31st January, 2012

To: Company Announcement officer

ACTIVITIES REPORT – FOR THE QUARTER ENDED 31ST DECEMBER 2011.

HIGHLIGHTS DURING THE QUARTER

- Results from diamond drill holes continue to demonstrate near surface silver rich mineralisation in good agreement with nearby RC drilling.
- Results from deeper diamond drilling confirm depth extensions and the deposit remains open at depth in many areas.
- Diamond drilling results being incorporated into the resource database for new resource estimate.
- Geological and structural Interpretations for the resource model being used to plan further drilling.
- Desktop review of metallurgy by expert consultants indicates several process options available, including possible production of silver doré bars.
- Samples from Webbs South being collected for metallurgical testwork.

ACTIVITIES DURING THE QUARTER

WEBBS SILVER PROJECT – EL5674

1. **Diamond Drilling**

Silver Mines continued to report excellent diamond drilling intersections during the quarter and subsequent to the quarter. The drilling includes infill and extensional drilling. These results were published in several ASX announcements released during the quarter.

Better intersections from the drilling include:

- DDH016 intersects:
  - 14m @ 1704g/t Ag, 1.6% Cu, 0.9% Pb and 6.8% Zn from 83m;

  Incl. 3.5m @ 5830g/t Ag, 5.3% Cu, 0.6% Pb and 8.8% Zn from 83m
  Incl. 1.0m @ 11212g/t Ag, 9.7% Cu, 0.5% Pb and 9.5% Zn from 85m

- DDH017 intersects:
  - 25.9m @ 337g/t Ag, 0.29% Cu, 0.17%Pb and 2.93% Zn from 169.8m

  Incl. 9.0m @ 686g/t Ag, 0.52% Cu, 0.16% Pb and 5.56% Zn from 169.8m
  Incl. 1.0m @ 2560g/t Ag, 0.80% Cu, 0.30% Pb and 10.8% Zn from 176.4m
  and 1.05m @ 1210g/t Ag, 1.47% Cu, 0.30% Pb and 3.60% Zn from 187.0m

- DDH018 intersects:
  - 3.65m @ 624g/t Ag, 0.50% Cu, 0.27% Pb and 2.97% Zn from 80.75m;

  Incl. 1.0m @ 1110g/t Ag, 0.92% Cu, 0.06% Pb and 5.08% Zn from 80.75m

- DDH019 intersects:
  - 7.3m @ 538g/t Ag, 0.4% Cu, 1.9% Pb and 3.0% Zn from 40.7m;

  Incl. 0.6m @ 2270g/t Ag, 2.1% Cu, 16.1% Pb and 4.9% Zn from 46.9m

- DDH020 intersects:
  - 14m @ 147g/t Ag, 0.2% Cu, 0.8% Pb and 3.4% Zn from 83m;

- DDH021 intersects:
  - 6.9m @ 213g/t Ag, 0.12% Cu, 0.79%Pb and 0.83% Zn from 21.1m

  Incl. 1.0m @ 1130g/t Ag, 0.46% Cu, 1.50% Pb and 1.51% Zn from 26.0m

- DDH022 intersects:
  - 17.4m @ 194g/t Ag, 0.18% Cu, 0.46% Pb and 1.43% Zn from 30m;

  Incl. 9.0m @ 308g/t Ag, 0.28% Cu, 0.44% Pb and 1.77% Zn from 35m

Diamond drillhole data is presented in Table 1. All diamond results for Webbs South have now been received. Silver Mines awaits results for drillholes DDH026-031 from Webbs Main.

2. Metallurgical Testwork

Silver Mines has engaged Mineralurgy Pty Ltd to oversee a metallurgical testwork program for the Webbs Silver Project. Mineralurgy is represented by world recognised metallurgical consultant, Mr Peter Munro who is regarded as an expert on silver-lead-zinc metallurgy having worked extensively on complex polymetallic projects in Australia and overseas.

Mineralurgy conducted a review of metallurgical data related the Webbs project, including testwork conducted by Silver Mines and previous explorers. Comparisons were also made to projects with similar mineralisation to Webbs. The review proposed conceptual flow sheets with regard to likely production and marketability of various concentrates. Conceptual flow-sheets to produce silver bullion were also evaluated. The advantages and disadvantages of all scenarios were considered with reference to assumed capital costs, operating costs and revenue flows.

The design of metallurgical testwork programs and sample selection is now being finalised.

During the quarter Silver Mines conducted preliminary sighter testwork to investigate the cyanide solubility of silver at Webbs, and thereby the potential to produce silver doré. All samples were pulverised to -75 microns. The results indicate that silver extraction from old tailings samples average 75% and ranged from 56-85%. Tests on fresh diamond core samples from DDH019 yielded a lower average silver extraction of 27% and ranged from 20-36%. The increased silver extraction in the tailings samples is likely due to the fact the stockpile contains material from 2-10mm in size which has been exposed at surface for 50-100 years resulting in the partial oxidation of tetrahedrite. This has liberated much of the contained silver thereby increasing its cyanide solubility.

Results from this early stage evaluation are considered very encouraging as they demonstrate that at least some of the silver at Webbs is cyanide soluble thereby indicating the production of silver doré may be possible. The increased recovery of silver from the oxidised tailings could indicate that a weakly oxidative pre-treatment of concentrate followed by cyanide leaching may recover appreciable silver. Additional detailed testwork is required but the results demonstrate this is a potential treatment route worth investigating.

3. Resource Update

Silver Mines resource consultants are in the final stages of completing a new resource model for the Webbs silver deposit. Unfortunately some delays have been experienced due the decision to incorporate several key diamond drillhole intersections into the resource. These delays were further exacerbated by the Christmas break, the processing of core, the receipt of assay data and the incorporation and interpretation of the new data in the resource database. The new resource estimate will be released as soon as it becomes available which is expected in the very near term.

PLANNED ACTIVITIES for the MARCH QUARTER 2012

The March Quarter will continue to be an exciting time for Silver Mines with the following key programs underway or planned to commence;

- New resource estimate for the Webbs deposit
- Complete diamond core assaying in preparation for selection of metallurgical samples for Webbs Main
- Commence metallurgical testwork program
- Exploration drilling on regional targets.
- Plan and prepare for deeper drilling at Webbs
- Continued rehabilitation of drill sites at Webbs

Please direct any queries regarding the content of this report to Charles Straw (CEO) on +61 2 9253 0900 or cstraw@silverminesltd.com.au.

The information in this Document that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr David Hobby, consulting geologist to SVL, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Hobby 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'. Mr Hobby consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Table 1. Diamond drilling: Hole details and intersections

Hole ID	MGA East	MGA North	Dip	Azi MGA	Hole Depth	From (m)	To (m)	Int# (m)	**Ag (g/t)**	Cu (%)	Pb (%)	Zn (%)
DDH016	6751766	358879	-70	285	117.5	62.0	66.0	4.0	**326**	0.30	0.57	3.32
DDH016	incl.					65.0	66.0	1.0	**832**	0.53	0.41	2.70
DDH016						83.0	97.0	14.0	**1704**	1.63	0.93	6.84
DDH016	incl.					83.0	86.5	3.5	**5830**	5.27	0.63	8.79
DDH016	incl.					85.0	86.0	1.0	**11212**	9.70	0.49	9.50
DDH016	incl.					92.0	92.6	0.6	**3430**	2.49	4.95	10.00
DDH017	6751662	358922	-55	270	216	169.8	195.7	25.9	**337**	0.29	0.17	2.93
DDH017	incl.					169.8	179.7	9	**686**	0.52	0.17	5.91
DDH017	incl.					176.4	177.4	1	**2560**	0.8	0.3	10.8
DDH017	and					187	188.1	1.05	**1210**	1.47	0.3	3.6
DDH018	6751848	358926	-55	284	143.2	80.75	84.4	3.65	**624**	0.5	0.27	2.97
DDH019	6751778	358892	-50	285	57.4	40.7	48.0	7.3	**538**	0.40	1.95	3.04
DDH019	incl.					42.2	43.0	0.8	**1940**	0.82	1.29	7.53
DDH019	and					46.9	47.5	0.6	**2270**	2.12	16.2	4.89
DDH020	6751776	358898	-60	285	138.3	83.0	97.0	15.0	**147**	0.16	0.76	3.44
DDH020	incl.					91.0	92.0	1.0	**509**	0.44	0.21	4.61
DDH021	6751893	358921	-55	299	83.6	21.1	28	6.9	**213**	0.12	0.77	0.83
DDH021	incl.					26	27	1	**1130**	0.46	1.50	1.51
DDH022	6751714	358873.4	-50	298	64.9	30	47.4	17.4	**194**	0.18	0.46	1.43
DDH022	incl.					35	44	9	**308**	0.28	0.44	1.77
DDH023	6751619	358863.8	-55	295	189.2	82.9	84.75	1.85	**142**	0.19	1.06	0.88
	incl.					83.9	84.75	0.85	**239**	0.32	1.61	1.39
DDH024	6752652	358986	-81	283	59.6	Did not reach target						
DDH025	6752650	358996.4	-78	265	46.6	43.6	46.6	3.0	28	0.04	0.34	0.42
						Hit old workings at 46.6m						

Down-hole intersections are NOT true widths due to the geometry of the lodes and angle of intersection of the drill hole. True widths are estimated to be approximately 45% of down-hole interval in holes with dips of -55^{o} and approximately 33% of down-hole intervals in holes with dips of -70^{o}.

Sampling and Assaying

HQ diamond core samples are cut lengthways to produce half core. Samples are usually taken at 1m intervals or as geology dictates. Silver Mines have opted to utilise the services of ALS-Chemex (Brisbane), a globally respected company servicing the mining industry. Samples are dispatched by TNT Couriers from Glen Innes to ALS. Core is crushed to -6mm and a 1kg split is then pulverised to provide the assay pulp. Routine assaying is conducted by ALS Method ICP41 This is acid digest with an ICP-AES finish analysing for Ag, As, Bi, Cu, Fe, Pb, S, Sb, Sn, W and Zn. When elements exceed upper detections limits of 100ppm for Ag and 1% for Cu, Pb and Zn they are reanalysed by and appropriate ore grade acid technique (ALS method OG46). For silver above 1500g/t a gravimetric technique is used. Certified Standards and blanks are routinely submitted in each assay batch to monitor QA-QC.