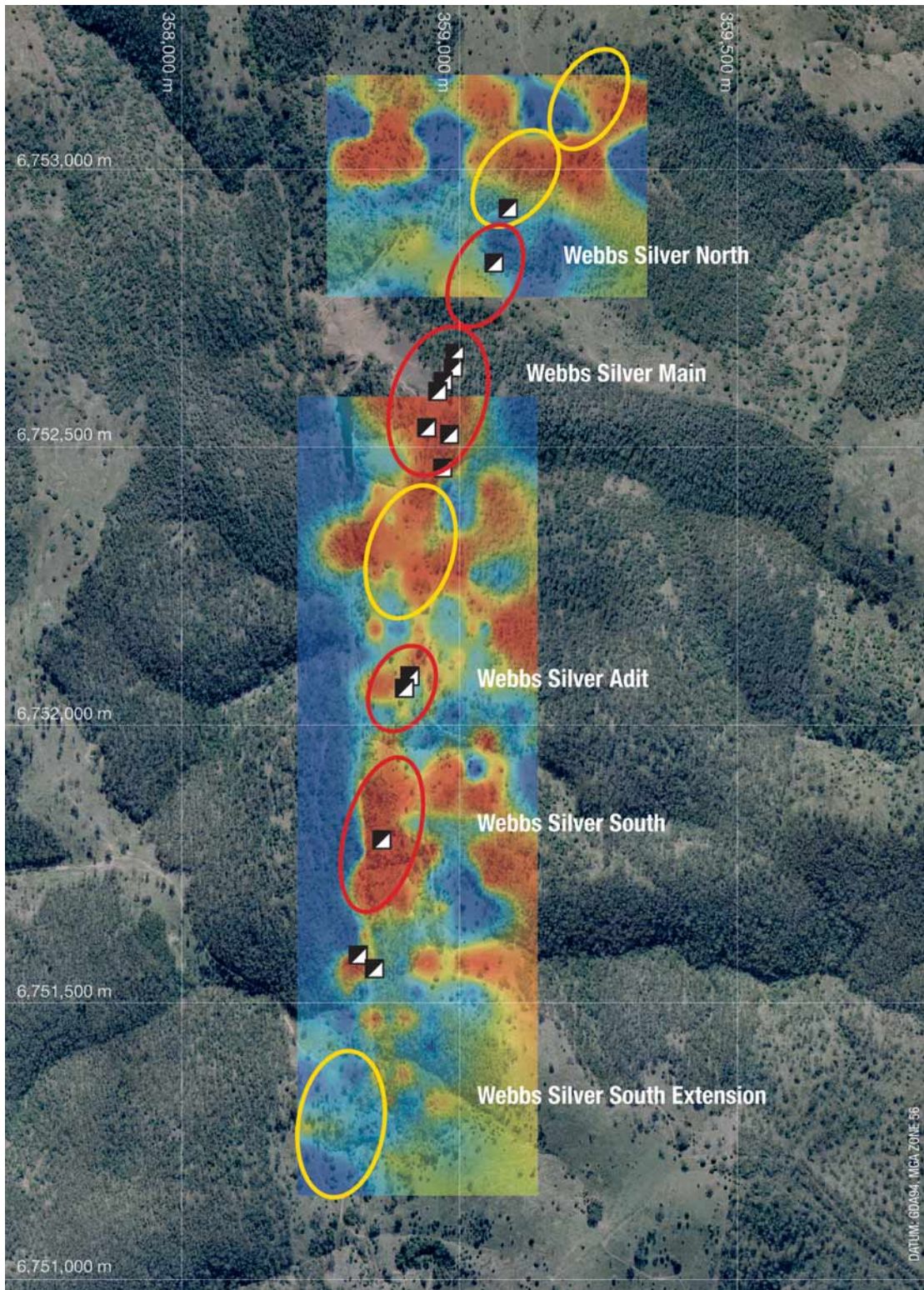
Follow-up field work has been completed with a number of prospects returning encouraging geochemical and geological indicators coincident with supporting aerial geophysical signatures. Silver results in both rock chip and soil geochemistry at specific areas, in particular the Torny (Figure 2), Heffernan's, Spring Road and Mosman prospects provide impetus to these areas being followed up with more detailed work with ground based geophysics and drilling warranted. The prospects have returned a number of samples exceeding 200ppm Ag (with samples at the Torny and Heffernan's prospects return up to 1,300 ppm Ag) with coincident highly anomalous values of zinc, lead, tin and copper. These metal associations demonstrate that polymetallic mineralisation is evident at a number of prospects supporting the Company's targeting and exploration model for the area. Broader zones, up to 500m in diameter, of anomalous silver and base metal mineralisation provide support for possible discovery of larger tonnage low grade deposits.




### CORPORATE AFFAIRS

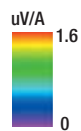
SVL approved a Share Purchase Plan (SPP) to raise additional funding to support the Scoping Study on the Webbs Silver Project. Due to the rapid decline in the global equity markets and its impact on stock exchanges the Company decided to withdraw the SPP and return funds to those shareholders who participated. Further fund raising will be undertaken when market conditions improve.

As a result the Company has postponed the Scoping Study until the new year and slowed exploration expenditure on all projects to preserve funds. Whilst exploration work has been slowed SVL will continue to analyse the large and detailed data set collected over the last 6-12 months with the view of developing existing high priority prospects into a position to ramping up field activities with detailed geophysics and drilling in 2009.

**FIGURE 1** WEBBS SILVER PROJECT TEM GEOPHYSICS AND KEY PROSPECT LOCATIONS

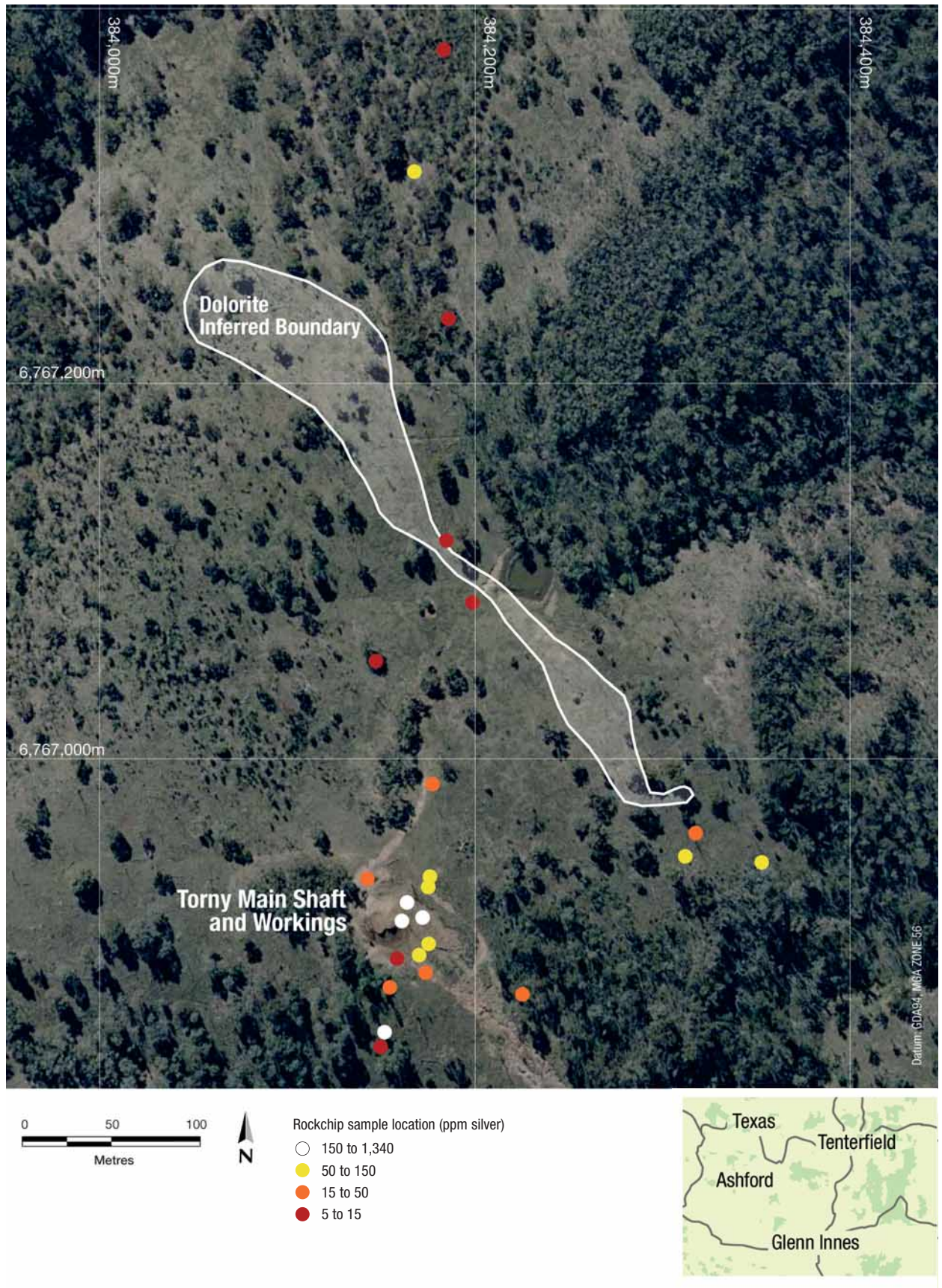


-  Prospect to be drilled 2008/09
-  Prospect partially drilled
-  Prospect partially drilled



DATUM: GDA94, MGA ZONE 56

**FIGURE 2 TORNY SILVER MINE AG GEOCHEMISTRY**



The information in this report that relates to Exploration Results is based on information compiled by Charles Straw, consulting geologist and CEO, who is a Member of The Australasian Institute of Mining and Metallurgy. Charles Straw has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Charles Straw consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

SILVER MINES LIMITED

ABN

45 107 452 942

Quarter ended ("current quarter")

September 2008

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 mths to Sept 08) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(423)	(423)
(b) development	-	-
(c) production	-	-
(d) administration	(149)	(149)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	15	15
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (Exploration Bonds)	-	-
	(557)	(557)
<b>Net Operating Cash Flows</b>		
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
	-	-
<b>Net investing cash flows</b>		
1.13 Total operating and investing cash flows (carried forward)	(557)	(557)

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(557)	(557)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	(122)	(122)
	<b>Net financing cash flows</b>	(122)	(122)
	<b>Net increase (decrease) in cash held</b>	(679)	(679)
1.20	Cash at beginning of quarter/year to date	1,492	1,492
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	813	813

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	17
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

N/A.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	100
4.2 Development	-
<b>Total</b>	<b>100</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	107	116
5.2 Deposits at call	706	1,376
5.3 Bank overdraft	-	-
5.4 Other	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>813</b>	<b>1492</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> (description)	-	-	-	-
7.2 Changes during quarter	-	-	-	-
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 <b>*Ordinary securities</b>	43,447,500 OFF	40,160,000 OFF	-	-
7.4 Changes during quarter	-	-	-	-
(a) Increases through issues IPO Tenements Placement	-	-	-	-
(b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 <b>*Convertible debt securities</b> (description)	-	-	-	-
7.6 Changes during quarter	-	-	-	-
(a) Increases through issues	-	-	-	-
(b) Decreases through securities matured, converted	-	-	-	-
7.7 <b>Options</b> (description and conversion factor)	11,635,000 5,685,000 2,000,000 300,000	Escrowed - 19 Jan 2009 19 Jan 2009 -	<b>Exercise price</b> 20 cents 20 cents 25 cents 20 cents	<b>Expiry date</b> Nov 2009 Nov 2009 Nov 2009 Nov 2009
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	-	-	-	-
7.10 Expired during quarter	-	-	-	-
7.11 <b>Debentures</b> (totals only)	-	-	-	-

+ See chapter 19 for defined terms.

7.12	<b>Unsecured notes</b> ( <i>totals only</i> )	-	-
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## Compliance statement

- 1 This statement has been prepared under accounting policies, which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~not~~\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: ..... Date: ..SEPTEMBER 2008.....  
(~~Director~~/Company Secretary)

Print name: .KEVIN LYNN.....

### Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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