



GALENA
MINING LIMITED

And Its Controlled Entity

ABN 63 616 317 778

Interim Financial Report

For the half year ended 31 December 2018

Galena Mining Limited

ABN 63 616 317 778

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Galena Mining Limited

ABN 63 616 317 778

CORPORATE DIRECTORY

Directors

Mr Adrian Byass
Non-Executive Chairman

Mr Alexander Molyneux
Managing Director/Chief Executive Officer

Mr Jonathan Downes
Non-Executive Director

Mr Timothy Morrison
Non-Executive Director

Mr Anthony James
Non-Executive Director

Chief Operating Officer

Mr Troy Flannery

Company Secretary

Mr Stephen Brockhurst

Registered Office & Principal Place of Business

Level 11, 216 St Georges Terrace
Perth WA 6000

Postal Address

GPO Box 2517
Perth WA 6831

Web Site

www.galenamining.com.au

Share Registry

Security Transfer Australia Pty Ltd
770 Canning Highway
Applecross WA 6153

Auditors

PKF Perth
Level 5, 35 Havelock Street
West Perth WA 6005

Legal Advisors

Steinepreis Paganin
16 Milligan Street
Perth WA 6000

Stock Exchange Listing

ASX Code: **G1A**

Country of Incorporation and Domicile

Australia

Galena Mining Limited

ABN 63 616 317 778

DIRECTOR'S REPORT

For the half year ended 31 December 2018

Your directors present the following report on Galena Mining Limited (the "Company" or "Galena") and its wholly owned subsidiary Abra Mining Pty Ltd ("AMPL") (together referred to hereafter as the "Group") for the period ended 31 December 2018.

Directors

The names of directors in office at any time during or since the end of the period are:

Adrian Byass	Non-Executive Chairman
Alexander Molyneux	Managing Director / Chief Executive Officer (appointed 1 September 2018)
Johnathan Downes	Non-Executive Director
Timothy Morrison	Non-Executive Director
Anthony James	Non-Executive Director (appointed 15 October 2018)
Oliver Cairns	Non-Executive Director (resigned 15 October 2018)

Unless noted above, all directors have been in office since the incorporation period to the date of this report.

Company Secretary

Stephen Brockhurst held office as Company Secretary since the incorporation and until the date of this report.

Principal Activities

The Company was incorporated as an unlisted public company limited by shares on 7 December 2016 for the purpose of listing on the ASX, acquiring AMPL, the owner of the Abra Base Metals Project. On 7 September 2017 the company successfully listed on the ASX.

Since listing on the ASX the Group has continued to focus on exploration and pre-development works at Abra Base Metals Project, together with early stage exploration works at other mineral prospects within the Group's portfolio.

Operating Results

The consolidated loss of the Company after tax for the half year ended 31 December 2018 attributable to equity holders of the parent was \$1,278,808 (for the half year ended 31 December 2017 a restated loss of \$424,078).

Review of Operations

Corporate

- On 3 July 2018, the Company released a Scoping Study on its Abra Project.
- On 5 July 2018, the Company announced the appointment of Mr Bill Cunningham as Company's Metals Marketing Consultant, as part of the expansion of key technical and management positions as the Abra lead-silver project advances.
- On 1 September 2018, Galena appointed a high calibre experienced mining industry CEO and financier, Alexander Molyneux as CEO and Managing Director, with the Company's prior CEO, Ed Turner moving into the role of General Manager, Geology and Exploration.
- On 15 October 2018, Galena announced the appointment of a high-profile experienced underground miner, Anthony (Tony) James as a Non-Executive Director, and Oliver (Olly) Cairns, a Non-Executive Director of the Company since incorporation resigned.
- On 22 October 2018, the Company announced a reorganisation to consolidate its non-Abra polymetallic base metals exploration assets into a separate entity.

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DIRECTOR'S REPORT

For the half year ended 31 December 2018

- On 7 November 2018, the Company issued 16.5 million milestone-based performance rights to its CEO following shareholder approval for the issuance of such rights.

Abra Base Metals Project

The Abra Base Metals Project is a globally significant lead-silver project located in the Gascoyne region of Western Australia (between the towns of Newman and Meekatharra, approximately 110 kilometres from Sandfire's DeGrussa Project).

During the half-year to 31 December 2018, Galena continued to advance the Abra Base Metals Project through: publication of a scoping study (see Galena ASX announcement of 3 July 2018); continued exploration and resource development drilling (including completion of 21 new drill-holes for 11,645 cumulative linear metres of drilling); publication of an outstanding PFS (see Galena ASX announcement of 25 September 2018); and publication of a Resource and Reserve update (see Galena ASX announcement of 18 December 2018).

Outstanding PFS

The completed PFS for Abra Base Metals Project envisages development of a mine and processing facility with a 14-year life producing a high-value, high-grade lead-silver concentrate containing approximately 91kt of lead and 760koz of silver per year after ramp-up. Based on a pre-development capital expenditure estimate of A\$154 million, the PFS modelled a pre-tax net present value for Abra (at an 8% discount rate) of A\$528 million and an internal rate of return of 50%.¹

Note: 1. Information relating to the production target and financial information derived from the production target is extracted from the ASX announcement of 25 September 2018. Galena confirms that all material assumptions underpinning the production target, or forecast financial information derived from a production target, in that announcement continue to apply and have not materially changed.

Reserves and Resources

The following tables provide the latest Resource and Reserve estimates published during the half-year to 31 December 2018.

Abra JORC Mineral Resource estimate^{1, 2}

Resource classification	Tonnes (Mt)	Lead grade (%)	Silver grade (g/t)
Measured	-	-	-
Indicated	15.0	8.7	22
Inferred	22.4	6.7	15
Total	37.4	7.5	18

Notes: 1. See Galena ASX announcement of 18 December 2018. Galena confirms that it not aware of any new information or data that materially affects the information included in Galena's ASX announcement of 18 December 2018 and confirms that all material assumptions and technical parameters underpinning the resource estimates continue to apply and have not materially changed. 2. Calculated using ordinary kriging method and a 5.0% lead cut-off grade. Tonnages are rounded to the nearest 100,000t, lead grades to one decimal place and silver to the nearest gram. Rounding errors may occur when using the above figures.

Abra JORC Ore Reserve statement^{1, 2}

Reserve classification	Tonnes (Mt)	Lead grade (%)	Silver grade (g/t)
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DIRECTOR'S REPORT

For the half year ended 31 December 2018

Proved	-	-	-
Probable	10.3	8.8	24
Total	<u>10.3</u>	<u>8.8</u>	<u>24</u>

Notes: 1. See Galena ASX announcement of 18 December 2018. Galena confirms that it not aware of any new information or data that materially affects the information included in Galena's ASX announcement of 18 December 2018 and confirms that all material assumptions and technical parameters underpinning the ore reserve estimates continue to apply and have not materially changed. 2. Tonnages are rounded to the nearest 100,000t, lead grades to one decimal place and silver to the nearest gram. Rounding errors may occur when using the above figures.

Metal concentrate marketing

Abra Base Metals Project product is proposed to be a high-value, high-grade lead-silver concentrate. At 75% contained lead metal, it is believed that it will be the world's highest grade commercially available lead concentrate. During the half-year to 31 December 2018, Galena continued engagement with a number of potential customers, receiving a very positive response in terms of the number of indications of interest received from international base metal trading companies and end-user smelting companies. Interested counterparties from Europe, China, and non-China east Asia submitted proposals.

Project financing and strategic investment

During the half-year to 31 December 2018, the Company initiated and then continued discussions with a number of parties regarding project financing. Such parties include traditional project financing banks and strategic counterparties. A number of the parties commenced due diligence on the Group and the Abra Base Metals Project during the period.

Non-Abra prospects

Galena's non-Abra prospects consist of Woodlands, Manganese Range and Quartzite Well, which are located between approximately 20-50 kilometres or further to the west of Abra and reside within three granted Exploration Licences and two granted Prospecting Licences, being: E52/1413; E52/3575; E52/3630; and P52/1580 and P52/1581.

During the Quarter, 3D inversion modelling of gravity and magnetic data at Woodlands and Manganese Range delineated strong anomalies at both locations. These anomalies are interpreted as being prospective for copper, gold, lead and silver and have yet to be tested with drilling.

On 22 October 2018, Galena announced it was investigating options for the divestment of the non-Abra prospects. However, no executable potential transaction has resulted from such investigations that the Company regards would be accretive to the interests of shareholders. As a result, it is increasingly likely that the non-Abra prospects will remain within the Group's portfolio of projects and prospects.

Corporate

At the end of the period the Group had \$3,288,631 in cash and the Company had the following securities on issue:

- 337,022,853 fully paid ordinary shares on issue;
- 11,750,000 options exercisable at \$0.06 on or before 30 June 2020;
- 5,000,000 options exercisable a \$0.30 on or before 6 February 2021;
- 18,000,000 options exercisable at \$0.08 on or before 30 June 2021; and
- 16,500,000 various class performance rights.

Galena Mining Limited

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DIRECTOR'S REPORT

For the half year ended 31 December 2018

Changes in State of Affairs

In the opinion of the directors, there were no other significant changes in the state of affairs of the Company that occurred during the period under review not otherwise disclosed in this report or in the financial report.

Events after the Reporting Period

- On 3 January 2019, the Company provided an update with respect to the progress of receiving permits to construct and operate its Abra Base Metals Project.
- On 30 January 2019, Galena announced it had secured \$90 million in project equity for the Abra Base Metals Project. The announcement was made following the execution of a terms sheet with Toho Zinc Co., Ltd. ("Toho") setting out the proposed terms for Toho's investment of \$90 million in 3 tranches for a 40% ownership interest in AMPL (the "Transaction") (i.e., such that on completion of the Transaction, Galena will own the remaining 60%). The Transaction remains subject to the satisfaction of agreed conditions (including completion of confirmatory due diligence) and execution of binding documentation.

No other matter or circumstance has arisen since the end of audited period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, PKF, to provide the Directors of the Group with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is set out on page 7 and forms part of this Directors' Report for the period ended 31 December 2018.

This report is signed in accordance with a resolution of the Board of Directors, made pursuant to s306(3) of the Corporations Act 2001.



Adrian Byass
Chairman

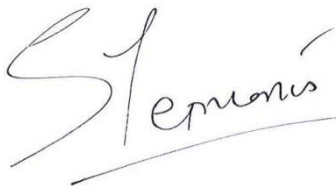
Dated this 14 day of March 2019

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF GALENA MINING LTD

In relation to our review of the financial report of Galena Mining Ltd for the half year ended 31 December 2018, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



PKF PERTH



SIMON FERMANIS
PARTNER

14 MARCH 2019
WEST PERTH,
WESTERN AUSTRALIA

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Galena Mining Limited

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

	Note	31 December 2018	31 December 2017
		\$	<i>Restated(*)</i> \$
Revenue	3	56,233	27,540
Expenses			
Administration expenses		(346,695)	(50,287)
Consulting, promotion & marketing expenses		(110,822)	(29,073)
Personnel expenses		(172,255)	(70,857)
Corporate expenses		(125,144)	(63,479)
Compliance fees		(49,468)	(23,387)
Exploration expensed		(316,896)	(133,695)
Finance costs		-	(2,240)
Share based payments		(153,320)	(28,250)
Depreciation		(4,224)	(539)
Foreign exchange loss		(6,642)	(4,174)
Other expenses	4	(49,575)	(45,637)
Loss before income tax expense		(1,278,808)	(424,078)
Income tax expense		-	-
Net loss for the period		(1,278,808)	(424,078)
Other comprehensive income net of income tax		-	-
Total comprehensive loss for the period		(1,278,808)	(424,078)
Loss Per Share			
Basic and diluted loss per share (cents per share)		(0.38)	(1.06)

(*) Restated – Refer to Note 1(d) for details

The accompanying notes form part of these financial statements.

Galena Mining Limited

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	31 December 2018	30 June 2018
		\$	<i>Restated(*)</i> \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		3,288,631	8,526,198
Trade and other receivables		172,541	331,689
Prepayments		59,501	98,863
TOTAL CURRENT ASSETS		3,520,673	8,956,750
NON-CURRENT ASSETS			
Plant & equipment		22,171	24,696
Exploration and evaluation	5	12,392,345	8,135,158
Loans to other entities		51,459	-
TOTAL NON-CURRENT ASSETS		12,465,975	8,159,854
TOTAL ASSETS		15,986,648	17,116,604
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		933,850	945,412
Provisions		24,748	15,771
TOTAL CURRENT LIABILITIES		958,598	961,183
TOTAL LIABILITIES		958,598	961,183
NET ASSETS		15,028,050	16,155,421
EQUITY			
Issued capital	6	18,163,526	18,085,201
Share based payment reserve	7	772,436	699,324
Accumulated losses		(3,907,912)	(2,629,104)
TOTAL EQUITY		15,028,050	16,155,421

(*) Restated – Refer to Note 1(d) for details

No third balance sheet is required as there was no impact at 1 July 2017

The accompanying notes form part of these financial statements.

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

	Issued Capital	Share based payment reserve	Accumulated losses	Total
	\$	\$	\$	\$
Balance at 1 July 2017	453,600	323,074	(726,328)	50,346
Loss for the period (Restated*)	-	-	(424,078)	(424,078)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(424,078)	(424,078)
<i>Transactions with owner directly recorded in equity</i>				
Shares issued during the period	9,500,000	-	-	9,500,000
Options issued during the period	-	28,250	-	28,250
Share issue costs	(395,942)	-	-	(395,942)
Balance at 31 December 2017 (Restated*)	9,557,658	351,324	(1,150,406)	8,758,576

	Issued Capital	Share based payment reserve	Accumulated losses	Total
	\$	\$	\$	\$
Balance at 1 July 2018 (Restated*)	18,085,201	699,324	(2,629,104)	16,155,421
Loss for the period	-	-	(1,278,808)	(1,278,808)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(1,278,808)	(1,278,808)
<i>Transactions with owner directly recorded in equity</i>				
Shares issued during the period	80,208	-	-	80,208
Vesting expense recognised	-	73,112	-	73,112
Share issue costs	(1,883)	-	-	(1,883)
Balance at 31 December 2018	18,163,526	772,436	(3,907,912)	15,028,050

(*) Restated – Refer to Note 1(d) for details

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	31 December 2018 \$	31 December 2017 \$
Note		
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(242,501)	(408,524)
Exploration and evaluation expenditure	(4,980,358)	(2,149,242)
Interest received	40,333	27,540
Net cash (used in) operating activities	(5,182,526)	(2,530,226)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(1,699)	(8,549)
Loans to other entities	(51,459)	-
Security deposit payment	-	(15,000)
Net cash (used in) investing activities	(53,158)	(23,549)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	6,000,000
Payment of costs associated with issue of securities	(1,883)	(395,942)
Net cash provided by financing activities	(1,883)	5,604,058
Net (decrease)/increase in cash held	(5,237,567)	3,050,283
Cash and cash equivalents at beginning of financial period	8,526,198	70,261
Cash and cash equivalents at end of financial period	3,288,631	3,120,544

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2018

NOTE 1: BASIS OF PREPARATION OF HALF YEAR FINANCIAL REPORT

Statement of compliance

The half year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

a) Going Concern

The half year financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a loss for the period ended 31 December 2018 of \$1,278,808 (31 December 2017 restated loss: \$424,078) and net cash outflows from operating activities of \$5,182,526 (2017: \$2,530,226). These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern.

The directors believe the Group is a going concern as they have appropriate plans to raise additional capital to fund forecasted activities.

Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in its financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

b) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australia dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Group's 2018 annual financial report for the financial year ended 30 June 2018, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The half year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual report and any public announcements made by Galena Mining Limited and its controlled entity during the half year in accordance with the continuous disclosure requirements of The Corporations Act 2001 and The ASX Listing Rules.

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current half year.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to the Group accounting policies.

c) Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent, Galena Mining Limited and all of the subsidiaries (including any structured entities).

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NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2018

c) Principles of consolidation (continued)

Subsidiaries are entities the parent controls. The parent controls an entity when it 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 over the entity. A list of the subsidiaries is provided in Note 12.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non-controlling interests”. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

d) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated for each area of interest. The expenditure comprises direct costs and excludes overhead and administrative expenditure unconnected with particular areas of interest.

On 15 February 2019 the Directors resolved, effective 31 December 2018, to revise the policy pertaining to AASB 6, Exploration for and Evaluation of Mineral Resources with retrospective effect, whereby all costs incurred in acquisition and evaluation activities would be expensed in the period in which they are incurred unless the expenditure related to an area that had either: (a) already demonstrated economic or development potential; or (b) was integrated with a license that had already demonstrated economic or development potential, considered part of the overall area of interest.

The Directors are of the view that this change in accounting policy provides a more conservative accounting approach.

In accordance with AASB 108, Accounting Policies, Changes in Accounting Estimates and Errors, this change in the application of AASB 6 requires a restatement of prior period comparatives.

The financial report was authorised for issue on 14 March 2018 by the board of directors.

Restatement of Statement of Profit or Loss and Other Comprehensive Income

Reported loss for six months to 31 December 2017	\$290,383
Retrospective adjustment – write off exploration expenditure	<u>\$133,695</u>
Restated loss for the half year	<u>\$424,078</u>

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NOTES TO THE FINANCIAL STATEMENTS For the half year ended 31 December 2018

NOTE 2: OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Abra Project, is managed primarily on the basis of one geographical segment being Australia, and one business segment being mineral exploration in Western Australia.

NOTE 3: REVENUE

	31 December 2018	31 December 2017
	\$	\$
Other income	56,233	27,540
	<u>56,233</u>	<u>27,540</u>

NOTE 4: OTHER EXPENSES

	31 December 2018	31 December 2017
	\$	\$
Legal fees	31,675	22,351
Communication costs	6,594	2,969
Other expenses	11,306	20,317
	<u>49,575</u>	<u>45,637</u>

NOTE 5: EXPLORATION AND EVALUATION

	31 December 2018	30 June 2018
	\$	\$
Capitalised costs in respect of Exploration and Evaluation		
Exploration at cost		
Balance at the beginning of period (Restated)	8,135,158	-
Costs capitalised during the period	4,083,022	8,823,858
Change in accounting policy (Note 1 (d))*	-	(688,700)
Acquisition of Abra tenements	174,165	-
Balance at end of period (Restated)	<u>12,392,345</u>	<u>8,135,158</u>

*On 15 February 2019 the Directors resolved, effective 31 December 2018, to revise the policy pertaining to AASB 6, Exploration for and Evaluation of Mineral Resources with retrospective effect, whereby all costs incurred in acquisition and evaluation activities would be expensed in the period in which they are incurred unless the expenditure related to an area that had either: (a) already demonstrated economic or development potential; or (b) was integrated with a license that had already demonstrated economic or development potential, considered part of the overall area of interest.

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NOTES TO THE FINANCIAL STATEMENTS
For the half year ended 31 December 2018

NOTE 6: ISSUED CAPITAL

	31 December 2018	30 June 2018
	\$	\$
Movement in ordinary shares		
Balance at beginning of period	18,085,201	453,600
Shares issued during the year for cash	-	15,000,001
Share based payments	80,208*	112,970
Shares issued to Vendors for Abra Mining project acquisition	-	3,500,000
Less share issue costs	(1,883)	(981,370)
	<u>18,163,526</u>	<u>18,085,201</u>

*Reflects the Fair Value of share-based payments.

	31 December 2018	30 June 2018
	No.	No.
Movement in ordinary shares		
Balance at beginning of period	336,564,520	8,100,000
Shares issued for cash	-	88,064,520
Share based payments	458,333	500,000
Share split 1:5 basis (23 March 2018)	-	222,400,000
Shares issued to Vendors for Abra Mining project acquisition	-	17,500,000
Balance at reporting date	<u>337,022,853</u>	<u>336,564,520</u>

Share Options

At the end of the period, the following options over unissued ordinary shares were outstanding:

- ◆ 11,750,000 options expiring 30 June 2020 at an exercise price of \$0.06 each;
- ◆ 5,000,000 options expiring 6 February 2021 at an exercise price of \$0.30 each; and
- ◆ 18,000,000 options expiring 30 June 2021 at an exercise price of \$0.08 each.

No options have been exercised between the end of the period and the date of this report.

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NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2018

Performance Rights

At the end of the period, the Company has 16,500,000 Performance Rights on issue.

Under the terms of Director Appointment and Consultant Appointment letters between Managing Director, Mr Molyneux and the Company dated 3 August 2018 and pursuant to shareholder approval at a General Meeting of held on 19 October 2018, the Company issued 16,500,000 Performance Rights to Mr Molyneux on 9 November 2018. Each Performance Right will vest as one Share subject to the satisfaction of certain milestones.

Summary of terms and conditions of the Performance Rights

- (a) **(Milestones):** The Performance Rights will have the following milestones attached to them:
- (i) **Class 1 Performance Rights:** At any time on, or prior to, vesting:
 - (A) the Company commences initial physical development works at the Abra Base Metal Project such as initiation of: earth works; decline development; or site infrastructure development (ie, major camp works or air strip development or power plant or infrastructure construction); or
 - (B) at least one Project Milestone or Share Performance Milestone (as defined below) has been achieved.
 - (ii) **Class 2 Performance Rights:** At any time on, or prior to, vesting;
 - (A) the Company commences initial physical development works at the Abra Base Metal Project such as initiation of: earth works; decline development; or site infrastructure development (ie, major camp works or air strip development or power plant or infrastructure construction); or
 - (B) at least one Project Milestone or Share Performance Milestone (as defined below) has been achieved.
 - (iii) **Class 3 Performance Rights:** Completion of project development funding for the Abra Base Metal Project (ie, for the Company to have cash available plus committed facilities, joint-venture arrangements, product pre-payment arrangements or royalty facilities equivalent to cover its share of the estimated remaining project development capital expenditure for the Abra Base Metal Project at any given time) (**Project Milestone 1**).
 - (iv) **Class 4 Performance Rights:** Completion of construction of the Abra Base Metal Project (**Project Milestone 2**).
 - (v) **Class 5 Performance Rights:** Commencement of commercial production at Abra Base Metal Project (ie, achievement of two quarters of positive cash receipts from customers less cash payments to suppliers and employees) (**Project Milestone 3**).
 - (vi) **Class 6 Performance Rights:** The volume-weighted average share price (**VWAP**) for the last 20 business days of the Company's shares trading on the ASX equals or exceeds A\$0.40/share (**Share Performance Milestone 1**).
 - (vii) **Class 7 Performance Rights:** The VWAP for the last 20 business days of the Company's shares trading on the ASX equals or exceeds A\$0.60/share (**Share Performance Milestone 2**).
 - (viii) **Class 8 Performance Rights:** The VWAP for the last 20 business days of the Company's shares trading on the ASX equals or exceeds A\$0.80/share (**Share Performance Milestone 3**), (each a **Milestone**).

Galena Mining Limited

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NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2018

Performance Rights (continued)

- (b) **(Vesting):** The Class 1 Performance Rights will vest on 1 September 2019 and the Class 2 Performance Rights vest on 1 September 2020. The Class 3 Performance Rights, Class 4 Performance Rights, Class 5 Performance Rights, Class 6 Performance Rights, Class 7 Performance Rights and Class 8 Performance Rights do not have any vesting conditions attached to them.
- (c) **(Notification to holder):** The Company shall notify the holder in writing when the Milestone has been satisfied.
- (d) **(Conversion):** Subject to paragraph (n), upon vesting and achievement of the relevant Milestone, each Performance Right will, at the election of the holder, convert into one fully paid ordinary share in the capital of the Company (**Share**).
- (e) **(Share ranking):** All Shares issued upon the vesting of Performance Rights will upon issue rank pari passu in all respects with other Shares.
- (f) **(Application to ASX)** The Performance Rights will not be quoted on ASX. The Company must apply for the official quotation of a Share issued on conversion of a Performance Right on ASX within the time period required by the ASX Listing Rules.
- (g) **(Transfer of Performance Rights):** The Performance Rights are not transferable.
- (h) **(Lapse of a Performance Right):**
 - (i) If a Class 1 Performance Right Milestone or Class 2 Performance Right Milestone is not achieved before the holder ceases to be a director of the Company, the relevant Performance Right will automatically lapse.
 - (ii) If a Class 3 Performance Right Milestone, Class 4 Performance Right Milestone, Class 5 Performance Right Milestone, Class 6 Performance Right Milestone, Class 7 Performance Right Milestone or Class 8 Performance Right Milestone is not achieved whilst the holder remains engaged by the Company as a consultant under the Consulting Agreement, the relevant Performance Right will automatically lapse.
 - (iii) each Performance Right shall otherwise expire on that date which is 5 years from date of issue (**Expiry Date**). If the relevant Milestone attached to the Performance Right has not been achieved by the Expiry Date, all unconverted Performance Rights of the relevant class will automatically lapse at that time.
- (i) **(Participation in new issues)** A Performance Right does not entitle a holder (in their capacity as a holder of a Performance Right) to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (j) **(Reorganisation of capital)** If at any time the issued capital of the Company is reconstructed, all rights of a holder will be changed in a manner consistent with the applicable ASX Listing Rules and the Corporations Act at the time of reorganisation.
- (k) **(Adjustment for bonus issue)** If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) the number of Shares or other securities which must be issued on the conversion of a Performance Right will be increased by the number of Shares or other securities which the holder would have received if the holder had converted the Performance Right before the record date for the bonus issue.
- (l) **(Dividend and Voting Rights):** The Performance Rights do not confer on the holder an entitlement to vote (except as otherwise required by law) or receive dividends.

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NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2018

Performance Rights (continued)

- (m) **(Change in Control):** Subject to paragraph (n):
- (i) In relation to the Class 1 Performance Rights:
 - (A) in the event of a Change of Control prior to 1 September 2019, the Class 1 Performance Rights will immediately vest and be immediately convertible into Shares;
 - (B) in the event of a Change of Control on or after 1 September 2019, the Class 1 Performance Rights will immediately vest and be immediately convertible into Shares.
 - (ii) In relation to the Class 2 Performance Rights, in the event of a Change of Control on or after 1 September 2019, the Class 2 Performance Rights will immediately vest and be immediately convertible into Shares.
 - (iii) In relation to the Class 3 Performance Rights and Class 6 Performance Rights, in the event of a Change of Control prior to 1 September 2019, the Class 3 Performance Rights and Class 6 Performance Rights will be immediately convertible into Shares.
 - (iv) In relation to the Class 3 Performance Rights, Class 4 Performance Rights, Class 5 Performance Rights, Class 6 Performance Rights, Class 7 Performance Rights and Class 8 Performance Rights, in the event of a Change of Control on or after 1 September 2019, the Class 3 Performance Rights, Class 4 Performance Rights, Class 5 Performance Rights, Class 6 Performance Rights, Class 7 Performance Rights and Class 8 Performance Rights will be immediately convertible into Shares.
 - (v) For the purpose of this paragraph (m), **Change of Control** means:
 - (A) when in relation to the Company any person, either alone or together with any Associate (as defined in the Corporations Act) acquires a Relevant Interest in more than 50% of the issued shares in the Company;
 - (B) the sale or disposal by the Company of 50% or more of the Abra Base Metal Project; or
 - (C) any event which the Board determines, in its discretion, is a Change of Control.
- (n) **(Deferral of conversion if resulting in a prohibited acquisition of Shares):** If the conversion of a Performance Right under paragraph (d) or (m) would result in any person being in contravention of section 606(1) of the *Corporations Act 2001* (Cth) (**General Prohibition**) then the conversion of that Performance Right shall be deferred until such later time or times that the conversion would not result in a contravention of the General Prohibition. In assessing whether a conversion of a Performance Right would result in a contravention of the General Prohibition:
- (i) holders may give written notification to the Company if they consider that the conversion of a Performance Right may result in the contravention of the General Prohibition. The absence of such written notification from the holder will entitle the Company to assume the conversion of a Performance Right will not result in any person being in contravention of the General Prohibition;
 - (ii) the Company may (but is not obliged to) by written notice to a holder request a holder to provide the written notice referred to in paragraph (n)(i) within seven days if the Company considers that the conversion of a Performance Right may result in a contravention of the General Prohibition. The absence of such written notification from the holder will entitle the Company to assume the conversion of a Performance Right will not result in any person being in contravention of the General Prohibition.

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NOTES TO THE FINANCIAL STATEMENTS
For the half year ended 31 December 2018

Performance Rights (continued)

- (o) **(No rights to return of capital)** A Performance Right does not entitle the holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.
- (p) **(Rights on winding up)** A Performance Right does not entitle the holder to participate in the surplus profits or assets of the Company upon winding up.
- (q) **(No other rights)** A Performance Right gives the holder no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.
- (r) **(Subdivision 83AC-C):** Subdivision 83A-C of the Income Tax Assessment Act 1997 applies to the Performance Right.

NOTE 7: SHARE BASED PAYMENT RESERVE

The share-based payments reserve records items recognised as expenses on valuation of employees and consultants options and performance rights.

A summary of the movements of all company options and performance rights is as follows:

	Number	Weighted Average Exercise Price (\$)
Options outstanding as at 1 July 2017	5,700,000	0.36
Issued	1,250,000	0.0226
Forfeited	-	-
Exercised	-	-
Expired	-	-
Other changes – Post-share split (1:5 basis)	27,800,000	-
Options outstanding as at 30 June 2018	34,750,000	0.36
Options exercisable as at 30 June 2018	34,750,000	0.36

	Number	Weighted Average Exercise Price (\$)
Options outstanding as at 1 July 2018	34,750,000	0.36
Fair value assessment - performance rights issued	16,500,000	0.16
Forfeited	-	-
Exercised	-	-
Expired	-	-
Options and performance rights outstanding as at 31 December 2018	51,250,000	0.26
Options exercisable as at 31 December 2018	34,750,000	0.36

The 27,250,000 unlisted options issued to directors and consultants are subject to an escrow period of 24 months from date of ASX listing.

The weighted average remaining contractual life of options outstanding at the end of the period was 2.01 years. See note 9 for valuation technique, assumptions and inputs.

Galena Mining Limited

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NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2018

NOTE 7: SHARE BASED PAYMENT RESERVE (continued)

Performance Rights issued as at 31 December 2018 16,500,000 0.16

The 16,500,000 performance rights issued to Managing Director/CEO are subject to various classes and various vesting conditions as follows:

Class	Number of Performance Rights	Grant Date	Vesting Terms	Expiration Date	Fair Value per Grant Date
1	1,000,000	19-Oct-2018	VWAP of Company's share price equals or exceeds \$0.40 per share for previous 20 days	1-Sept-2019	\$0.082
2	1,500,000	19-Oct-2018	VWAP of Company's share price equals or exceeds \$0.40 per share for previous 20 days	1-Sept-2020	\$0.130
3	2,500,000	19-Oct-2018	Completion of project development funding for Abra Base Metal Project (Milestone 1)	18-Oct-2023	\$0.190
4	2,500,000	19-Oct-2018	Completion of construction of the Abra Base Project (Milestone 2)	18-Oct-2023	\$0.190
5	2,000,000	19-Oct-2018	Commencement of commercial production at Abra Base Metal Project (Milestone 3)	18-Oct-2023	\$0.190
6	2,500,000	19-Oct-2018	VWAP of Company's share price equals or exceeds \$0.40 per share for previous 20 days	18-Oct-2023	\$0.171
7	2,500,000	19-Oct-2018	VWAP of Company's share price equals or exceeds \$0.60 per share for previous 20 days	18-Oct-2023	\$0.158
8	2,000,000	19-Oct-2018	VWAP of Company's share price equals or exceeds \$0.80 per share for previous 20 days	18-Oct-2023	\$0.148

Fair valuation method used for valuing Performance Rights is the Hoadley Trading & Investment Tools, option valuation model with a Spot Price of \$0.19, being the last traded price on the ASX at the close of trade prior to the Valuation Date. All Performance Rights have nil exercise price.

Other key assumptions - volatility 90% and interest rate for Class 1 and Class 2, 2.02% for Class 1 and remainder at 2.09%.

NOTE 8: EVENTS AFTER REPORTING PERIOD

- On 30 January 2019, the Company announced that it has executed a Term Sheet with Toho Zinc Co. Ltd setting out the proposed terms for Toho's investment of \$90 million in three (3) tranches for a 40% ownership interest in Galena's wholly-owned subsidiary, Abra Mining Pty Ltd, subject to the satisfaction of agreed conditions and execution of binding documentation.
- On 14 February 2019, the Company issued 1,260,000 Performance Rights, which take the form of Share Appreciation Rights ("SARs"), to employees and consultants under the Performance Rights Plan which was approved by shareholders at The Company's Annual General Meeting held on 26 November 2018.

No other matter or circumstance has arisen since the end of audited period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

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NOTES TO THE FINANCIAL STATEMENTS
For the half year ended 31 December 2018

NOTE 9: SHARE BASED PAYMENTS

Grant Date/entitlement	Number of Instruments	Grant Date	Fair value per instrument \$	Value \$
Unlisted Options issued on 30 August 2017 as per employment agreement exercisable at \$0.08 on or before 30 June 2021*	1,250,000*	30/08/2017	0.0226	28,250
Unlisted Options issued on 7 February 2018 as per employment agreement exercisable at \$0.30* on or before 6 February 2021	5,000,000*	07/02/2018	\$0.0696	348,000
Recognised in the year to 30 June 2018				376,250
Performance Rights issued on 9 November 2018 to Managing Director as per Director and Consultant Agreements pertaining to various vesting conditions and dates, expiring 9 November 2023	16,500,000**	19/10/2018		73,112
Recognised in the period to 31 December 2018				73,112

*The number and exercise price of the options granted are on a post 1:5 share split basis.

** Number of Performance Rights on issue as at 31 December 2018 is 16,500,000. 2,500,000 of these Performance Rights as at 31 December 2018 have a total fair value of \$73,112. Remaining Performance Rights are subject to market and vesting conditions.

No options have expired or been exercised and therefore, the total options on issue at 31 December 2018 and 30 June 2018 represent all those issued since incorporation – 34,750,000 on a post-split basis.

*1,250,000 unlisted Options issued as part of employment agreement and to Promoters have been calculated using Black-Scholes option pricing model with the following inputs:

	Tranche 3 Options Granted
Expected volatility (%)	100
Risk free interest rate (%)	2.08
Weighted average expected life of options (years)	3.84
Expected dividends	Nil
Option exercise price (\$)	0.40
Share price at grant date (\$)	0.20
Fair value of option (\$)	0.0226
Number of options	1,250,000
Expiry date	30 June 2021

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NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2018

NOTE 9: SHARE BASED PAYMENTS (continued)

- (i) 5,000,000* unlisted Options issued as part of employment agreement have been calculated using Black-Scholes option pricing model with the following inputs:

	COO Options Granted
Expected volatility (%)	51
Risk free interest rate (%)	2.12
Weighted average expected life of options (years)	3
Expected dividends	Nil
Option exercise price (\$)	0.30
Share price at grant date (\$)	0.24
Fair value of option (\$)	0.0696
Number of options (post share-split)	5,000,000
Expiry date	30 June 2021

Vesting was deemed to be immediate as there are no vesting conditions.

NOTE 10: CONTINGENT ASSETS AND LIABILITIES

Native title claims have been made with respect to areas which include tenements in which the Group has interests. The Group is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the Group or its projects.

In the opinion of the directors there were no other contingent assets or liabilities as at 31 December 2018.

NOTE 11: CAPITAL AND OTHER COMMITMENTS

Group tenement expenditure commitments.

	31 December 2018 \$	30 June 2018 \$
Within one year	179,763	141,921
Between 1 and 5 years	821,813	315,014
	<u>1,001,576</u>	<u>456,935</u>

In the opinion of directors, there were no further capital or other commitments as at 31 December 2018.

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NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2018

NOTE 12: INTEREST IN CONTROLLED ENTITY

The consolidated financial statements incorporate the assets, liabilities and the results of the following subsidiary in accordance with the accounting policy described in note 1:

Name	Country of Incorporation	Class of share	Equity holding	
			31 December 2018	30 June 2018
Abra Mining Pty Ltd	Australia	Ordinary	100%	100%
Metal Range Ltd ⁽ⁱ⁾	Australia	Ordinary	-	100%
MR1 Holding Pty Ltd ⁽ⁱ⁾	Australia	Ordinary	-	100%

(i) Metal Range Ltd was disposed of during the half year period for nominal value of \$1 with no effect to the Group accounts. MR1 Holding Pty Ltd is a wholly owned subsidiary of Metal Range Ltd.

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DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Galena Mining Limited, the directors of the company declare that:

1. the financial statements and notes are thereto in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the company as at 31 December 2018 and of its performance, for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards (including International Financial Reporting Standards) and the Corporations Regulations 2001;
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 has been made after receiving the declarations required to be made by the directors in accordance with sections of 295A of the Corporations Act 2001.

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



Adrian Byass
Chairman

Perth, 14 March 2019

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF GALENA MINING LIMITED

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Galena Mining Limited (the company) and controlled entities (consolidated group), which comprises the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes, and the directors' declaration of the consolidated group comprising the company and the entities it controlled at 31 December 2018, or during the half year.

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 Galena Mining Limited is not in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the consolidated group's financial position as at 31 December 2018, and of its financial performance for the half-year ended on that date; and
- (b) complying with the Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1 in the financial report, which confirmed that the consolidated entity incurred a net loss after tax of \$1,278,808 during the half year ended 31 December 2018. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report of the consolidated entity does not include any adjustments in relation 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.

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Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. In accordance with the Corporations Act 2001, we have given the directors' of the company a written Auditor's Independence Declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors' of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with the Australian Accounting Standards and the Corporations Regulations 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

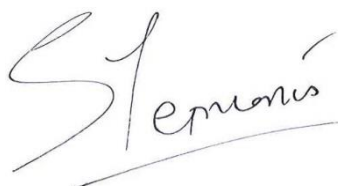
Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated group's financial position as at 31 December 2018 and its performance for the half year ended on that date, and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Galena Mining Limited and the entities it controlled during the half year, 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.



PKF PERTH



SIMON FERMANIS
PARTNER

14 MARCH 2019
WEST PERTH,
WESTERN AUSTRALIA