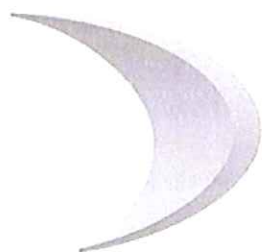


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# SILVER MINES LIMITED

ACN 107 452 942

## ANNUAL REPORT

### 30 JUNE 2015

## Chairman's Letter to Shareholders

Dear Shareholder,

The financial year 30 June 2015 has seen a number of significant achievements and announcements made in relation to board composition, financing and Silver focussed project acquisitions.

Firstly, I would like to welcome Nathan Featherby and James Naughton to the board as Non-Executive directors. These appointments have further enhanced the skillset of the board, and are welcome additions to the Company.

During the financial year, Silver Mines entered into an agreement with Malachite Resources (ASX:MAR) to acquire the Conrad Silver Project. This acquisition represents part of a broader strategy to acquire what the board and management at Silver Mines believe to be accretive and undervalued Silver ounces globally.

The junior resources sector continues to face challenges. Overall, sentiment remains poor for junior mining companies, from which Silver Mines is not immune. In addition to this general malaise within the sector, the Silver price has provided very little relief and therefore access to capital has remained difficult for junior companies.

Much has been written in investor newsletters about the very significant upside potential in Precious metals, and Silver prices in particular, as the global financial position deteriorates. The Directors of Silver Mines remain confident that the current depressed level of the Silver price will be unlikely to continue for too long, and remain committed to taking advantage of the depressed valuations within the sector with a view that at some point a significant re-rating will occur.

Albeit a difficult period overall for the precious metals sector, your Company remains optimistic that better market conditions will return and that Silver Mines will be positioned to compete strongly as a leading Silver focussed exposure for investors on the ASX.

Silver Mines continues to review and asses various acquisition opportunities and looks forward to continuing its focus and delivery on these various Silver growth initiatives, including the recently signed Heads of Agreement (HoA) signed with White Rock Minerals, owners of the Mt Carrington Silver Project in Northern NSW.

We thank you for your support and remain optimistic and excited for the prospects in the year ahead.

**David Sutton**  
Chairman

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## SILVER MINES LIMITED DIRECTORS' REPORT

The Directors present their report on the Company for the year ended 30 June 2015.

### Directors

The Directors of Silver Mines Limited during the financial year and until the date of this report are:

David Henty Sutton – Non-Executive Director – Chairman  
Douglas Flinn – Non-Executive Director  
Charles David Straw - Managing Director  
Nathan John Featherby – Non-Executive Director (Appointed 16/10/2014)  
James Paul Naughton – Non-Executive Director (Appointed 16/10/2014)

### Principal Activities

The principal activities of the Company during the financial period was maintaining the 100% owned Webbs Silver Project in NSW in good standing and seeking new silver opportunities in Australia and Overseas in favourable jurisdictions.

### Highlights for 2015 Financial Year

- Development and implementation of Australian focussed silver growth strategy.
- Execution of MOU to support growth strategy through the acquisition of the Conrad Silver Project in north-eastern NSW.
- Lodgement of two new Exploration License Applications (ELAs) surrounding and along strike from the large undeveloped Bowdens silver deposit in NSW.

### Review of Operations

On 10 October 2014, SVL announced that it had entered into an MOU to support a Silver focused growth strategy. Consistent with this objective and complementary to SVL's Webbs Silver asset, the Company recently announced the acquisition of the Conrad Silver Project from Malachite Resources as well as the lodgement of two new Exploration License Applications (ELA) surrounding and along strike from the large, undeveloped Bowdens silver deposit in NSW.

It is SVL's view that at present, financial assets and more particularly US equities are in a bubble. Furthermore, it remains the Company's belief that precious metals, and more particularly Silver, will eventually outperform equities and other assets, with prices potentially testing or exceeding the highs reached in 2011/12.

SVL's goal is to provide exceptional returns to shareholders by maximising leverage to the Silver Price in what we perceive will be a rising Silver Price environment.

The Board has concluded that SVL's competitive advantage would be to evaluate, acquire, explore opportunistically priced Silver Deposits in the current Silver market, narrowing our value-added. A key focus of this includes acquiring known silver deposits with demonstrated JORC resources that provide a low entry price to silver assets on a per ounce basis. Adding silver ounces and continuing to accumulate additional silver resources will provide a backing per share on a silver ounce per share basis.

In effect, SVL has been conceived as a "Silver in the ground" ETF with the value enhancing potential to expand silver and other precious metal ownership and upgrade the quality of existing silver resources with minimal equity dilution, unlike above ground ETF's.

In SVL's view, it is currently cheaper to buy already demonstrated silver ounces in the ground than explore for them in the current market cycle, and therefore we are looking actively for Australian Silver Deposits that are not necessarily economic in a low Silver price environment, but would provide exponential growth in value as the price of Silver rises.

**SILVER MINES LIMITED**  
**DIRECTORS' REPORT**  
continued

SVL have four main criteria for growth:

- Identify and acquire JORC silver ounces;
  - Acquire silver projects that offer other synergies such as geographic position to existing projects;
  - Have a highly prospective exploration portfolio with ground positions near to known silver deposits that have had little modern silver exploration and
  - Build a portfolio of silver assets with low holding costs to conserve cash in the near term and where value can be added through an increased silver price.
- 
- It is the expectation of the company that eventually it will become more expensive to acquire existing silver resources and the cost-benefit equation will tilt in favour of exploration again. This will represent the second stage of our strategy, to enhance the resource base by carefully targeted exploration.

### Other

#### *Environmental issues*

The Company's Project Areas in NSW are located on exploration licences issued by the Department of Mineral Resources.

The Company had statutory obligations to protect the environment in which it was exploring and to rehabilitate areas disturbed as a result of exploration activities.

### Future Plans

While the market for junior exploration companies remains exceedingly tough, SVL is confident in its ability to execute a strategy to accumulate significant silver assets on very attractive pricing structures. The price of silver is currently trading near multi-year lows, however the Board remains of the opinion that there are sufficient factors to provide encouragement that higher silver prices will prevail in years to come.

In light of this belief, the Company remains firmly committed to its strategy of acquiring silver projects and moving them towards development in anticipation of higher silver prices. The Board believes that successful execution of this strategy will leave SVL in a unique position as the dominant silver resources company on the Australian Securities Exchange.

### Competent Persons' Statements

The information in this report that relates to Mineral Reserves, Mineral Resources and Exploration Results is based on information compiled by Mr Charles Straw, Chief Executive Officer of SVL. Mr Straw is a Member of The Australasian Institute of Mining and Metallurgy. Mr 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 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Straw consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

### **Results**

The Company incurred a pre-tax operating loss of \$1,270,382 (2014: loss \$9,273,686).

### **Dividends**

No dividend has been paid since the end of the previous financial year and no dividend is recommended for the current year (2014: \$Nil).

**SILVER MINES LIMITED**  
**DIRECTORS' REPORT**  
continued

### **Significant changes in the state of affairs**

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

### **Events subsequent to reporting date**

Since the end of the financial year and the date of this report, the following significant and material events have taken place:

- (i) On 7 July, 2015, the Company announced its forward strategy confirming that its focus was on acquiring cheap silver assets in the ground, with a view to adding exponential value for shareholders with any increase in the silver price and any associated benefit arising from the diminishing Australian Dollar.
- (ii) On 22 July, 2015, the Company reached an agreement with Bergen Global Opportunity Fund II LLC (Bergen) whereby the Company would cover the legal cost of Bergen if SVL withdrew from the acquisition of the Twin Hills Project. Such costs amount to \$255,412.96 and Bergen and SVL have agreed to settle such debt with SVL making an initial payment of \$25,000, a 2<sup>nd</sup> payment of \$100,764.48 and the issue of 100,764,480 ordinary fully paid shares. The initial payment of \$25,000 has already been made and the balance of monies and shares will be paid and issued after the Rights Issue referred to below is completed.
- (iii) On 17 June, 2015 SVL announced a 4:1 renounceable Right Issue at \$0.001, with 2 free options exercisable at \$0.003 for every 4 new shares taken up under the Rights Issue. The Prospectus for the Rights Issue was released on 1 September, 2015 and a Replacement Prospectus issued on 9 September, 2015 and despatched on 10 September, 2015.
- (iv) The Company released a Notice of Meeting on 9 September, 2015 for a general meeting of shareholders to be held at 10.30 AM on Friday, 9 October, 2015. The Notice was despatched on 10 September, 2015.
- (v) On 2 September, 2015 SVL made a release in respect to changes to the terms of the purchase of the acquisition of the Conrad Silver Project from Malachite Resources Ltd (MAR) which it had informed the market about on 11 May and 17 June, 2015. The new terms include the payment of two tranches of \$50,000 which have already been made, a further payment of \$75,000 on or before 18 September, 2015, \$275,000 payable upon the completion of the Rights Issue referred to in (iii) above and the issue of \$125,000 in shares at a price of the lower of the 5 day VWAP and \$0.002 after obtaining any necessary approvals, with such shares being escrowed for a period of 12 months.
- (vi) On 23 July, 2015 SVL announced that it had entered a Subscription Agreement with White Rock Minerals (WRM) to subscribe for two tranches of \$100,000 in shares at \$0.02/share in WRM and to advance an amount of \$300,000 to WRM 45 days after the 2<sup>nd</sup> tranche of the subscription being made. The loan would be unsecured and interest free and SVL would have the option but not the obligation to convert it to shares. SVL has paid \$50,000 of the first tranche. On 1 September, 2015, WRM and SVL announced that the terms had been altered to allow SVL to make the balance of the subscription amounts in two tranches with an additional \$75,000 to be paid on or before 18 September, 2015 and another \$75,000 payable on or before 6 October, 2015. In all other respects then terms remained unchanged.

**SILVER MINES LIMITED**  
**DIRECTORS' REPORT**  
continued

### **Likely developments**

Information on likely developments is included in the Chairman's Report accompanying this financial report.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

### **Information on Directors**

#### ***David Henty Sutton, Non-Executive Chairman***

David has many years' experience in stockbroking and investment banking including management of corporate finance, advisory, and share broking activities. He currently owns and manages Dayton Way Financial Pty Limited, a boutique financial services company focusing on the resources sector, which has offices in Sydney and Hong Kong. David became a member of the Stock Exchange of Melbourne and subsequently, Australian Securities Exchange Limited. Prior to his current role, he was a partner and Director of several stock exchange member firms including Clarke & Co and Macnab Clarke. David's past experience includes Directorships in several industrial and resource companies. He is currently Chairman of Silver Mines Limited, Sinovus Mining Limited (ASX: SNV) and a Director of Empire Energy Group Limited, a company producing oil and natural gas in the US.

#### Other listed company directorships held during past 3 years:

Earth Heat Ltd  
Sinovus Mining Ltd  
Empire Energy Group Ltd  
Precious Metals Investments Ltd  
AAT Corporation Ltd  
EHG Corporation Ltd

#### ***Charles David Straw, Managing Director***

Charles is an economic geologist with almost 20 years in the mining industry globally. His experience is multi-faceted, comprising of executive management of public and private mineral explorers – including mineral exploration, joint ventures, project evaluation and acquisition, project development and corporate finance as well as geospatial technology applications. He holds an Honours Degree in Applied Geology from UNSW in Sydney and a Graduate Certificate in Applied Finance and Investment from the Securities Institute of Australia. Charles is a member of the CIM, AUSIMM and the Society of Economic Geologists. He has led the exploration and evaluation of precious and base metals projects in Australia, South America and China. He is currently a Director and CEO of TSX.V listed Artha Resources Corporation.

#### Other listed company directorships held during past 3 years:

Precious Metals Investments Ltd  
Artha Resources Corporation

#### ***Douglas Flinn, Non-Executive Director***

Mr Flinn studied geology at Australian National University (ANU) in Canberra and subsequently worked in the iron ore industry in the Pilbara from 1966 to 1971. From 1972 to 1985, Mr Flinn was a partner in Walpett Engineering Pty Limited, a steel fabrication business. He then became Managing Director and owner, a position that he still holds. Mr Flinn has been an investor in exploration and mining companies since 1966 with a broad range of international investments across most commodities.

#### Other listed company directorships held during past 3 years:

Precious Metals Investments Ltd

#### ***Nathan John Featherby – Non-Executive Director***

Nathan Featherby has 9 years of investment banking and natural resource investment experience. Nathan is the co-founder of Ochre Management Pty Ltd, a Western Australian merchant bank which focuses on advisory and investments in small to medium capitalisation mining and exploration companies. Nathan has previously worked as a stockbroker and independent financier in Australia with a specialisation in resources. His role at Silver Mines Limited will focus on the pursuit of project opportunities with synergies to our precious metals strategy coupled with the expansion of the Company's investor base. Nathan brings with him an

extensive Asia/Pacific and US business development network in the global minerals sector.

Other listed company directorships held during past 3 years:

Ochre Group Holdings Ltd

**James Paul Naughton – Non-Executive Director**

James Naughton has 5 years experience in the natural resource investment sector. Upon completion of a Bachelor of Commerce at the University of Western Australia, James became a stockbroker at a leading broking firm in Western Australia. He has been involved in numerous capital raising initiatives for small capitalisation companies listed on the Australian Stock Exchange. James is a director of Capital Management Pty Ltd, a boutique corporate finance company where he is responsible for providing strategic advice to its clients.

Other listed company directorships held during past 3 years: None

**Company Secretary**

***Kevin Martin Lynn, B.Bus, CA, FAIDC, FFin (Resigned 13/02/2015)***

Mr Lynn is a Chartered Accountant with a Master's Degree in Finance. He has over 20 years' experience in the resources sector as Chief Financial Officer with project finance, fund raising and project generation experience. Kevin is currently acting as Company Secretary or Director of a number of public and listed public companies including Precious Metals Investments Limited, Bursledon Energy Limited, Hill End Gold Limited, Granite Power Limited and Resource Base Limited.

***Vazrick Hovanessian, B.Bus., M.App.Fin, FCSA, FGIA***

Vaz has spent 7 years in chartered accounting before setting up a Corporate & Financial Advisory business in 1981 and has been a self-employed businessman for 33 years with interests in Mining & Exploration, Financial Services, Corporate Advisory, Property and Tourism. He has held senior positions, from CFO & Company Secretarial roles to Executive Directorships and Chairmanships in several ASX Listed junior and emerging resource (Mining & Oil and Gas) companies since 1984 and is currently the Chairman of Broad Investments Limited and the CFO and Company Secretary at Ochre Group Holdings Limited. He also has advisory roles in other junior explorers. Vaz is Managing Director of Fern Street Partners, a corporate advisory firm which provides Strategic Corporate Advice specialising in SMEs and ASX Listed companies (Small Caps and Junior Miners), including Restructuring, Fund Raising, ASX Listings (Spin-offs, Back-door & IPO), Business Acquisitions & After Market Strategies.

**Remuneration Report**

**Remuneration policy**

The remuneration policy of Silver Mines Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long term incentives based on key performance indicators affecting the Company's financial results. The Board of Silver Mines Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Company.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the Company is as follows:

The remuneration policy, setting the terms and conditions for the executive Directors and other senior executives, was developed by the Board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The Board reviews executive packages annually by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive Directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. All remuneration paid



to Directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black & Scholes methodology.

**SILVER MINES LIMITED**  
**DIRECTORS' REPORT**  
continued

**Remuneration Report (continued)**

The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting (currently \$250,000). Fees for Non-Executive Directors are not linked to the performance of the Company. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in employee option plans.

**Performance based remuneration**

The Company currently has no performance based remuneration component built into the Managing Directors executive remuneration package.

**Company performance, shareholder wealth and directors' and executives' remuneration**

The remuneration policy has been tailored to increase goal congruence between shareholders and Directors and executives. Currently, this is facilitated through the issue of options to the majority of Directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced. For details of Directors' and executives' interests in options at year end, refer note 17 of the financial statements.

The Directors have set the base fees payable as follows –

Non-Executive Chairman	\$48,000 per annum
Non-Executive Directors	\$30,000 per annum
Audit Committee members	\$Nil per annum

The Company does not have any schemes for retirement benefits for Non-Executive Directors.

**Service agreements**

There are no other service agreements.

**Director remuneration for the year ended 30 June 2015:**

		Salary & Fees	Non-monetary	Super-annuation	Retirement benefits	Non-cash share-based payments	Other bonuses	Total
D Sutton	2015	24,000	-	-	-	-	-	24,000
	2014	48,000	-	-	-	-	-	48,000
D Flinn	2015	15,000	-	-	-	-	-	15,000
	2014	30,000	-	-	-	-	-	30,000
C Straw	2015	219,000	-	-	-	-	-	219,000
	2014	251,943	-	-	-	-	-	251,943
N Featherby	2015	81,000	-	-	-	-	-	81,000
	2014	-	-	-	-	-	-	-
J Naughton	2015	7,500	-	-	-	-	-	7,500
	2014	-	-	-	-	-	-	-

**SILVER MINES-LIMITED**  
**DIRECTORS' REPORT**  
continued

**Remuneration Report (continued)**

Remuneration of the 5 named executives who receive the highest remuneration for the year ended 30 June 2015:

		Salary & Fees	Non-monetary	Super-annuation	Retirement benefits	Non-cash share-based payments	Other bonuses	Total
K Lynn	2015	28,000	-	-	-	-	-	28,000
	2014	48,000	-	-	-	-	-	48,000
V Hovanesian	2015	60,416	-	-	-	-	-	60,416
	2014	-	-	-	-	-	-	-

**Options and rights granted as part of remuneration**

Pursuant to resolutions passed at the Company's Annual General Meeting held on 19 November 2012 the following Performance Rights were issued:

Performance Rights:	D Sutton	1,000,000
	C Straw	1,000,000

The Performance Rights were granted at no cost, however, will only vest upon the satisfaction of relevant performance conditions pursuant to the Company's Performance Rights Plan also as approved at the company's Annual General Meeting on 19 November 2012. None of the set criteria were met and all of the performance rights have now expired and no longer exist.

For details of Directors' and executives' interests in options and rights at year end, refer note 17 of the financial statements.

**Performance Income as a proportion of total remuneration**

No performance based bonuses have been paid to Directors during the financial year. It is the intent of the Board to include performance bonuses as part of remuneration packages when mine production commences. However, all previously issued performance rights have now expired.

**Meetings of Directors**

The Directors held the following formal Directors' meetings throughout the year ended 30 June 2015. However, several resolutions were approved by Circular Resolutions during the year, as required, rather than convening a board meeting.

Director	# of Meetings eligible to attend	# of meetings attended
David Sutton	7	6
Charles Straw	7	7
Doug Flynn	7	6
Nathan Featherby	4	4
James Naughton	4	4

In light of the current activities and size of the Company, it is not presently considered necessary for separate Audit, Nomination and Remuneration Committees of the Board. No Audit, Remuneration or Nomination and Remuneration Committee Meetings were held during the year, with all relevant matters being considered by the full Board of Directors. This situation will be kept under constant review by the Board.

**SILVER MINES LIMITED**  
**DIRECTORS' REPORT**  
continued

**Shares and options**

During the year the Company issued:

- 166,400,229 shares at \$0.005 per share in relation to a Rights Issue to existing Shareholders together with 83,200,135 free unlisted options at with an exercise price of 1.0 cent expiring on 13 December 2015;
- Convertible Security with a face value of \$174,000 on the same terms as the Convertible Security with a face value of \$406,000 on the 30 June 2014. 86,255,194 shares at an average price of \$0.0047 were issued leaving an outstanding balance of \$79,398 in relation to the Convertible Security as at 30 June 2014.
- On 2<sup>nd</sup> September, 2014 a Convertible Note to the face value of \$116,000 was issued for a consideration of \$100,000. This note was fully converted to shares in various tranches, from 15 September to 28 November 2014, as released to the market.

**Corporate governance**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors support and have adhered to the principles of corporate governance in most cases. Where they have not adhered to any recommended principle it has been because the Company is too small in size and activity to afford it or does not warrant it.

**Directors and officers indemnification**

The Company has agreed to indemnify and keep indemnified the Directors and Officers of the Company against all liabilities incurred by the Directors or Officers as a Director or Officer of the Company and all legal expenses incurred by the Directors or Officers as a Director or Officer of the Company.

The indemnity only applies to the extent and in the amount that the Directors or Officers are not indemnified under any other indemnity, including an indemnity contained in any insurance policy taken out by the Company, under the general law or otherwise.

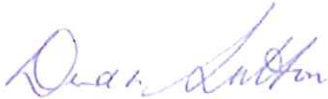
The indemnity does not extend to any liability:

- to the Company or a related body corporate of the Company; or
- arising out of conduct of the Directors or Officers involving a lack of good faith; or
- which was incurred prior to 1 February 1996 and which is in respect of any negligence, default, breach of duty or breach of trust of which the Directors or Officers may be guilty in relation to the Company or related body corporate.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is set out on page 10 and forms part of the Director's Report.

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



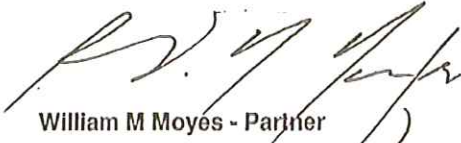
**David Sutton**  
**Director**  
9 September 2015

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF SILVER MINES LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Silver Mines Limited.

As lead audit principal for the audit of the financial statements of Silver Mines Limited for the financial period ended 30 June 2015, I declare that to the best of my knowledge and belief, that there have been no contraventions of:

- (i) the auditor's independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.



**William M Moyes - Partner**

**Moyes Yong & Co Partnership  
Chartered Accountants  
Level 7, Norwich House  
6 O'Connell Street  
Sydney NSW 2000**

**9 September 2015**

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**SILVER MINES LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	Notes	2015 \$	2014 \$
Revenues from ordinary activities	2	3,518	401,787
Expenses from ordinary activities			
Accounting/ company secretarial		(69,727)	(75,222)
Share registry		(30,393)	(66,274)
Securities exchange fees		(32,021)	(32,531)
Finance charges		(19,495)	(104,000)
Bank fees		(2,395)	(3,222)
Auditors		(25,350)	(26,560)
Directors emoluments		(67,500)	(78,000)
Office expenses		(52,533)	(11,212)
IT & communications		(4,324)	(5,713)
Management fees		(215,600)	(249,600)
Depreciation		(10,645)	(15,104)
Insurance		(10,598)	(21,055)
Marketing		(220,995)	(144,008)
Professional advisors		(173,852)	(83,599)
Other expenses from ordinary activities		(76,121)	(35,863)
Impairment/Write-off of exploration asset		(24,667)	(8,648,510)
Impairment/Write-off investment		(237,684)	(75,000)
Total expenses	3	<u>(1,273,900)</u>	<u>(9,675,473)</u>
<b>(Loss)/profit before income tax expense</b>		<b>(1,270,382)</b>	<b>(9,273,686)</b>
Income tax expense	4	-	-
<b>(Loss)/profit for the year</b>		<b>(1,270,382)</b>	<b>(9,273,686)</b>
Other comprehensive income		-	-
<b>Total comprehensive (loss)/profit for the year net of tax</b>		<b><u>(1,270,382)</u></b>	<b><u>(9,273,686)</u></b>

		Cents	Cents
Basic and diluted earnings per share	22	(0.18)	(0.02)

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

**SILVER MINES LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2015**

	Notes	2015 \$	2014 \$
<b>Current assets</b>			
Cash and cash equivalents	5	50,418	195,118
Receivables	6	55,447	113,135
<b>Total current assets</b>		<u>105,865</u>	<u>308,253</u>
<b>Non-current assets</b>			
Other financial assets	7	110,000	110,000
Intangible assets:			
Deferred exploration & development	8	5,170,000	5,170,000
Other debtors		1,175	
Property plant & equipment	9	8,949	19,594
Investments	10	50,000	204,625
<b>Total non-current assets</b>		<u>5,340,124</u>	<u>5,504,219</u>
<b>Total assets</b>		<u>5,445,989</u>	<u>5,812,472</u>
<b>Current liabilities</b>			
Payables	11	422,066	259,667
Borrowings	12	289,300	-
<b>Total current liabilities</b>		<u>711,366</u>	<u>259,667</u>
<b>Total liabilities</b>		<u>711,366</u>	<u>259,667</u>
<b>Net assets</b>		<u>4,734,623</u>	<u>5,552,805</u>
<b>Equity</b>			
Contributed equity	13	19,884,707	19,432,507
Accumulated losses	14	(15,150,084)	(13,879,702)
<b>Total equity</b>		<u>4,734,623</u>	<u>5,552,805</u>

The statement of financial position is to be read in conjunction with the notes to the financial statements.

**SILVER MINES LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2015**

Notes	Ordinary shares \$	Share- based payment reserve \$	Share option reserve \$	Accumulated losses \$	Total \$
Share-based payments during the year	750,284	-	(1,522,857)	-	(772,573)
Conversion of options	306,405	-	-	-	306,405
Costs of funds raised	(49,657)	-	-	-	(49,657)
Profit attributable to members of the Company	-	-	-	737,251	737,251
<b>Balance at 30 June 2012</b>	<b>15,868,861</b>	<b>-</b>	<b>-</b>	<b>(3,363,186)</b>	<b>12,505,675</b>
Share-based payments during the year	2,370,518	-	-	-	2,370,518
Converting note – face value	406,000	-	-	-	406,000
Costs of funds raised	(120,391)	-	-	-	(120,391)
Loss attributable to members of the Company	-	-	-	(1,242,830)	(1,242,830)
<b>Balance at 30 June 2013</b>	<b>18,524,988</b>	<b>-</b>	<b>-</b>	<b>(4,606,016)</b>	<b>13,918,972</b>
Share-based payments during the year	1,236,053	-	-	-	1,236,053
Converting note – face value	174,000	-	-	-	174,000
Partial conversion of converting note	(404,052)	-	-	-	(404,052)
Partial repayment of converting note	(96,550)	-	-	-	(96,550)
Costs of funds raised	(1,932)	-	-	-	(1,932)
Loss attributable to members of the Company	-	-	-	(9,273,686)	(9,273,686)
<b>Balance at 30 June 2014</b>	<b>19,432,507</b>	<b>-</b>	<b>-</b>	<b>(13,879,702)</b>	<b>5,552,805</b>
Share-based payments during the year	395,398	-	-	-	395,398
Converting note – face value	116,000	-	-	-	116,000
Partial conversion of converting note	(195,398)	-	-	-	(195,398)
Placement of shares	136,200	-	-	-	136,200
Loss attributable to members of the Company	-	-	-	(1,270,382)	(1,270,382)
<b>Balance at 30 June 2015</b>	<b>19,884,707</b>	<b>-</b>	<b>-</b>	<b>(15,150,084)</b>	<b>4,734,623</b>

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

**SILVER MINES LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	Notes	2015 \$	2014 \$
<b>Cash flows from operating activities</b>			
R&D grant received		-	295,711
Non-refundable exclusivity fee relating to farm-in of exploration tenement		-	75,000
Interest received		3,518	1,986
Finance costs paid		(3,495)	(80,000)
Payments to suppliers and employees		(785,990)	(912,571)
Net cash outflows from operating activities	20	(785,967)	(619,874)
<b>Cash flows from investing activities</b>			
Proceeds from the sale of plant & equipment		-	32,000
Payments for property plant & equipment		-	-
Payments for exploration expenditure		(83,059)	(11,901)
Payments for investments		-	(158,759)
Net cash outflows from investing activities		(83,059)	(138,660)
<b>Cash flows from financing activities</b>			
Proceeds from the issue of equity instruments		436,200	980,069
Payments for fund raising costs		-	-
Partial refund of convertible note		-	(96,550)
Receipts from Borrowings		288,126	-
Net cash inflows from financing activities		724,326	883,519
Net (decrease)/increase in cash held		(144,700)	124,985
Cash at the beginning of the financial year		195,118	70,133
Cash at the end of the financial year	5	50,418	195,118

The statement of cash flows is to be read in conjunction with the notes to the financial statements.



**SILVER MINES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Reporting entity**

Silver Mines Limited (the "Company") is a public company domiciled in Australia. The financial report covers Silver Mines Limited as an individual entity. The financial report was authorised for issue on 9 September 2015 by the Board of Directors.

The Company primarily is involved in the exploration for minerals in Australia.

**(b) Basis of preparation**

The financial report is a general purpose financial report, which:

has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board as applicable to a for-profit entity.

has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value.

is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2014.

does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

Material accounting policies set out below have been applied consistently to all periods presented in the financial report.

*Reporting basis and conventions*

The financial report is presented in Australian dollars.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that effect the application of policies and the reported amounts of assets, liabilities, revenue and expenses.

- Critical accounting estimates and judgments
- The estimates and judgments incorporated into the financial report are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the Company. The estimates and judgments made assume a reasonable expectation of future events but actual results may differ from these estimates.
- Key estimates — Impairment  
The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

**SILVER MINES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Rehabilitation*

The Company is required to estimate the rehabilitation costs of its operations in the accounting policy note in paragraph (c). The estimate is based on management best estimate of the cost.

*Exploration and evaluation costs*

The Company applies judgment in determining which exploration costs should be capitalized or expensed as per the accounting policy in paragraph (c).

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. There were no key adjustments during the year which required accounting estimates and judgments.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(c) Going concern**

The financial report has been prepared on the 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 Company is at the exploration and evaluation phase of each of its mining tenements. The Company is committed to payments to maintain rights to perform its evaluation activity.

The Company's ongoing activities are funded from cash outflows from operating and investing activities and from regular capital raisings as required and or from farming-out some of the Company's interest in its Leases/Tenements.

The Company currently has on foot a fully under-written Rights Issue to raise approximately \$2.8 Million, which has been lodged with ASIC & ASX. Funds from this capital raising are expected on or about mid October, 2015. This capital raising, being fully under-written has a substantial level of certainty and will underpin the Company's ability to continue as a going concern.

The directors have prepared the financial statements on a going concern basis as the directors believe that in addition to the above-mentioned capital raising. The Company will have sufficient additional funding generated from future capital raisings. The Company may also utilise proceeds from farming-out the company's interest in the New England Leases and other Leases it has applied for or is in the process of acquiring.

**(d) Valuation of Intangible Asset - Deferred Exploration and Development**

The Directors have applied a market based valuation methodology to the Webbs Silver project for accounting purposes which has been done using the current JORC Resource as detailed on the Company's website and in the 2012 Annual Report. A value has been ascribed to the project using a published (Baxter and Chisolm (1990) and Morgan (1991)) 'rule of thumb' methodology for valuing mineral properties at various stages of assessment by taking a percentage of the estimated in ground value of a project. The valuation takes into account the estimated recoveries for Ag, Cu, Pb and Zn based on the test work completed to date as previously reported by the Company on 17 July 2012.

**SILVER MINES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Exploration and evaluation expenditure**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of an area or where activities in the area have not yet reached a stage, which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profits in the year which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from where exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structure, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

Exploration and evaluation assets are tested for impairment each year. When the facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the carrying amount is written down to its likely recoverable amount.

**(f) Trade creditors**

A liability is recorded for goods and services prior to balance date, whether invoiced to the Company or not. Trade creditors are normally settled within 30 days.

**(g) Cash**

For the purposes of the statement of cash flows, cash and cash equivalents included cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

**(h) Net fair value**

The net fair value of cash, investments and trade creditors approximates their carrying value.

**(i) Revenue**

Interest revenue is recognised on a proportional basis taking in to account the interest rates applicable to the financial assets.

Other revenue is recognised when the right to receive the revenue has been established.

**SILVER MINES LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Income tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity. Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**(k) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the Australian Taxation Office, are classified as operating cash flows

**(l) Acquisitions of assets**

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

**(m) Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

**SILVER MINES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(i) The depreciation rates used are as follows:

Plant and equipment	33⅓% straight line
Office furniture and equipment	33⅓% straight line
Motor vehicles	20% straight line

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

**(ii) Impairment**

The carrying values of plant and equipment are reviewed for impairment at each reporting date with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash flows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

Impairment exists when the carrying amount of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement.

**(n) Employee entitlements**

***Wages, salaries and annual leave***

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within 12 months have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits.

***Long service leave***

A provision for long service leave is taken up where applicable for all employees.

***Equity-settled compensation***

The Company operates a share-based compensation plan. These include both a share option arrangement and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

**SILVER MINES LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Employee option plan***

The establishment of the Silver Mines Limited Employee Share Option Plan (ESOP) was approved by shareholders at the annual general meeting held on 29 November 2007. The ESOP was designed to provide long term incentives for Directors to deliver long term shareholder returns.

The fair value of options granted under the ESOP is recognised as an employee benefit expense with corresponding increase in equity. The fair value is measured at grant date. The fair value at grant date is measured using a Black-Scholes option pricing model that takes into consideration the exercise price, the term of the option, the impact of dilution and the share price at grant date.

Upon the exercise of options, the exercise proceeds received are allocated to share capital and the balance of the share-based payments reserve relating to those options is transferred to share capital.

**(o) Impairment**

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**(p) Intangible assets**

Intangible assets acquired in a business are initially measured at cost. Intangible assets with indefinite lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

**(q) Issued capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

If the Company reacquires its own equity instruments (e.g. as the result of a share buy-back), those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

**(r) Earnings per share**

***Basic earnings per share***

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year.

**SILVER MINES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(s) Financial instruments**

*Recognition and initial measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

*Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit and loss.

*Classification and subsequent measurement*

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

**Financial liabilities**

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

**(t) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

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**SILVER MINES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(u) Comparative figures**

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(v) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)**

The following new and revised Standards and interpretations have been adopted in the current year and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure

AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	This standard removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures.' As a result the Group only discloses the key management personnel compensation in total and for each of the categories required in AASB 124.
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In the current year the individual key management personnel disclosure previously required by AASB 124 is now disclosed in the remuneration report due to an amendment to Corporations Regulations 2001 issued in June 2013.

Standards and interpretations affecting the reporting results or financial position

There are no new or revised Standards and interpretations adopted in these financial statements affecting the reporting results or financial position.

Standards and interpretations affecting the reporting results or financial position

There are no new or revised Standards and interpretations adopted in these financial statements affecting the reporting results or financial position.

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014

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**SILVER MINES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. (continued)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
<b>(t) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) (cont'd)</b>		
AASB 1031 'Materiality' (2013)	1 January 2017	30 June 2018
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 135 – Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015

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**SILVER MINES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	2015 \$	2014 \$
<b>2. REVENUE</b>		
<b>Revenue from operating activities</b>		
Research and development grant	-	295,711
Non-refundable exclusivity fee relating to farm-in of exploration tenement	-	75,000
Profit on the sale of assets	-	29,090
Interest received	3,518	1,986
	<u>3,518</u>	<u>401,787</u>
<b>3. OPERATING EXPENSES</b>		
<b>Expenses from operating activities:</b>		
Accounting/ company secretarial	(69,727)	(75,222)
Share registry	(30,393)	(66,274)
Securities exchange fees	(32,021)	(32,531)
Finance charges	(19,495)	(104,000)
Bank fees	(2,395)	(3,222)
Auditors	(25,350)	(26,560)
Directors emoluments	(67,500)	(78,000)
Office expenses	(52,533)	(11,212)
IT & communications	(4,324)	(5,713)
Management fees	(215,600)	(249,600)
Depreciation	(10,645)	(15,104)
Insurance	(10,598)	(21,055)
Marketing	(220,995)	(144,008)
Professional advisors	(173,852)	(83,599)
Other expenses from ordinary activities	(76,121)	(35,863)
Impairment/writeoff of exploration asset	(24,667)	(8,648,510)
Impairment/write-off investment	(237,684)	(75,000)
<b>Total</b>	<u>(1,273,900)</u>	<u>(9,675,473)</u>
<b>4. INCOME TAX</b>		
<b>(a) Temporary differences</b>		
Current tax	-	-
Deferred tax	-	-
<b>Total</b>	<u>-</u>	<u>-</u>
<b>(b) Reconciliation of income tax expense to prima facie tax payable</b>		
Operating (loss)/profit before income tax	<u>(1,270,382)</u>	<u>(9,273,686)</u>
Prima facie income tax benefit/(expense) at 30% on operating profit/(loss)	381,115	2,782,105
Add tax effect of:		
Tax losses and temporary differences not recognised	(381,115)	(2,782,105)
Non temporary differences	-	-
<b>Income tax attributable to operating (loss)/profit</b>	<u>-</u>	<u>-</u>

**SILVER MINES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**4. INCOME TAX (continued)**

Directors are of the view that there is insufficient probability that the Company will derive sufficient income in the foreseeable future to justify booking the tax losses and temporary differences as deferred tax assets and deferred tax liabilities.

	2015 \$	2014 \$
(c) There is no amount of tax benefit recognised in equity as the tax effect of temporary differences has not been booked		
<b>(d) Tax losses</b>		
Unused tax losses for which no tax loss has been booked as a deferred tax asset adjusted for non temporary differences	21,569,317	20,328,883
Potential tax benefit at 30%	<u>6,470,795</u>	<u>6,098,665</u>
<b>(e) Unrecognised temporary differences</b>		
Non deductible amounts as temporary differences	-	-
Accelerated deductions for book compared to tax	-	-
Total	<u>6,470,795</u>	<u>6,098,665</u>
Potential effect on future tax expense	<u>6,470,795</u>	<u>6,098,665</u>

**5. CASH AND CASH EQUIVALENTS**

Cash at bank and on hand	<u>50,418</u>	<u>195,118</u>
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Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the statement of financial position as follows:

Cash assets	<u>50,418</u>	<u>195,118</u>
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The effective interest rates on term deposits were 3.3% (2014: 3.4%).

**6. RECEIVABLES**

Other debtors	55,447	105,413
Provision for doubtful debts	-	-
Prepayments	-	7,722
	<u>55,447</u>	<u>113,135</u>

**7. OTHER FINANCIAL ASSETS**

<b>Non-current</b>		
Performance guarantee bonds	<u>110,000</u>	<u>110,000</u>

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**SILVER MINES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	2015 \$	2014 \$
<b>8. INTANGIBLE ASSETS</b>		
<b>Non-current</b>		
Exploration expenditure		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phase		
Opening balance	5,170,000	13,479,392
Expenditure in the period	-	86,901
Expenditure written off	-	(8,396,293)
	<b>5,170,000</b>	<b>5,170,000</b>

**9. PROPERTY, PLANT AND EQUIPMENT**

Property plant and equipment - at cost	19,594	149,497
Financial lease assets	-	-
Assets acquired	-	-
Less: Accumulated depreciation	(10,645)	(129,903)
	<b>8,949</b>	<b>19,594</b>

**Reconciliation**

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are as follows:

	Property Plant & Equipment \$	Motor Vehicles \$	Total \$
Carrying value at start of year	1,145	18,449	19,594
Additions	-	-	-
Assets written-off	-	-	-
Depreciation	(1,145)	(9,500)	(10,645)
Carrying value at end of year	-	8,949	8,949

	2015 \$	2014 \$
<b>10. INVESTMENTS</b>		
Investment in Precious Metals Investments Ltd (Australia)	-	25,000
Investment in Arthur Resources Corporation (Canada)	-	20,866
Investment in Metalstorm Resource Corporation (Canada)	-	146,711
Investment in Needles silver project (USA)	-	12,048
Investment in Conrad Silver Project	50,000	-
	<b>50,000</b>	<b>204,625</b>

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	2015 \$	2014 \$
<b>11. PAYABLES</b>		
<b>Current</b>		
Trade creditors and accruals	422,066	259,667
Hire purchase creditors	-	-
	<u>422,066</u>	<u>259,667</u>
<b>12 – BORROWINGS</b>		
<b>Current (unsecured):</b>		
Loan by related party – amortised cost	289,300	-
	<u>289,300</u>	<u>-</u>
Balance as at 1 July	-	-
Additions	348,300	-
Re-payments	(59,000)	-
<b>Balance as at 30 June</b>	<u>289,300</u>	<u>-</u>

The loans are interest free. The loans are due for repayment on demand.

The carrying amounts represent the fair values of borrowings at balance date. Details of the Groups exposure to risks arising from current borrowings are set out in note 20.

<b>13 – CONTRIBUTED EQUITY</b>		
<b>(a) Issued and paid up capital</b>		
Balance at the beginning of the financial year	19,432,507	18,524,988
Issue of shares to raise capital	531,598	1,236,053
Conversion of options	-	-
Convertible security	(79,398)	(326,602)
Share issue costs	-	(1,932)
	<u>19,884,707</u>	<u>19,432,507</u>

Consisting of 692,922,714 ordinary shares (2014: 450,356,714 ordinary shares)

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**13. CONTRIBUTED EQUITY (continued)**

**(b) Movements in ordinary share capital**

Date	Details	Number of shares	Issue price	\$
1 July 2013		197,701,291		18,524,988
1 April 2014	Rights Issue	166,400,229	\$0.005	832,001
29 July 2013	Conversion of convertible security	22,755,194	\$0.01	227,552
31 January 2014	Conversion of convertible security	7,250,000	\$0.004	29,000
11 February 2014	Conversion of convertible security	12,500,000	\$0.004	50,000
10 March 2014	Conversion of convertible security	10,000,000	\$0.003	30,000
11 June 2014	Conversion of convertible security	12,500,000	\$0.002	25,000
26 June 2014	Conversion of convertible security	21,250,000	\$0.002	42,500
	<b>Convertible Security – refer (e) below</b>			174,000
	Less: converted to fully paid shares (as above) or repaid to convertible security holder			(500,602)
	Transaction costs			(1,932)
<b>30 June 2014</b>		<u>450,356,714</u>		<u>19,432,507</u>
<b>1 July 2014</b>		450,356,714		19,432,507
25 July 2014	Conversion of convertible security (\$value taken up in 2013-14 – It relates to Bergen Global Opportunity Fund II LLC refer (e) below	10,000,000	\$0.003	-
8 August 2014	Conversion of convertible security (\$value taken up in 2013-14 – It relates to Bergen Global Opportunity Fund II LLC refer (e) below	16,466,000	\$0.003	-
12 September 2014	Conversion of convertible security	10,000,000	\$0.003	30,000
19 September 2014	Conversion of convertible security	10,000,000	\$0.003	30,000
9 October 2014	Conversion of convertible security	15,000,000	\$0.002	30,000
20 October 2014	Placement of shares	35,000,000	\$0.002	70,000
28 November 2014	Conversion of convertible security	13,000,000	\$0.002	26,000
8 December 2014	Placement of shares	50,000,000	\$0.002	100,000
30 December 2014	Placement of shares	5,000,000	\$0.002	10,000
30 December 2014	Placement of shares	10,000,000	\$0.002	20,000
13 February 2015	Placement of shares	68,100,000	\$0.002	136,200
<b>30 June 2015</b>		<u>692,922,714</u>		<u>19,884,707</u>

**(c) Issued and paid up capital**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

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**(d) Share options**

At 30 June 2015 details of Listed and Unlisted Options are as follows:

Details	Number	Exercise price	Expiry date
Unlisted options	8,500,000	50.0 cents	31 November 2015
Unlisted options	5,800,000	4.3 cents	31 May 2017
Unlisted options	83,200,135	1.0 cents	13 December 2015
<b>Total</b>	<b>97,500,135</b>		

**(e) Convertible security**

On 31 May 2013, the Company entered into a Convertible Securities Agreement with Bergen Global Opportunity Fund II LLC, a US-based institutional investor, to provide funding of up to \$1.15 million over the next 180 days to provide working capital to support the Company's exploration activities. Under the agreement, Bergen will invest a minimum of \$0.65 million in the Company by purchasing up to three interest-free Convertible Securities. The first investment of \$0.35 million was made on 31 May 2013 by way of a Convertible Security with a face value of \$0.406 million. Each of the subsequent two Convertible Security tranches will be purchased 90 days after the date of advance of the previous tranche, but subject to the Company's right to postpone the advances) at a purchase price of \$0.15 million (and a face value of \$0.174 million) each.

By mutual consent, the Company and Bergen may increase the purchase price of each of the subsequent two Convertible Securities to up to a maximum of \$0.4 million (and a face value of \$0.464 million) each.

The Company has the right to terminate the Agreement at any point by paying a modest termination fee or, alternatively, at no cost if its share price is below a specified floor price. The conversion price for the Convertible Securities will be, in Bergen's discretion, 85% of the average of three daily VWAP's during a specified period before the conversion date, or 130% of the average of the daily VWAP's during the five trading days prior to the execution of the Agreement. The Agreement includes terms that grant the Company to repurchase the Convertible Securities for cash within a certain period of time and limit the ability of Bergen to dispose of the shares received on conversion.

All of the above Convertible Securities have either been redeemed or converted. However, on 2 September, 2014 a further Convertible Note for face value of \$116,000 was issued at a price of \$100,000. The Note was fully converted in various tranches between 15 September and 28 November, 2014. There are no other Convertible Notes outstanding.

**(f) Capital management**

The Company's objectives when managing capital is to safeguard the ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year.

	2015 Number	2014 Number
<b>Movements in options</b>		
Balance at the beginning of the financial year	97,500,135	43,347,443
Performance rights lapsed	-	-
Options lapsed	-	(29,047,443)
Options exercised	-	-
Options issued	-	83,200,135
<b>Balance at the end of the financial year</b>	<b>97,500,135</b>	<b>97,500,135</b>

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	2015 \$	2014 \$
<b>14. ACCUMULATED LOSSES</b>		
Opening balance	13,879,702	4,606,016
Net loss/(profit) for year	1,270,382	9,273,686
Closing balance	<u>15,150,084</u>	<u>13,879,702</u>

<b>15. AUDITOR'S REMUNERATION</b>		
Remuneration for audit or review of the financial reports of the Company:		
Current auditors of the Company:		
Audit and review of the financial statements		
- Moyes Yong & Co	25,350	23,000
- Other services	-	-
	<u>25,350</u>	<u>23,000</u>

- 16. REMUNERATION OF DIRECTORS AND EXECUTIVES**
- (a) Names of Directors and specified executives and positions held at any time during the year:

<b>Directors</b>	
D Sutton	Chairman – Non-Executive
D Flinn	Director – Non-Executive
C Straw	Managing Director
N Featherby	Director – Non-Executive
J Naughton	Director – Non-Executive
<b>Specified executives</b>	
K Lynn	Company Secretary (Resigned 13/02/2015)
V Hovanessian	Company Secretary (Appointed 13/02/2015)

- (b) Relevant interests in ordinary shares and options at the date of this report:

**SHARES**

	Balance 1 July 2014	Net change other	Net change of associated entities	Balance 30 June 2015
<b>Ordinary shares</b>				
<b>Directors</b>				
D Sutton	2,779,114	-	-	2,779,114
D Flinn	3,120,876	-	-	3,120,876
C Straw	2,393,532	-	-	2,393,532
N Featherby	-	-	-	-
J Naughton	-	-	25,000,000	25,000,000



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**16. REMUNERATION OF DIRECTORS AND EXECUTIVES continued**

(a) Relevant interests in ordinary shares and options at the date of this report (continued):

**OPTIONS and PERFORMANCE RIGHTS**

Employee options and performance rights	Balance 1 July 2014	Granted as remuneration	Options and performance rights lapsed/written off	Net change other	Balance 30 June 2015
<b>Directors</b>					
D Sutton	3,000,000	-	1,000,000	(1,000,000)	2,000,000
D Flinn	500,000	-	-	-	500,000
C Straw	3,582,500	-	1,000,000	(1,000,000)	2,582,500
N Featherby	-	-	-	-	-
J Naughton	-	-	-	-	-
<b>Specified executives</b>					
K Lynn	1,000,000	-	-	-	1,000,000
VHovanessian	-	-	-	-	-

**(b) Directors' and senior officers' emoluments**

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies applicable to Board members and senior Officers of the Company. The Board's remuneration policy is to ensure the remuneration level properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Details of the nature and amount of the remuneration of each Director of the Company are set out below:

**Director remuneration for the year ended 30 June 2015:**

		Salary & Fees	Non-monetary	Super-annuation	Retirement benefits	Non-cash share-based payments	Other bonuses	Total
D Sutton	2015	24,000	-	-	-	-	-	24,000
	2014	48,000	-	-	-	-	-	48,000
D Flinn	2015	15,000	-	-	-	-	-	15,000
	2014	30,000	-	-	-	-	-	30,000
C Straw	2015	219,000	-	-	-	-	-	219,000
	2014	251,943	-	-	-	-	-	251,943
N Featherby	2015	81,000	-	-	-	-	-	81,000
	2014	-	-	-	-	-	-	-
J Naughton	2015	7,500	-	-	-	-	-	7,500
	2014	-	-	-	-	-	-	-

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**16. REMUNERATION OF DIRECTORS AND EXECUTIVES continued**

Remuneration of the 5 named executives who receive the highest remuneration for the year ended 30 June 2015:

		Salary & Fees	Non-monetary	Super-annuation	Retirement benefits	Non-cash share-based payments	Other bonuses	Total
K Lynn	2015	28,000	-	-	-	-	-	28,000
	2014	48,000	-	-	-	-	-	48,000
V Hovanesian	2015	60,416	-	-	-	-	-	60,416
	2014	-	-	-	-	-	-	-

**(c) Individual directors' and executives compensation disclosures**

The Company has not employed any executive officers, other than Directors, who were involved in, concerned in, or who took part in the management of the Company's affairs. Details of the nature and amount of the remuneration of each Director and executive of the Company and some equity instrument disclosures as permitted by Corporations Regulations are provided in the Remuneration Report section of the Directors' Report.

The fair value of options at grant date is determined using the Black-Scholes formula. The model inputs were a share price of \$0.004, an exercise price of \$0.50, expected volatility of 52%, a term of 5 years and a risk-free interest rate of 6%.

Performance rights granted as part of remuneration have been valued using probability criteria attaching to each of the performance conditions applying under the Company's Performance Rights Plan approved by shareholders at the Company's Annual General Meeting on 19 November 2012. All performance rights have now expired.

Performance criteria applicable to the performance rights:

- (i) That the share price of the Company increases to at least 20 cents from the approval of the Performance Rights Share Plan and remains above 15 cents until the period ending 31 December 2013 (probability 100%);
- (ii) That a JORC resource (indicated, measured or inferred) of 20 million ounces of Silver is achieved by the Company by 31 December 2013 (probability 50%);
- (iii) That Directors remain as directors until 31 December 2013 (probability 100%); and
- (iv) Overall probability calculated at 75% of the above three criteria occurring.

The performance rights did not meet the set criteria at any point in time and have now expired with no performance rights outstanding.

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**17. RELATED PARTY TRANSACTIONS**

Related parties of the Company fall into the following categories:

**17.1 Trading transactions**

During the year, the Company entered into the following trading transactions with related parties. The amounts below relating to trading transactions are including GST where applicable:

- (i) Centric Minerals Management Pty Ltd (CMM) was paid \$131,140 (2014: \$306,823) to provide management, administrative services (including provision of office space and facilities) and geological consulting services to the Company.

As at balance date the company owed \$29,020 (2014: \$nil) to CMM. Messrs Sutton and Straw are directors of CMM. Neither Messrs Sutton nor Straw received any direct financial benefit from CMM. CMM provides these services to other companies within the mineral exploration sector globally.

- (ii) Dayton Way Financial Pty Ltd, an entity controlled by Mr Sutton, was paid or is payable \$26,400 (2014: \$52,800) from the Company in relation to fees associated with raising equity for the Company.

- (iii) Strategy-Matters International Pty Ltd, an entity controlled by Mr Lynn, was paid or is payable \$30,800 (2014: \$52,800) from the Company in relation to accounting and secretarial services for the Company.

- (iv) Raxigi Pty Ltd, an entity controlled by Vaz Hovanessian was paid or is payable \$66,457 (2014: \$Nil) from the Company in relation to accounting and company secretarial services for the Company.

- (v) Walpett Engineering Superannuation Fund, an entity controlled by Douglas Flinn was paid or is payable \$15,000 (2014: \$Nil) from the Company in relation to directors fees.

- (vi) Broad Investments Limited Ltd (BRO), an entity of which Vaz Hovanessian is a Director of was paid or is payable \$45,375 (2014: \$Nil) from the Company for provision of office space and facilities.

As at balance date the company owed \$45,375 (2014: \$nil) to BRO. Although Mr Vaz Hovanessian is a director of BRO, he has not received any direct financial benefit from such payments to BRO. BRO provides these services to other companies also.

- (vii) Rochelle Limited an entity controlled by Nathan Featherby was paid or is payable \$19,841 (2014: \$Nil) from the Company in relation to raising equity for the Company.

- (viii) Mancora Capital Pty Ltd, an entity controlled by Nathan Featherby was paid or is payable \$60,000 (2014: \$Nil) from the Company in relation to corporate advisory services for the Company.

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**17.2 Other related party transactions**

**17.2.1 Equity interests in related parties**

- (i) The Company holds 250,000 fully paid ordinary shares in Precious Metals Investments Ltd (PMZ), an entity involved in exploration for precious metals. Messrs Sutton, Straw and Flinn are directors of PMZ. The investment in PMZ have been impaired and provided against in full.

**18. SEGMENT INFORMATION**

**Business segments**

The Company operates in the exploration industry in Australia only. The Company is pursuing operations in North America. Operations in North America are at an embryonic and emergent phase in their life cycle.

	2015 \$	2014 \$
<b>19. RECONCILIATION OF OPERATING (LOSS)/PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating (loss)/profit after income tax	(1,270,382)	(9,273,686)
Impairment of exploration asset	-	8,318,382
Sale of motor vehicles	-	(29,090)
Depreciation	10,645	15,104
Option payments written off	-	30,000
Finance costs on convertible note	16,000	24,000
Impairment of investment	237,684	75,000
	<u>(1,006,053)</u>	<u>(840,290)</u>
<i>Movements in working capital:</i>		
Decrease in receivables and prepayments	12,688	49,804
Increase/(decrease) in payables	207,398	177,840
(Decrease)/increase in provisions	-	(7,228)
	<u>(785,967)</u>	<u>(619,874)</u>
<b>Net cash outflows from operating activities</b>	<b>(785,967)</b>	<b>(619,874)</b>

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**20. FINANCIAL INSTRUMENT DISCLOSURES**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise adverse affects on the financial performance of the Company. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates and other price risks and aging analysis for credit risk.

Risk management is carried out by the Chief Financial Officer under policies approved by the Board of Directors. The Chief Financial Officer identifies and evaluates the risks in close cooperation with the Company's management and Board.

**(a) Market risk**

**(i) Foreign exchange risk**

The Company does not have any significant exposure to foreign exchange risk.

**(ii) Price risk**

The Company in the current year did not have any significant exposure to investment or commodity price risk. The Company will have exposure to silver price risk if and when mining operations begin. Directors have not made any determination at this stage as to whether they will consider commodity price hedge arrangements.

**(iii) Cash flow and fair value Interest rate risk**

The Company has exposure to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and the financial liabilities.

The Company policy is to ensure that the best interest rate is received for the short-term deposits. The Company uses a number of banking institutions, with a mixture of fixed and variable interest rates. Interest rates are reviewed prior to deposits maturing and re-invested at the best rate.

The interest rate risk is detailed in the table below:

	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturing		Non-interest bearing	Total
			Within 1 year	Over 1 year		
	%	\$	\$	\$	\$	\$
<b>2015</b>						
<b>FINANCIAL ASSETS</b>						
Cash assets		-	-	-	418	418
Performance guarantee bonds	3.4	-	100,000	-	60,000	160,000
Other financial assets		-	-	-	106,622	106,622
		-	100,000	-	167,040	267,040
<b>FINANCIAL LIABILITIES</b>						
Payables (Current)		-	-	-	(422,066)	(422,066)
Borrowings (Current)		-	-	-	(289,300)	(289,300)
Payables (Non-current)		-	-	-	-	-
		-	-	-	(711,366)	(711,366)
<b>NET FINANCIAL ASSETS/(LIABILITIES)</b>						
		-	100,000	-	(544,326)	(444,326)

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	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturing		Non-interest bearing	Total
			Within 1 year	Over 1 year		
	%	\$	\$	\$	\$	\$
<b>2014</b>						
<b>FINANCIAL ASSETS</b>						
Cash assets		-	-	-	140,118	140,118
Performance guarantee bonds	3.4	-	105,000	-	60,000	165,000
Other financial assets		-	-	-	317,760	317,760
		-	105,000	-	517,878	622,878
<b>FINANCIAL LIABILITIES</b>						
Payables (Current)		-	-	-	(259,667)	(259,667)
Payables (Non-current)		-	-	-	-	-
		-	-	-	(259,667)	(259,667)
<b>NET FINANCIAL ASSETS</b>		-	<b>105,000</b>	-	<b>258,211</b>	<b>363,211</b>

**(b) Reconciliation of net financial assets per statement of financial position:**

	2015 \$	2014 \$
Net financial assets per above	(444,326)	363,211
Property plant & equipment	8,949	19,594
Deferred exploration & development	5,170,000	5,170,000
<b>Net assets per statement of financial position</b>	<b>4,734,623</b>	<b>5,552,805</b>

**(c) Credit risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security in respect of recognised financial assets, is the carrying amount as disclosed in the statements of financial position and notes to the financial statements.

**(d) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through adequate amount of committed credit facilities and the ability to close out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows matching maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets.

The Company at trading date had deposits which mature within three months and cash at bank. Due to the cash available to the Company there is no use of any credit facilities at balance date.

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**(e) Net fair values**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The net fair values of the financial assets and financial liabilities approximate their carrying values.

No financial assets and financial liabilities are readily traded on organised markets.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statements of financial position and in the notes to the financial statements.

**(f) Sensitivity analysis**

The Company has not performed a sensitivity analysis on price risk and its impact on current year results and equity which could result from a change in this risk as the likely impact is insignificant given the minimal revenue generated from gold sales during the year.

	2015 Cents	2014 Cents
<b>21. EARNINGS PER SHARE</b>		
Basic and diluted earnings per share	(0.18)	(0.02)
	Number	Number
<b>Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating basic and diluted earnings per share and alternative diluted earnings per share	692,922,714	450,356,714
	\$	\$
<b>Reconciliation of earnings used in calculating basic and diluted earnings per share</b>		
Earnings used in calculating basic and diluted earnings per share	(1,262,496)	(9,273,686)

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**22. EVENTS SUBSEQUENT TO REPORTING DATE**

Since the end of the financial year and the date of this report, the following significant and material events have taken place:

- (vii) On 7 July, 2015, the Company announced its forward strategy confirming that its focus was on acquiring cheap silver assets in the ground, with a view to adding exponential value for shareholders with any increase in the silver price and any associated benefit arising from the diminishing Australian Dollar.
- (viii) On 22 July, 2015, the Company reached an agreement with Bergen Global Opportunity Fund II LLC (Bergen) whereby the Company would cover the legal cost of Bergen if SVL withdrew from the acquisition of the Twin Hills Project. Such costs amount to \$255,412.96 and Bergen and SVL have agreed to settle such debt with SVL making an initial payment of \$25,000, a 2<sup>nd</sup> payment of \$100,764.48 and the issue of 100,764,480 ordinary fully paid shares. The initial payment of \$25,000 has already been made and the balance of monies and shares will be paid and issued after the Rights Issue referred to below is completed.
- (ix) On 17 June, 2015 SVL announced a 4:1 renounceable Right Issue at \$0.001, with 2 free options exercisable at \$0.003 for every 4 new shares taken up under the Rights Issue. The Prospectus for the Rights Issue was released on 1 September, 2015 and a Replacement Prospectus issued on 9 September, 2015 and despatched on 10 September, 2015.
- (x) The Company released a Notice of Meeting on 9 September, 2015 for a general meeting of shareholders to be held at 10.30 AM on Friday, 9 October, 2015. The Notice was despatched on 10 September, 2015.
- (xi) On 2 September, 2015 SVL made a release in respect to changes to the terms of the purchase of the acquisition of the Conrad Silver Project from Malachite Resources Ltd (MAR) which it had informed the market about on 11 May and 17 June, 2015. The new terms include the payment of two tranches of \$50,000 which have already been made, a further payment of \$75,000 on or before 18 September, 2015, \$275,000 payable upon the completion of the Rights Issue referred to in (iii) above and the issue of \$125,000 in shares at a price of the lower of the 5 day VWAP and \$0.002 after obtaining any necessary approvals, with such shares being escrowed for a period of 12 months.
- (xii) On 23 July, 2015 SVL announced that it had entered a Subscription Agreement with White Rock Minerals (WRM) to subscribe for two tranches of \$100,000 in shares at \$0.02/share in WRM and to advance an amount of \$300,000 to WRM 45 days after the 2<sup>nd</sup> tranche of the subscription being made. The loan would be unsecured and interest free and SVL would have the option but not the obligation to convert it to shares. SVL has paid \$50,000 of the first tranche. On 1 September, 2015, WRM and SVL announced that the terms had been altered to allow SVL to make the balance of the subscription amounts in two tranches with an additional \$75,000 to be paid on or before 18 September, 2015 and another \$75,000 payable on or before 6 October, 2015. In all other respects then terms remained unchanged.



**23. COMPANY DETAILS**

The registered office and principal place of business of the Company is

Silver Mines Limited  
Level 10  
2 Bligh Street  
Sydney NSW 2000  
Australia

Tel: +61 2 8188 2557  
Fax: +61 2 9235 2203

For personal use only

**SILVER MINES LIMITED  
DIRECTORS' DECLARATION**

The directors declare that:

- 1 the financial statements and notes, as set out on pages 11 to 38 are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2015 and of the performance for the year ended on that date of the Company and economic entity;
- 2 the Chief Executive Officer and Chief Finance Officer have each declared that:
  - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year give a true and fair view;
- 3 in the director's 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.



**David Sutton**  
Director  
9 September 2015

**Independent Auditor's Report  
To the members of  
Silver Mines Limited  
A.C.N. 107 452 942**

**INDEPENDENT AUDIT REPORT**

**To the members of Silver Mines Limited:**

**Report on the financial report**

We have audited the accompanying financial report of Silver Mines Limited (the Company), which comprises the Statement of Financial Position as at 30 June 2015 and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Silver Mines Limited on 9 September 2015, would be in the same terms if provided to the directors as at the date of this auditor's report.

*Auditor's opinion*

In our opinion:

- (a) the financial report of Silver Mines Limited is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the company's financial position as at 30 June 2015 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Emphasis of matter**

Without modification to our conclusion expressed above, attention is drawn to Note 1 (c) to the financial statements which makes reference to the directors' assessment of the ability of the Company to continue as a going concern.

In the event that funding from the proposed Rights Issue and potential farming out of the Company's interest in leases is not received, the Company may not be able to continue as a going concern and may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different from those stated in the financial statements.

**Report on the remuneration report**

We have audited the Remuneration Report included on pages 6 to 8 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion:**

In our opinion the Remuneration Report of Silver Mines Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.



William M Moyes - Partner  
Moyes Yong & Co Partnership  
Chartered Accountants  
Level 7, Norwich House  
6 O'Connell Street  
Sydney NSW 2000

9 September 2015

**SILVER MINES LIMITED  
CORPORATE DIRECTORY**

**Directors**

David Henty Sutton – Non-Executive Chairman  
Douglas Flinn – Non-Executive Director  
Charles David Straw – Managing Director  
Nathan John Featherby – Non-Executive Director  
James Paul Naughton – Non-Executive Director

**Company Secretary**

Vazrick Hovanessian – Bach Bus (Acctng),  
MAppFin, FCSA, FGIA.

**Australian Company Number**

107 452 942

**Registered Office**

Silver Mines Limited  
Level 10  
2 Bligh Street  
Sydney NSW 2000  
Australia

Tel: +61 2 8188 2557

Fax: +61 2 9235 2203

E-mail: [info@silverminesltd.com.au](mailto:info@silverminesltd.com.au)

Website: [www.silverminesltd.com.au](http://www.silverminesltd.com.au)

**Bank**

Commonwealth Bank of Australia  
CNR George and Market Streets  
Sydney NSW 2000

**Share Registry**

Boardroom Pty Limited  
Level 7

207 Kent Street

Sydney NSW 2000

Tel : +61 2 9290 9600

Fax : +61 2 9279 0664

Email: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

**Auditors**

Moyes Yong & Co  
Level 7  
Norwich House  
6 O'Connell Street  
Sydney NSW 2000  
Tel: +61 2 8256 1100  
Fax: +61 2 8256 1111

**Company's Solicitor**

Macpherson + Kelly  
Level 11  
56 Pitt Street  
Sydney NSW 2000  
Tel: +61 2 8298 9533  
Fax: +61 2 9252 6276

### Additional securities exchange information as at 8 September 2015

At 8 September 2015 issued capital was 692,943,589 fully paid ordinary shares held by 2,120 holders.

Subject to the Listing Rules, the Company's constitution and any special rights or restrictions attached to a share, at a meeting of shareholders:

- (a) on a show of hands, each shareholder present (in person, by proxy, attorney or representative) has one vote; and
- (b) on a poll, each shareholder present (in person, by proxy, attorney or representative) has:
- i one vote for each fully paid share they hold; and
  - ii a fraction of a vote for each partly paid share they hold. The fraction must be equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited). Amounts paid in advance of a call are ignored.

### 20 Largest Holders of Ordinary Shares and their Holdings at 8 September 2015

	Shares held	%
1 Mr Christopher Lynn	50,600,000	7.3
2 Ms Cassandra Louise Tana	29,500,000	4.3
3 Mr Marc David Harding	26,754,579	3.9
4 Kafka Capital Pty Ltd	25,000,000	3.6
5 Hsbc Custody Nominees	16,675,232	2.4
6 Mr David Brant Lindburg	16,274,430	2.3
7 Jennings Family Investments	15,000,000	2.2
8 Mr Christopher Paul Lawrence	15,000,000	2.2
9 Mr Zygmunt Warzywoda &	11,833,334	1.7
10 Mrs Lamia Daniel	9,537,500	1.4
11 Mr Zygmunt Warzywoda	8,500,000	1.2
12 Indi Synergy Sk Pty Ltd	8,000,000	1.2
13 J P Morgan Nominees Australia	7,889,851	1.1
14 Comsec Nominees Pty Limited	6,555,000	0.9
15 Mr Lachlan Francis	6,479,489	0.9
16 Rhb Securities Singapore Pte	6,194,749	0.9
17 Mr Simon Dougherty	5,000,000	0.7
18 Mr Philip Anthony Feitelson	5,000,000	0.7
19 Mr John Thomas Gahan	5,000,000	0.7
20 Mr Cornelis Johannes Griek	5,000,000	0.7
<b>Sub-total</b>	<b>279,794,164</b>	<b>40.4</b>
<b>Total</b>	<b>692,943,589</b>	<b>100.0</b>

### Distribution of Holders and Holdings at 8 September 2015

Holdings Ranges	Holders	Shares Held	% of Total
1-1,000	103	10,726	0.0
1,001-5,000	243	789,255	0.1
5,001-10,000	256	2,159,435	0.3
10,001-100,000	899	37,919,016	5.5
100,001-9,999,999,999	619	652,065,157	94.1
<b>Totals</b>	<b>2,120</b>	<b>692,943,589</b>	<b>100.0</b>

## SILVER MINES LIMITED

### *Substantial shareholders at 8 September 2015*

There is only one substantial shareholder registered as at 8 September, 2015, as follows:

Name	# Shares Held	%
Christopher Lynn	50,600,000	7.3%

### *Unquoted Securities*

Unquoted securities are as follows:-

Details	Number	Exercise price	Expiry date
Unlisted options	8,500,000	50.0 cents	31 November 2015
Unlisted options	5,800,000	4.3 cents	31 May 2017
Unlisted options	83,200,135	1.0 cents	13 December 2015
<b>Total</b>	<b>97,500,135</b>		

### *Securities Exchange Listing*

The Company's ordinary shares are listed on the Australian Securities Exchange.

### *On-Market Buy Back*

There is no on-market buy-back.

### *List of Tenements*

The Company holds the following mineral licenses:

Reference	Project Name	Location	SVL Ownership	Area (km <sup>2</sup> )
EL5674	Webbs	NSW	100%	12

## SILVER MINES LIMITED

### Corporate Governance Statement

#### Approach to Corporate Governance

Silver Mines Limited (**Company**) has established a corporate governance framework, the key features of which are set out in this statement. In establishing its corporate governance framework, the Company has referred to the ASX Corporate Governance Council Principles and Recommendations 2<sup>nd</sup> edition (**Principles & Recommendations**). The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained it reasons for not following the recommendation and disclosed what, if any, alternative practices the Company has adopted instead of those in the recommendation.

The following governance-related documents can be found on the Company's website at <http://www.silverminesltd.com.au/about/corporate-governance.aspx>, under the section marked "About Us", "Corporate Governance":

#### Charters

Board  
Audit Committee  
Nomination Committee  
Remuneration Committee

#### Policies and Procedures

Policy and Procedure for Selection and (Re)Appointment of Directors  
Process for Performance Evaluations  
Policy on Assessing the Independence of Directors  
Diversity Policy (summary)  
Code of Conduct  
Whistleblower Policy  
Policy on Continuous Disclosure  
Compliance Procedures (summary)  
Procedure for the Selection, Appointment and Rotation of External Auditor  
Shareholder Communication Policy  
Risk Management Policy

The Company reports below on whether it has followed each of the recommendations during the 2013/2014 financial year (**Reporting Period**). The information in this statement is current at 17 September 2014.

#### Board

##### Roles and responsibilities of the Board and Senior Executives (Recommendations: 1.1, 1.3)

The Company has established the functions reserved to the Board, and those delegated to Senior Executives and has set out these functions in its Board Charter, which is disclosed on the Company's website.

The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives, and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Senior Executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company in accordance with the delegated authority of the Board. Senior Executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, directly to the Chair or the lead Independent Director, as appropriate.



## SILVER MINES LIMITED

### Corporate Governance Statement

#### **Skills, experience, expertise and period of office of each Director (Recommendation: 2.6)**

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report on page 7. The mix of skills and diversity for which the Board is looking to achieve in membership of the Board is represented by the Board's current composition. The mix of skills, qualifications and experience of the existing Board is geological; geophysics; public company experience; and financial experience. The Board considers that this composition is appropriate for the effective execution of the Board's responsibilities and the size and operations of the Company as a manager of joint venture drilling operations.

#### **Director independence (Recommendations: 2.1, 2.2, 2.3, 2.6)**

The Board does not have any Independent Directors. The Board considers that the current size and composition of the Board is appropriate for the execution of the Board's responsibilities and the size and operations of the Company as a manager of joint venture drilling operations. The Board periodically monitors the need to appoint additional Independent Directors.

The Board considers the independence of Directors having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds. The Board has agreed on the following guidelines, as set out in the Company's Board Charter for assessing the materiality of matters:

- Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, could affect the Company's rights to its assets, if accumulated would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The Independent Directors of the Company during the Reporting Period for the period 1 July 2014 to 30 June 2015 were Mr David Sutton, Mr Doug Flinn and Mr James Naughton. These Directors are independent as they are Non-Executive Directors who are not members of management and who were free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

Mr Charles Straw is the Executive Director, Technical matters and Nathan Featherby is an Executive Director, Corporate matters. They act as joint Managing Directors.

#### **Independent professional advice (Recommendation: 2.6)**

To assist Directors with independent judgement, it is the Board's policy that if a Director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a Director then, provided the Director first obtains approval from the Chair for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.

## SILVER MINES LIMITED

### Corporate Governance Statement

#### **Selection and (Re)Appointment of Directors (Recommendation: 2.6)**

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed process whereby it evaluates the mix of skills, experience and expertise of the existing Board. In particular, the Nomination Committee (or equivalent) is to identify the particular skills that will best increase the Board's effectiveness. Consideration is also given to the balance of Independent Directors. Potential candidates are identified and, if relevant, the Nomination Committee (or equivalent) recommends an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next general meeting.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. An election of Directors is held each year. Each Director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the Director's appointment or three years following that Director's last election or appointment (whichever is the longer). However, a Director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one Director or one third of the total number of Directors must resign. A Director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of Directors is not automatic.

The Company's Policy and Procedure for the Selection and Re (Appointment) of Directors is disclosed on the Company's website.

#### **Board committees**

##### **Nomination Committee (Recommendations: 2.4, 2.6)**

The Board has not established a separate Nomination Committee. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Nomination Committee. Accordingly, the Board performs the role of the Nomination Committee. Items that are usually required to be discussed by a Nomination Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Nomination Committee it carries out those functions which are delegated to it in the Company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Nomination Committee by ensuring that the Director with conflicting interests is not party to the relevant discussions.

As noted above, the full Board carries out the role of the Nomination Committee. The full Board did not officially convene in its capacity as a Nomination Committee during the Reporting Period, however nomination-related discussions occurred from time to time during the year as required.

The Board has adopted a Nomination Committee Charter which describes the role, composition, functions and responsibilities of the full Board in its capacity as the Nomination Committee.

The Company's Nomination Committee Charter is disclosed on the Company's website.

##### **Audit Committee (Recommendations: 4.1, 4.2, 4.3, 4.4)**

The Board has not established a separate Audit Committee and therefore it is not structured in compliance with Recommendation 4.2. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Audit Committee. Accordingly, the Board performs the role of Audit Committee. Items that are usually required to be discussed by an Audit Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Audit Committee it carries out those functions which are delegated to it in the Company's Audit Committee Charter.

## SILVER MINES LIMITED

### Corporate Governance Statement

The Board deals with any conflicts of interest that may occur when convening in the capacity of the Audit Committee by ensuring that the Director with conflicting interests is not party to the relevant discussions.

The Company has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the full Board in its capacity as the Audit Committee.

The full Board in its capacity as the Audit Committee held two meetings during the Reporting Period. Details of Director attendance at meetings of the full Board, in its capacity as the Audit Committee, during the Reporting Period are set out in a table in the Directors' Report on page 10. When the full Board meets in its capacity as the Audit Committee Mr David Sutton chairs the meeting.

Details of each of the Director's qualifications are set out in the Directors' Report on page 7. All members of the Board consider themselves to be financially literate and have industry knowledge. The Company Secretary Vaz Hovanessian holds a Bachelor of Business (Acctng) and a Master of Applied Finance and is a Fellow of Chartered Secretaries Australia and Fellow of the Governance Institute of Australia.

The Company has established a Procedure for the Selection, Appointment and Rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board.

The Company's Audit Committee Charter and Procedure for Selection, Appointment and Rotation of External Auditor are disclosed on the Company's website.

#### **Remuneration Committee (Recommendations: 8.1, 8.2, 8.3, 8.4)**

The Board has not established a separate Remuneration Committee and accordingly it is not structured in accordance with Recommendation 8.2. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Remuneration Committee. Accordingly, the Board performs the role of Remuneration Committee. Items that are usually required to be discussed by a Remuneration Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Remuneration Committee it carries out those functions which are delegated to it in the Company's Remuneration Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Remuneration Committee by ensuring that the Director with conflicting interests is not party to the relevant discussions.

The full Board in its capacity as the Remuneration Committee did not meet during the Reporting Period however, remuneration-related discussions were held by the Board from time to time as required.

To assist the Board fulfil its function as the Remuneration Committee, the Board has adopted a Remuneration Committee Charter which describes the role, composition, functions and responsibilities of the full Board in its capacity as the Remuneration Committee.

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report and commences on page 8. The Company's policy on remuneration clearly distinguishes the structure of Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives. Non-Executive Directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for non-Executive Directors is not linked to individual performance. Given the Company is at its early stage of development and the financial restrictions placed on it, the Company may consider it appropriate to issue unlisted options to Non-Executive Directors, subject to obtaining the relevant approvals. Executives are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness.

## SILVER MINES LIMITED

### Corporate Governance Statement

There are no termination or retirement benefits for Non-Executive Directors (other than for superannuation).

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

The Company's Remuneration Committee Charter is disclosed on the Company's website.

#### Performance evaluation

##### Senior Executives

(Recommendations: 1.2, 1.3)

The Managing Director in consultation with the Board reviews the performance of the Senior Executives. The current size and structure of the Company allows the Managing Director to conduct informal evaluation of the Company's senior executives regularly. Open and regular communication with Senior Executives allows the Managing Director to ensure that Senior Executives meet their responsibilities as outlined in their contracts with the Company, and to provide feedback and guidance, particularly where any performance issues are evident. Annually, individual performance may be more formally assessed in conjunction with a remuneration review.

During the Reporting Period an evaluation of Senior Executives took place in accordance with the process disclosed.

##### Board, its committees and individual Directors

(Recommendations: 2.5, 2.6)

The Chair is responsible for evaluation of the Board and individual Directors. The Board has not established any committees.

The Chair evaluates the performance of the Board and individual Directors by way of ongoing review with reference to the composition of the Board and its suitability to carry out the Company's objectives. The Chair reports back to the Board as to its performance at least annually.

Given the current size and structure of the Company, the performance of the Managing Director is evaluated informally through open and regular communication with the Board during which feedback, guidance and support is provided. Annually, the Managing Director's performance may be more formally assessed in conjunction with a remuneration review.

During the Reporting Period an evaluation of the Board, individual Directors and the Managing Director took place in accordance with the process disclosed.

The Company's Process for Performance Evaluation is disclosed on the Company's website.

#### Ethical and responsible decision making

##### Code of Conduct

(Recommendations: 3.1, 3.5)

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account its legal obligations and the reasonable expectations of its stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company has also established a Whistleblower Policy. The aim of the policy is to ensure that Directors, officers and employees comply with their obligations under the Code of Conduct. It also encourages reporting of violations (or suspected violations) and provides effective protection from victimisation or dismissal to those reporting by implementing systems for confidentiality and report handling.

## SILVER MINES LIMITED

### Corporate Governance Statement

The Company's Code of Conduct and Whistleblower Policy are disclosed on the Company's website.

#### Diversity

(Recommendations: 3.2, 3.3, 3.4, 3.5)

The Company has established a Diversity Policy, which includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress towards achieving them.

The Board does not intend to set measurable objectives for achieving gender diversity at this stage. The Board considers that due to the Company's current operations, size and number of employees it is not in a position to set meaningful objectives. The Board will review this position as the Company's circumstances change.

The proportion of women employees in the whole organisation, women in Senior Executive positions and women on the Board as at 30 June 2015 are set out in the following table:

	Proportion of women
Employees in whole organisation	0 out of 2 (0%)
Senior Executive positions	0 out of 2 (0%)
Board	0 out of 5 (0%)

The Company's Diversity Policy/a summary of the Company's Diversity Policy is disclosed on the Company's website.

#### Continuous Disclosure

(Recommendations: 5.1, 5.2)

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability at a Senior Executive level for that compliance.

A summary of the Company's Policy on Continuous Disclosure and Compliance Procedures are disclosed on the Company's website.

#### Shareholder Communication

(Recommendations: 6.1, 6.2)

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

The Company's Shareholder Communication Policy is disclosed on the Company's website.

#### Risk Management

Recommendations: 7.1, 7.2, 7.3, 7.4)

The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board.

## SILVER MINES LIMITED

### Corporate Governance Statement

In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain Independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

Given the current size and structure of the Company, the Board take an active role in risk management, with all matter before the Company, discussed during Board meeting.

In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:

- the Board has established authority limits for management, which, if proposed to be exceeded, requires prior Board approval;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices.

The Company's system for managing its material business risks includes the use of a risk matrix which identifies the Company's material business risks and risk management strategies for these risks. The Managing Director reviews the risk matrix annually, or as required, and presents the risk matrix and any updates to the Board at each Board meeting.

The categories of risk reported on or referred to as part of the Company's systems and processes for managing material business risk are: protection of assets; financial reporting; and operational risks.

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. The Board has received a report from management as to the effectiveness of the Company's management of its material business risks for the Reporting Period.

The Joint Managing Directors and the Chief Financial Officer have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

A summary of the Company's Risk Management Policy is disclosed on the Company's website.