Silver Mines Limited
ACN 107 452 942

SILVER MINES LIMITED

2016 Annual Report

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The directors present their report on the Group for the year ended 30 June 2016.

Directors

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

Keith Perrett (Non-Executive Chairman) *Appointed 20 June 2016*
Anthony McClure (Managing Director) *Appointed 20 June 2016*
Peter Langworthy (Non-Executive director) *Appointed 20 June 2016*
Nathan Featherby (Non-Executive Chairman) *Resigned 26 August 2016*
Charles Straw (Executive Director) *Resigned 20 June 2016*
Darren Holden (Non-Executive Director) *Resigned 20 June 2016*
Saxon Ball (Non-Executive Director) *Resigned 20 June 2016*
James Naughton (Non-Executive Director) *Resigned 19 February 2016*
Douglas Flinn (Non-Executive Director) *Resigned 31 December 2015*
David Sutton (Non-Executive Chairman) *Resigned 30 November 2015*

Principal Activities

The principal activities of the Group during the financial period were acquiring the Bowdens Silver Project and maintaining the 100% owned Webbs Silver Project in New South Wales Australia.

Highlights for 2016 Financial Year

- Acquisition of Bowdens Silver Project, New South Wales, Australia.
- Successful AUD$35 million capital raising.
- Board and management restructure.

INTRODUCTION

Immediately prior to the end of the 2016 financial year, Silver Mines Limited (“Silver Mines” or the “Group”) undertook a substantial corporate and business restructuring. The Group acquired the considerable Bowdens Silver Project and successively completed an AUD$35 million financing along with a board and management restructure.

The restructuring plan was in line with the Group’s stated objective to consolidate quality silver deposits to form Australia’s pre-eminent silver company.

Projects

Silver Mines controls the following projects located in New South Wales, Australia:

- **Bowdens Silver Project (silver/polymetallic);**
- **Webbs Project (silver/polymetallic);**
- **Conrad Project (silver/polymetallic); and**
- **Tuena Project (gold/silver)**

Bowdens Silver Project

The Bowdens Silver Project (“Bowdens Silver”) is located in central New South Wales, approximately 26 kilometres east of Mudgee. (See Figure 1). The project area comprises 1,654 km^2 (408,000 acres) of titles covering approximately 80 kilometres of strike in the highly mineralised Rylstone Volcanics. Multiple target styles and mineral occurrences have potential throughout the district including analogues to Bowdens Silver, silver-lead-zinc epithermal and volcanogenic massive sulphide (VMS) systems and copper-gold targets.
Bowdens Silver is the largest undeveloped silver deposit in Australia with substantial resources. A considerable body of high quality technical work has been completed and the project boasts outstanding logistics for future mine development.

The Group holds 100% of Bowdens Silver comprising EL5920, EL6354, EL8159, EL8160, EL8160, EL8268, EL5674, EL8403, EL8405 and ELA5235. In addition, the Group holds an 80% interest and manages a Joint Venture over EL7391 with Thomson Resources Limited.

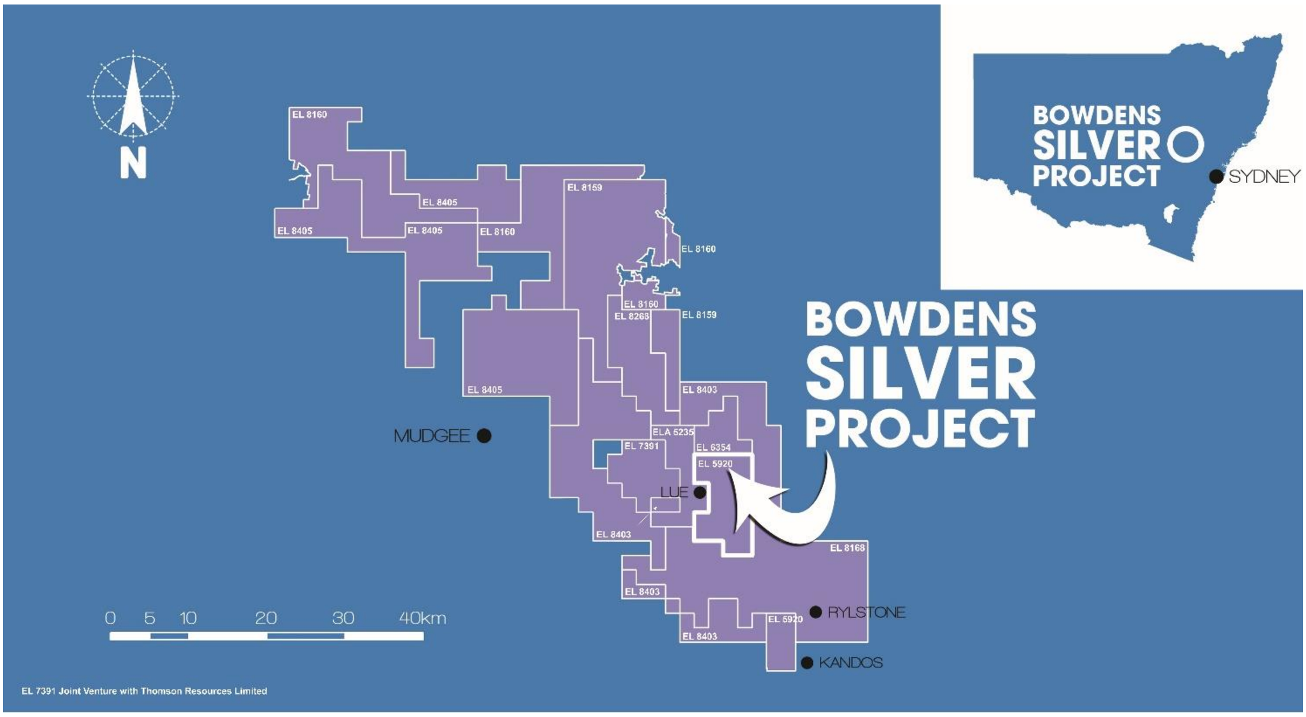

Figure 1. Bowdens Silver tenement holdings in the Mudgee district.

Resources

MPR Geological Consultants, on behalf of the previous project owners~~,~~ Kingsgate Consolidated Limited ("Kingsgate Consolidated"), completed the Bowdens Minerals Resource Estimate in November 2012, as detailed below.

Bowdens Mineral Resource Estimate (30g/t Ag Eq cut-off), November 2012[1]							
Resource Category	Tonnes (Million)	Silver (g/t)	Lead (%)	Zinc (%)	Ag Eq (g/t)	Silver (Moz)	Ag Eq (Moz)
Measured	23.6	56.6	0.31	0.41	74.5	43.0	57
Indicated	28.4	48.0	0.27	0.36	63.6	43.8	58
Total (M & I)	**52.0**	**51.9**	**0.29**	**0.38**	**68.6**	**86.8**	**115**
Inferred	36	41	0.3	0.4	58	47.5	68
Total	**88.0**	**47.4**	**0.29**	**0.39**	**64.4**	**134.1**	**182**

Bowdens Mineral Resource Estimate completed by MPR Geological Consultants. First reported under JORC Code 2004 in November 2012, and re-reported in October 2013 to be compliant with JORC2012 guidelines. Refer to Kingsgate Consolidated press release dated 18th of October, 2013 for full JORC2012 details and tables. Totals may vary due to rounding.

a) *Bowdens silver equivalent: Ag Eq (g/t) = Ag(g/t) + 27.5 x Pb (%) +22.8 x Zn (%) calculated from prices of US\$26.33/oz Ag, US\$2206/t Pb, US\$2111//t Zn and NSR metallurgical recoveries of 72% Ag, 75% Pb, and 66% Zn estimated from test work by Kingsgate Consolidated. NSR or net smelter return metallurgical recovery is defined as the payable metal recovered after allowing for smelter deductions, which includes deductions for precious metals.*

b) *As at reporting date, it was the Group's opinion that the silver, lead and zinc included in the metal equivalent calculations have a reasonable potential to be recovered.*

1. *Silver Mines confirms that it is not aware of any new information received since the original disclosure (Kingsgate Consolidated announcement 18th October 2013) or data that materially affects the information included in this table. The Group confirms that all material assumptions and technical parameters underpinning the mineral resource estimates continue to apply and have not materially changed.*

Bowdens Silver Work Programs

Planning of work programs for the Bowdens Silver Project for the 2017 financial year has included the recommencement work related to the Feasibility Study and the Environmental Impact Statement (EIS). A substantial exploration program is also planned.

Feasibility Study and Environmental Impact Statement

Bowdens Silver has had a very substantial body of work completed covering all aspects of the feasibility and environmental examination of a considerable silver/zinc/lead mine development. Many elements requiring significant lead time have mostly been completed or are well advanced. These works include;

- Geology and mineral resources;
- Mine planning and scheduling;
- Metallurgical testing;
- Flowsheet development;
- Process and plant design;
- Infrastructure;
- Operations management;
- Environmental management;
- Water and tailings management; and
- Financial analysis including capital and operating cost assessment.

The priority for Silver Mines is to fast-track mine development. Part of the reassessment of the project, the feasibility and environmental works, is to examine a more capital cost effective development with enhanced project economics. A comprehensive revision and modification of the mine feasibility and environmental effects is planned to result in the completion of the Definitive Feasibility Study in mid calendar 2017.

Drilling and Exploration Programs

A significant drilling campaign is scheduled to commence early in the 2017 financial year. The focus of the program includes:

- Increase silver resources within and in the immediate vicinity of the current resource area;
- Convert silver resources to higher levels of confidence as part of the Feasibility Study program;
- Further drilling of advanced exploration targets where substantial silver mineralisation has been discovered but is yet to be fully evaluated; and
- Further explore the potential for high grade mineralisation including zones containing gold as well as silver at depth below the current resource area.

An airborne geophysical survey covering over 20,000 line kilometres including the entirety of the Bowdens Silver tenement area is planned for early in the 2017 financial year.

The Group is also planning regional geophysical surveys over prospective corridors and a number of sampling and mapping programs over previously identified mineralised systems.

Government Commitment and Community Engagement

As part of the Environmental Impact Statement, Silver Mines will continue and expand upon all considerations with State and Local Government along with all stakeholders and community and interest groups.

The Group has commenced a program of consultation with the local communities and all stakeholders to discuss the potential impacts and benefits of exploration and development across the Bowdens Silver tenement portfolio. Consultation processes focus on the current potential mine development area and also the wider area where the Group plans active exploration programs. The community and stakeholder consultation program will have considerable influence on the overall scale and nature of any potential future development and community participation and acceptance is a critical component to Silver Mines' future activities in the district.

Acquisition

On 3rd March 2016 Silver Mines announced that it had entered into a Heads of Agreement to acquire Silver Investments Holdings Australia Limited ('SIHA'). SIHA is a public unlisted company incorporated as a New South Wales dedicated resources company with a particular emphasis on silver and related minerals. SIHA held various exploration and licence application rights. Primarily, SIHA entered into a Sale and Purchase Agreement ("the Agreement") whereby it would acquire 85% of the Bowdens Silver from Kingsgate Consolidated Limited ("Kingsgate Consolidated") for a total cash

consideration of AUD$20 million. As part of the acquisition of SIHA, the Group would assume the SIHA obligations for the purchase of Bowdens Silver.
The purchase of SIHA and Bowdens Silver was completed on 29th June 2016 through the payment of AUD$20 million to Kingsgate Consolidated.

Also on 29th June 2016, the Group advised that it had entered into a Deed of Variation with Kingsgate Consolidated whereby the acquisition price for the purchase of 100% of Bowdens Silver was varied to AUD$25 million with the balance of AUD$5 million to be paid by 30th September 2016. It was later agreed to change the payment timing to AUD$1.0 million on 30th September 2016 with the AUD$4.0 million balance on or before 30th December 2016.

As part of the consideration of the purchase of SIHA, 40,000,000 ordinary shares in the capital of the Group were issued to SIHA shareholders in addition to a 1.0% Gross Royalty over the Group's interests (via SIHA) in the Bowdens Silver Project and all other current tenements that are 100% owned by the Group. Further, the previous owners of SIHA are to be issued a deferred consideration of 40,000,000 shares in two instalments; 20,000,000 ordinary shares upon the submission of the Environmental Impact Statement for the Bowdens Silver Project and 20,000,000 ordinary shares upon to granting of a mining lease in relation to the tenement at the Bowdens Silver Project.

Other Projects

Webbs Silver Project

The Webbs Silver Project (EL 5674) is located in the New England region of northern New South Wales approximately 45 kilometres north of Glen Innes.

The project lies within the New England Orogen which extends from north-eastern New South Wales into eastern Queensland.

The dominant geological feature in the region is the Mole Granite which is related to extensive mineralisation in the region with over 2,000 separate mineral occurrences. Mineralisation in the project area consists of polymetallic single and multiple vein lode zones in a narrow two kilometre long north trending zone which is marked by scattered historic workings.

The project is one of the highest grade undeveloped silver projects in Australia. During the 2016 financial year, Silver Mines continued to review the near mine exploration with the aim of targeting new deposit extensions in order to increase the potential project scale prior to further economic evaluation.

Webb's Mineral Resource Estimate February 2012[1]							
Resource Category	Tonnes (Million)	Silver (g/t)	Copper (%)	Lead (%)	Zinc (%)	Ag Eq (g/t)	Ag Eq (Moz)
Measured	0.194	364	0.29	0.75	1.67	470	2.9
Indicated	0.775	245	0.26	0.70	1.49	341	8.5
Inferred	0.522	201	0.27	0.71	1.61	302	5.1
Total	**1.49**	**245**	**0.27**	**0.71**	**1.56**	**345**	**16.5**

Webbs Mineral Resource estimate as released by Silver Mines Limited on 27th February 2012. Based on work compiled by GeoRes Pty Ltd. Totals may vary due to rounding.

[1] The Group confirms that it is not aware of any new information received since the original disclosure (27th February 2012) or data that materially affects the information included in this table. The Group confirms that all material assumptions and technical parameters underpinning the mineral resource estimates continue to apply and have not materially changed.
[2] Webbs silver equivalent calculation based on equal recoveries of all metals based on silver price of US$17.30 per ounce, copper price of US$4935 per tonne, lead price of US$1773 per tonne and zinc price of US$1871 per tonne as recorded as spot prices on 27th April 2016.
[3] In the Group's opinion, the silver, lead, copper and zinc included in the metal equivalent calculations have a reasonable potential to be recovered.

Conrad Silver Project

The Conrad Silver Project (EPL1050, EL5977, ML6040, ML6041 and ML 5992) is located in the New England region of northern New South Wales approximately 25 kilometres south of Inverell.

The project is also located in the New England Orogen and is hosted in the Gilgai Granite with the nearby Tingha Granite being the assumed mineralising source. Historically, Conrad was mined underground over a 1.4 kilometre strike length and to a maximum depth of 260 metres. The mineralisation is hosted in sulphide bearing narrow veins. A body of nearsurface disseminated and veinlet sulphide mineralisation, from 20 metres to 40 metres wide, is referred to as the 'Greisen Zone'.

During the 2016 financial year, the Group completed the required terms of the acquisition of the Conrad Project from Malachite Resources Limited. The transaction has now been completed, subsequent to 30th June 2016, and the tenements are pending transfer to Silver Mines. During the year, the Group carried out targeting and review of the project with the aim of conducting further on-ground exploration. There are numerous other silver occurrences on the wider project area including several associated with structures parallel to the main Conrad structure.

Conrad Mineral Resource Estimate December 2008[1]								
Resource Category	Tonnes (Million)	Silver (g/t)	Copper (%)	Lead (%)	Zinc (%)	Tin (%)	Ag Eq (g/t)	Ag Eq (Moz)
Indicated	0.658	128.8	0.24	1.69	0.68	0.28	254.0	5.37
Inferred	1.994	97.6	0.19	1.21	0.48	0.21	190.2	12.19
Total	**2.652**	**105.4**	**0.20**	**1.33**	**0.53**	**0.22**	**206.1**	**17.5**

Conrad Mineral Resource estimate as released by Malachite Resources Limited on 16th December 2008. Based on work compiled by Hellman & Schofield Pty Ltd, Geological Consultants. Totals may vary due to rounding.

[1] The Group confirms that it is not aware of any new information received since the original disclosure (16th December 2008 or data that materially affects the information included in this table. The Group confirms that all material assumptions and technical parameters underpinning the mineral resource estimates continue to apply and have not materially changed.

[2] Conrad silver equivalent is presented as calculated in the original release 16th December 2008 which were AgEq = Ag (g/t) + 22.5 Pb (%) + 20.0 Zn (%) + 73.3 Cu (%)+203.1 Sn (%)

Based on a ratio of metal prices on 8th December 2008 of US$9.50 per oz Ag, US$1000/t Pb, US$1100/t Zn, US$3100/t Cu,US$11600/t Sn, estimated Net Smelter Return with factored process recoveries estimated by Malachite Resources on metallurgical testing and previous experience.

[3] In the Group's opinion, the silver, lead, copper, tin and zinc included in the metal equivalent calculations have a reasonable potential to be recovered.

Tuena Project

The Tuena Project tenement application is located to the south of Orange, New South Wales. The area is targeted for precious metals.

Corporate

Share Placement

As announced on 21st June 2016, Silver Mines successfully completed a capital raising of AUD$35.0 million.

The financing was undertaken for the completion of the acquisition of Bowdens Silver and for working capital purposes.

Capital Consolidation

As approved by Shareholders at a General Meeting on 6th June 2016, Silver Mines Limited's capital was consolidated on a 100:1 basis.

Board of Directors and Management Changes

As detailed below, at the completion of the 2016 financial year and subsequent to year end, certain Board of Directors and Management appointments and changes were effected.

INFORMATION ON BOARD

Directors

Mr Keith Perrett, Non-Executive Chairman
Mr Perrett has had a long involvement in agriculture as a producer and industry leader at local, state, national and international levels. He was formerly Chairman of the Grains Research and Development Corporation (GRDC), the National Rural Advisory Council (NRAC), the Wheat Research Foundation, and President of the Grains Council of Australia. Mr Perrett brings substantial experience in stakeholder and government relations, governance and holds substantial agricultural interests in north-west New South Wales.

Mr Perrett joined the Board of Silver Mines as Chairman in August 2016 and has been a Non-Executive Director since June 2016.

Mr Anthony McClure, Managing Director
Mr McClure graduated with a Bachelor of Science (Geology) degree from Macquarie University in 1986. He has had 30 years technical, management and financial experience in the resource sector worldwide in project management and executive development roles. He has also worked in the financial services sector within the mineral and energy sectors.

Mr McClure is currently a director of listed company Planet Gas Limited (since August 2003) and unlisted public companies Nickel Mines Limited and Mekong Minerals Limited. He is also a past director of Bolnisi Gold NL and European Gas Limited.

Mr McClure joined the Board of Silver Mines as Managing Director in June 2016.

Mr Peter Langworthy, Non-Executive Director
Mr Langworthy graduated with a Bachelor of Science (Geology) degree (Hons) from Macquarie University in 1986. His career spans 30 years in mineral exploration and project development both in Australia and internationally. His industry experience includes senior management roles with WMC Resources Limited, PacMin Mining Limited, and Jubilee Mines NL. Mr Langworthy headed the management team that was responsible for numerous discoveries that led to the outstanding success of Jubilee Mines.

Mr Langworthy is currently Chairman of Syndicated Metals Limited (since March 2012), and Technical Director at Capricorn Metals Limited (since July 2013.) Mr Langworthy previously held non-executive directorships with Northern Star Resources Limited, Talisman Mining Limited, Falcon Minerals Limited and Pioneer Resources Limited.

Mr Langworthy joined the Board of Silver Mines as a Non-Executive Director in June 2016.

Company Secretary

Mr Trent Franklin
Mr Franklin holds qualifications in finance, financial planning and insurance broking, he has a Bachelor of Science (Geology/Geophysics) from the University of Sydney, and is a graduate of the Australian Institute of Company Directors. Mr Franklin is Managing Director of financial services company Enrizen Pty Ltd and Enrizen Accounting Pty Ltd. He has served as a director on the Board of the Australian Olympic Committee Inc.

Director Resignations
In August 2016, Nathan Featherby resigned as Chairman of the Group.
In June 2016, Mr Darren Holden, Mr Charles Straw and Mr Saxon Ball resigned as directors of the Group.
In February 2016, Mr James Naughton resigned as non-executive director of the Group.
In December 2015, Mr Douglas Flinn resigned as non-executive director of the Group.
In November 2015, Mr David Sutton resigned as non-executive Chairman of the Group.

COMPETENT PERSONS STATEMENTS

Bowdens Resource Estimation

The information in this report that relates to the Bowdens Mineral Resources estimation is based on information compiled by Jonathon Abbott who is a full time employee of MPR Geological Consultants Pty Ltd and a member of the Australian Institute of Geoscientists. Mr Abbott has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves' (JORC Code). Mr Abbott consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Conrad Resource Estimation

The resource estimates quoted for the Conrad deposit were originally estimated for Malachite Resources NL by Mr Simon Tear of Hellman & Schofield Pty Ltd, an international and independent geological consultancy, under the 2004 JORC Code. The estimates have not been updated to comply with the JORC Code 2012 on the basis that the information has not materially changed since last reported. The information in this report that relates to the Conrad Mineral Resource Estimates is based on information compiled by Mr Simon Tear who is a director of H&S Consultants Pty Ltd and is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM). Mr Tear has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves' (JORC code). Mr Tear consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Webbs Resource Estimation

The resource estimates quoted for the Webbs deposit have been estimated for Silver Mines Limited by GeoRes Pty Ltd, an independent resource consultancy under the 2004 JORC Code. This resource estimation has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since last reported. The information in this document that relates to Webbs mineral resource estimations is based on information compiled by Mr Robin Rankin, who is a Member of the Australian Institute of Mining and Metallurgy (MAusIMM) and registered as a Chartered Professional Geologist (CPGeo). Mr Rankin is Principal Consulting Geologist and operator of the independent geological consultancy of GeoRes Pty Ltd. He 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 'Australian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves' (The JORC Code). Mr Rankin consents to and has provided consent to the inclusion in this report of these matters based on the documentation in the form and in the context in which it appears.

Other

Other technical information in this report that relates to Exploration Results is based on information compiled by Mr Darren Holden, Consultant to Silver Mines. Mr Holden is a Member of The Australasian Institute of Mining and Metallurgy (MAusIMM). Mr Holden has sufficient experience 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 (JORC Code). Mr Holden consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

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 Group'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 Group.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the Group 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 Group'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 9.5%, and do not receive any other retirement benefits. All remuneration paid to directors and executives is valued at the cost to the Group and expensed. Options are valued using the Black & Scholes methodology.

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 Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Group and are able to participate in employee share option plans.

Performance based remuneration

The Group currently has no performance based remuneration component built into the managing director’s executive remuneration package.

Group 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 Group 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. The Group has not employed any executive officers, other than directors, who were involved in, concerned in, or who took part in the management of the Group’s affairs.

The Group does not have any schemes for retirement benefits for non-executive directors.

Key Service Agreements

Mr Keith Perrett. The service agreement with Lehavo Pty Ltd provides non-executive chairman services to the Group for non-executive chairman's fees of $80,000 per annum. Mr Perrett provides services to the Group on behalf of Lehavo Pty Ltd. The agreement is ongoing on a month-to-month basis and Mr Perrett is required to provide 90 days' written notice if he wishes to resign from the Group.

Mr Anthony McClure has entered into a managing director's agreement with the Group in which he receives total remuneration of $450,000 per annum for a period of two years. The agreement provides a notice period of six months in the event of termination.

Mr Peter Langworthy has entered into a non-executive director service agreement with the Group whereby he receives a non-executive directors' fee of $60,000 per annum. The agreement between Mr Langworthy and the Group is ongoing on a month-to-month basis. Mr Langworthy is required to provide 90 days' written notice if he wishes to resign from the Group.

Mr Trent Franklin. The service agreement with Enrizen Accounting Pty Ltd provides company secretarial and accounting services to the Group for a fee of $8,500 per month. Mr Franklin provides services to the Group on behalf of Enrizen Accounting Pty Ltd.

Mr Darren Holden. The service agreement with GeoSpy Pty Limited provided non-executive director's services to the Group for a fee of $5,000 per month. During the term of this agreement, Mr Holden acted as non-executive director to the Group on behalf of GeoSpy Pty Ltd. Mr Holden resigned from his position as director on 20th June 2016 and so the service agreement was terminated.

Mr Saxon Ball entered into a non-executive director service agreement with the Group whereby he received a non-executive directors fee of $5,000 per month. The agreement between Mr Ball and the Group was terminated upon Mr Ball's resignation on 20th June 2016.

Mr Charles Straw. The service agreement with Centric Minerals Management Pty Ltd provided for Centric Minerals Management Pty Ltd to provide technical database management, technical advice and project management for a monthly retainer of $3,500. Additionally, Mr Straw was paid executive directors fees of $12,000 per month. The agreement between Centric Minerals Management Pty Ltd was terminated upon Mr Straw's resignation on 20th June 2016.

Mr Nathan Featherby. The service agreement with Mancora Capital Pty Ltd provided for the engagement of Nathan Featherby as executive chairman of the Group for a monthly fee of $3,000. The agreement between Mr Featherby and the Group was terminated upon Mr Featherby's resignation on 26th August 2016.

Director remuneration for the year ended 30 June 2016:

		Salary & Fees	Non-monetary	Super-annuation	Retirement benefits	Non-cash share-based payments	Other bonuses	Total
A McClure	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
K Perrett	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
P Langworthy	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
N Featherby	**2016**	**248,750**	-	-	**-**	-	-	**248,750**
Resigned	2015	81,000	-	-	**-**	-	-	81,000
D Holden	**2016**	**15,000**	-	-	-	-	-	**15,000**
Resigned		**-**	-	-	-	-	-	**-**
S Ball	**2016**	**25,000**	-	-	-	-	-	**25,000**
Resigned			-	-	-	-	-	**-**
C Straw	**2016**	**144,000**	-	-	-	-	-	**144,000**
Resigned	2015	219,000	-	-	-	-	-	219,000
J Naughton	**2016**	**-**	**-**	**-**	**-**	**47,906**	**-**	**47,906**
Resigned	2015	-	-	-	-	7,500	-	7,500
D Sutton	**2016**	**941**	**-**	**-**	**-**	**-**	**-**	**941**
Resigned	2015	24,000	-	-	-	-	-	24,000
D Flinn	**2016**	**45,000**	**-**	**-**	**-**	**-**	**-**	**45,000**
Resigned	2015	15,000	-	-	-	-	-	15,000

Remuneration of the Key Executives remuneration for the year ended 30 June 2016:

		Salary & Fees	Non-monetary	Super-annuation	Retirement benefits	Non-cash share-based payments	Other bonuses	Total
V Hovanessian	**2016**	**59,500**						**59,500**
Resigned	2015	60,416	-	-	-	-	-	60,416
R Holstein	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Resigned								
T Franklin*	**2016**	**51,000**	**-**	**-**	**-**	**-**	**-**	**51,000**

* See Note 15 regarding related party transactions.

Meetings of Directors

During the financial year, 24 meetings of directors were held:

	Meetings eligible to attend	Meetings attended
N Featherby	24	24
C Straw	23	22
J Naughton	14	14
D Holden	13	13
D Sutton	10	10
D Flinn	10	10
S Ball	5	4
A McClure	1	1
K Perrett	1	1
P Langworthy	1	1

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, as described in the Corporate Governance Statement, which is attached to this report and located on the Company's website at http://www.silverminesltd.com.au/about/corporate-governance.aspx.

Directors and officers indemnification

The Group has agreed to indemnify and keep indemnified the directors and officers of the Group against all liabilities incurred by the directors or officers as a director or officer of the Group and all legal expenses incurred by the directors or officers as a director or officer of the Group.

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 Group, under the general law or otherwise. The Group has taken out directors and officers liability insurance on behalf of the directors, and is unable to disclose costs due to the terms of the policy. See previous Annual Reports for further information.

The indemnity does not extend to any liability:

- to Silver Mines Limited or a related body corporate of Silver Mines Limited; or
- arising out of conduct of the directors or officers involving a lack of good faith; or
- which was incurred prior to 1st 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 Silver Mines Limited 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 15 and forms part of the Director's Report.

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

Keith Perrett
Chairman

Anthony McClure
Managing Director

30th September 2016

moyes yong + co
my business solutions

Moyes Yong + Co Partnership
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AUDITOR'S INDEPENDENCE DECLARATION

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 partner for the audit of the financial statements of Silver Mines Limited for the financial period ended 30 June 2016, 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

30 September 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $	2015 $
Interest received – non related		12,962	3,518
Share registry		(45,277)	(30,393)
Securities exchange fees		(112,384)	(32,021)
Finance charges		(255,413)	(19,495)
Bank fees		(4,678)	(2,395)
Auditors		(27,300)	(25,350)
Office expenses		(311,730)	(52,533)
IT & communications		(14,224)	(4,324)
Management fees		(204,030)	(215,600)
Option expense		(18,182)	-
Depreciation		(8,949)	(10,645)
Insurance		(38,420)	(10,598)
Marketing		(247,239)	(220,995)
Professional and technical advisors		(3,434,690)	(311,079)
Other expenses from ordinary activities		(576,121)	(76,121)
Impairment/write-off of exploration asset		(45,106)	(24,667)
Write-off of investment		(50,000)	(237,684)
Loss on investment		(97,702)	-
(Loss)/profit before income tax expense		**(5,491,445)**	**(1,273,900)**
Income tax expense	4	-	-
(Loss)/profit for the year		**(5,478,483)**	**(1,270,382)**
Other comprehensive income		-	-
Total comprehensive (loss)/profit for the year net of tax		**(5,478,483)**	**(1,270,382)**

		Cents	Cents
Basic earnings per share	20	(12.22)	(0.18)
Diluted earnings per share	20	(12.15)	(0.18)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	2016 $	2015 $
Current assets			
Cash and cash equivalents	5	11,557,239	50,418
Receivables	6	2,472,002	55,447
Inventory - livestock		117,550	-
Total current assets		**14,146,791**	**105,865**
Non-current assets			
Financial assets	7	150,000	110,000
Deferred exploration & development	8	28,043,486	5,170,000
Other debtors		-	1,175
Property, plant & equipment	9	180,896	8,949
Land & buildings		7,805,381	-
Investments	10	-	50,000
Total non-current assets		36,179,763	5,340,124
Total assets		**50,326,554**	**5,445,989**
Current liabilities			
Payables	11	7,406,458	422,066
Borrowings		-	289,300
Employee provisions	12	46,577	-
Total current liabilities		7,453,035	711,366
Total liabilities		**7,453,035**	**711,366**
Net assets		**42,873,519**	**4,734,623**
Equity			
Contributed equity	13	63,502,086	19,884,707
Accumulated losses		(20,628,567)	(15,150,084)
Total equity		**42,873,519**	**4,734,623**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Ordinary shares $	Share-based payment reserve $	Share option reserve $	Accumulated losses $	Total $
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 Group		-	-	-	(1,242,830)	(1,242,830)
Balance at 30 June 2013		**18,524,988**	**-**	**-**	**(4,606,016)**	**13,918,972**
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 Group		-	-	-	(9,273,686)	(9,273,686)
Balance at 30 June 2014		**19,432,507**	**-**	**-**	**(13,879,702)**	**5,552,805**
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 Group		-	-	-	(1,270,382)	(1,270,382)
Balance at 30 June 2015		**19,884,707**	**-**	**-**	**(15,150,084)**	**4,734,623**
Share-based payments during the year		-	-	-		-
Converting note – face value		-	-	-		-
Partial conversion of converting note		-	-	-		-
Placement of shares		45,957,167	-	-		45,957,167
Costs of funds raised		(2,339,787)	-	-		(2,339,787)
Loss attributable to members of the Group		-	-	-	(5,478,483)	(5,478,483)
Balance at 30 June 2016		**63,502,087**	**-**	**-**	(20,628,567)	**42,873,520**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $	2015 $
Cash flows from operating activities			
Interest received		12,962	3,518
Payments to suppliers and employees		(3,121,329)	(789,485)
Net cash outflows from operating activities	18	(3,134,291)	(785,967)
Cash flows from investing activities			
Payment for purchase of inventory		(117,550)	-
Payments for purchase of land, buildings, plant & equipment		(7,986,277)	-
Payments for exploration expenditure		(16,482,017)	(83,059)
Payments for investments		(102,298)	-
Net cash outflows from investing activities		(24,688,142)	(83,059)
Cash flows from financing activities			
Proceeds from the issue of equity instruments		41,957,167	436,200
Payments for fund raising costs		(2,339,787)	-
Receipts/expenses from borrowings		(288,126)	288,126
Net cash inflows from financing activities		39,329,254	724,326
Net (decrease)/increase in cash held		**11,506,821**	**(144,700)**
Cash at the beginning of the financial year		50,418	195,118
Cash at the end of the financial year	5	**11,557,239**	**50,418**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards (AASB) and the requirements of Corporations Act 2001 and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board as applicable to a for-profit entity. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial report is intended to provide users with an update on the latest annual financial statements of Silver Mines Limited and its controlled entities.

Except for the cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial statements are presented in Australian dollars which is the Group's functional currency.

b. Going Concern

The directors believe that the going concern basis is appropriate for the preparation and presentation of the financial statements, notwithstanding continued operating losses, negative operating cash flows, and no ongoing revenue streams, as the directors believe that the Group has sufficient cash and liquid assets or can access cash to continue operations. The cash is managed through:

a) Tight control of administrative expenses.
b) Raising additional share capital, for which the company has a history of raising funds.

The directors have prepared a forecast for the foreseeable future reflecting the above mentioned expectations and their effect on the Group. The forecast is conservative, and reflects current market prices, reduction in interest income, costs based on the progression of the recent acquisition of Bowdens Silver Pty Limited and the further development of the Group's purchase of tenements along with exploration.

In the unlikely event that the above results in a negative outcome, then the going concern basis may not be appropriate with the result that the Group may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and in amounts different from those stated in the Financial Report. No allowance for such circumstances has been made in the Financial Report.

c. Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Silver Mines Limited as at 30th June 2016 and the results of its subsidiaries for the period then ended. Silver Mines Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity' or 'the Group'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

d. 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 in 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 structures, 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.

a. New Accounting Standards and Interpretations not yet mandatory or early adopted.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30th June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations which are most relevant to the consolidated entity are set out below.

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AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1st January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1st January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1st July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1st January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1st July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

NOTE 2: CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 2: CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

It is reasonably possible that the underlying metal price assumption may change which may then impact the estimated life of mine determinant and may then require a material adjustment to the carrying value of mining plant and equipment, mining infrastructure and mining development assets. Furthermore, the expected future cash flows used to determine the value-in-use of these assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including reserves and production estimates, together with economic factors such as metal spot prices, discount rates, estimates of costs to produce reserves and future capital expenditure.

NOTE 3: OPERATING SEGMENTS

Identification of reportable operating segments

During the period, the consolidated entity was organised into one operating segment, being exploration operations. This operating segment is based on the internal reports that are reviewed and used by the directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews operating expenses in relation to the exploration activities and the Group’s cash position. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on at least a monthly basis. Information is presented on a consolidated cash flow basis. Cash flow funding is treated as one pool of liquid assets noting relevant terms of any maturity or exercise of any investments for the purpose of funding exploration.
Types of products and services – the principal products and services of this operating segment are in exploration operations and mine development in Australia.

NOTE 4: INCOME TAX

(a) Reconciliation of income tax expense to prima facie tax payable	**2016 $**	**2015 $**
Operating (loss)/profit before income tax	**(5,478,483)**	**(1,270,382)**
Prima facie income tax benefit/(expense) at 30% on operating profit/(loss)	1,643,545	381,115
Add tax effect of:		
Tax losses and temporary differences not recognised	(1,643,545)	(381,115)
Non temporary differences	-	-
Income tax attributable to operating (loss)/profit	**-**	**-**

Directors are of the view that there is insufficient probability that the Group 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 4: INCOME TAX (continued)

	2016 $	2015 $
(b) There is no amount of tax benefit recognised in equity as the tax effect of temporary differences has not been booked		
(c) Tax losses		
Unused tax losses for which no tax loss has been booked as a deferred tax asset adjusted for non temporary differences	26,952,694	21,569,317
Potential tax benefit at 30%	8,085,808	6,470,795
(d) Unrecognised temporary differences		
Non deductible amounts as temporary differences	-	-
Accelerated deductions for book compared to tax	-	-
Total	8,085,808	6,470,795
Potential effect on future tax expense	8,085,808	6,470,795
(d) Unrecognised temporary differences		
Non deductible amounts as temporary differences	-	-
Accelerated deductions for book compared to tax	-	-
Total	6,424,664	6,470,795
Potential effect on future tax expense	6,466,064	6,470,795

NOTE 5: CASH AND CASH EQUIVALENTS

	2016	2015
Cash at bank and on hand	**11,557,239**	**50,418**

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:

	2016	2015
Cash assets	**11,557,239**	**50,418**

The effective interest rates on term deposits were 3.1% (2015: 3.3%).

NOTE 6: RECEIVABLES

	2016	2015
Outstanding deposit	1,973,972	55,447
Sundry debtors	498,030	-
	2,472,002	**55,447**

Outstanding deposit relates to funds from June 2016 Placement received after 30 June 2016. These funds have subsequently been received.

NOTE 7: OTHER FINANCIAL ASSETS

Non-current		
Performance guarantee bonds	**150,000**	**110,000**

NOTE 8: EXPLORATION

	2016 $	2015 $
Non-current		
Exploration expenditure		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phase		
Opening balance	5,170,000	5,170,000
Expenditure in the period	22,873,486	-
Expenditure written off	-	-
	28,043,486	**5,170,000**

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	2016 $	2015 $
Plant and equipment - at cost	8,949	19,594
Assets acquired – non current	180,896	-
Less: accumulated depreciation	(8,949)	(10,645)
	180,896	**8,949**

NOTE 10: INVESTMENTS

Opening fair value	50,000	-
Investment in White Rock Minerals (WRM)	200,000	-
Amount recognised in profit and loss	(250,000)	50,000
	-	**50,000**

NOTE 11: PAYABLES

Current		
Trade creditors and accruals	2,406,458	422,066
Other creditors*	5,000,000	
	7,406,458	**422,066**

A further payment of $1,000,000 is to be paid to Kingsgate Consolidated Limited for the Bowdens Silver Project on or by 30th September 2016, and the remaining $4,000,000 of the purchase price is to be paid on or by 30th December 2016.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 12: PROVISION

Current – Employee Provisions	46,577	-

NOTE 13: CONTRIBUTED EQUITY

	2016 $	2015 $
(a) Issued and paid up capital		
Balance at the beginning of the financial year	19,884,707	19,432,507
Issue of shares to raise capital	45,957,167	531,598
Conversion of options		-
Convertible security	(2,339,787)	(79,398)
Share issue costs	-	-
Balance at the end of the financial year	**63,502,087**	**19,884,707**

Consisting of 6,021,250 ordinary shares issued pre-consolidation and 273,333,567 ordinary shares issued post-consolidation (2015: 692,922,714 ordinary shares)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$
1 July 2014		**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
30 June 2015		**692,922,714**		**19,884,707**
1 July 2015		**692,922,714**		**19,884,707**
15 July 2015	Option Conversion	20,000	0.01	200
1 September 2015	Rights Issue	2,771,770,856	0.001	2,771,771
19 October 2015	Option Conversion	875	0.01	9
19 October 2015	Rights Issue	1,197,003,500	0.001	1,197,004
2 December 2015	Placement	50,000,000	0.001	50,000
5 February 2016	Placement	375,000,000	0.0015	562,500
5 February 2016	Placement	150,000,000	0.001	150,000
5 February 2016	Placement	77,056,191	0.001622	125,000
9 February 2016	Option Conversion	33,000	0.003	99
29 February 2016	Placement	522,910,809	0.0015	784,366
7 April 2016	Placement	877,454,916	0.0015	1,316,182
	Pre-Consolidation 100:1*	*6,714,172,861*	-	*26,841,823*
10 June 2016	***Post-Consolidation 100:1****	*67,142,076*	-	*26,841,823*
21 June 2016	Placement	233,333,567	0.15	35,000,035
21 June 2016	Placement	40,000,000	0.10	4,000,000
30 June 2016		**340,475,643**		**65,841,873**

*** On 6 June 2016 at an Extraordinary General Meeting of members of the Group, a 100:1 consolidation of the Silver Mines Limited's share capital was approved. Differences are due to post-consolidated rounding.*

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 13: CONTRIBUTED EQUITY (Continued)

(c) Issued and paid up capital

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group 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.

(d) Share options

At 30 June 2016 details of Listed and Unlisted Options are as follows:

Details	Number	Exercise price	Expiry date
Unlisted options	58,000	$4.30	31 May 2017
Listed options	23,393,614	$0.30	13 October 2017
Listed options	7,500,000	$0.30	20 June 2018
Unlisted options	8,000,000	$0.30	20 June 2019
Total	**38,951,614**		

(e) Capital management

The Group'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 Group's capital by assessing the Group'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 Group since the prior year.

	2016 Number	2015 Number
Movements in options		
Balance at the beginning of the financial year	97,500,135	97,500,135
Options lapsed	(91,700,135)	-
Options exercised	(53,875)	-
Options issued pre-consolidation	2,340,387,178	-
Pre-consolidated total	2,346,133,303	-
Consolidation 100:1*	23,461,614	-
Options issued post-consolidation	15,500,000	-
Balance at the end of the financial year	**38,961,614**	**97,500,135**

** Differences due to rounding post-consolidation*

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 14: REMUNERATION OF DIRECTORS AND EXECUTIVES

(a) Relevant interests in ordinary shares and options at 30 June 2016:

SHARES

Ordinary shares	Balance 30 June 2015	Net change	Net change of associated entities	Balance 30 June 2016
Directors				
D Sutton	2,779,114	(521,000)	(2,157,432)	115,792
C Straw	2,393,532	(1,316,700)	(1,052,896)	23,935
J Naughton	25,000,000	-	24,750,000	250,000
D Flinn	3,120,876	-	(2,764,832)	356,044
N Featherby	-	-	-	-
A McClure	-	8,687,500	9,187,500	17,875,000
K Perrett	-	600,000	400,000	1,000,000
P Langworthy	-	-	500,000	500,000

(b) Relevant interests in options at 30 June 2016:

OPTIONS

Employee options	Balance 30 June 2015	Granted as remuneration	Options lapsed/written off	Net change other	Balance 30 June 2016
Directors					
D Sutton	20,000	-	(20,000)	-	-
C Straw	25,825	-	(25,825)	-	-
J Naughton	-	-	-	-	-
D Flinn (i)	5,000	-	(5,000)	62,418	62,418
N Featherby	-	-	-	-	-
A McClure	-	-		-	-
P Langworthy (ii)	-	-		1,000,000	1,000,000
K Perrett (ii)	-	-		500,000	500,000
Specified executives					
T Franklin	-	-	-	-	-

(i) Condition of options: listed with an exercise price of $0.30 and expiry date of 13th October 2017.
(ii) Conditions of options: unlisted with an exercise price of $0.30 and expiry date of 20th June 2019.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 15: RELATED PARTY TRANSACTIONS

Related parties of the Group throughout the 2016 financial year fall into the following categories:

Trading transactions

During the year, the Group 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), an entity associated with Charles Straw and Richard Holstein was paid $106,631 to provide management, administrative services (including provision of office space and facilities) and geological consulting services to the Group, as of balance date, the Group owed $36,800 to CMM.

(ii) Roschelle Ltd (RL), an entity controlled by Mr Nathan Featherby, was paid $49,000 from the Group and the Group issued 100 million fully paid ordinary shares in the Group at an issue price of $0.001 to RL, in relation to providing advisory and financing services to the Group, and as of balance date the Group owed nil to RL.

(iii) Enrizen Capital Pty Ltd, (EC) an entity associated with Trent Franklin, was paid or is payable $65,972 in relation to capital raising services to the Group, and as of balance date, the Group owed $150,000 dollars to EC.

(iv) Enrizen Pty Ltd, (EPL) an entity associated with Trent Franklin, was paid $948 in relation to insurance services to the Group, and as of balance date, the Group owed $990 to EPL.

(v) Enrizen Lawyers Pty Ltd, (EL) an entity associated with Trent Franklin, was paid $825 in relation to legal services provided to the Group, and as of balance date, the Group owed nil to EL.

(vi) Ochre Group Holdings Limited (OGH), an entity associated with Nathan Featherby, was paid $838,428 and is payable a further $550,000 in relation to strategic advice provided to the Group during the period.

(vii) Broad Investments Limited Ltd (BRO), an entity controlled by Vaz Hovanessian was paid or is payable $259,375 from the Group for provision of office space and facilities, and as of the balance date, the Group owed nil to BRO.

(viii) Fern Street Partners Pty Limited (FSP), an entity controlled by Mr Vaz Hovanessian, was paid $47,857 from the Group, in relation to capital raising services provided to the Group under normal terms and conditions unless otherwise stated, and as of balance date the Group owed nil to FSP.

(ix) Mancora Capital Pty Ltd (MC), an entity controlled by Mr Nathan Featherby, was paid $43,923 in relation to corporate advisory services to the Group, and as of balance date the Group owed $72,243 to MC.

(x) Raxigi Pty Ltd (RPL), an entity controlled by Mr Vaz Hovanessian, was paid $67,986 in relation to accounting and company secretary services to the Group, and as of balance date the Group owed Nil to RPL.

Other related party transactions: *Equity interests in related parties*

(i) The Group holds 250,000 fully paid ordinary shares in Precious Metals Investments Ltd (PMZ), an entity involved in exploration for precious metals. Former directors of the Group, David Sutton, Douglas Flinn, Kevin Lynn and Charles Straw are directors of PMZ. These shares have been fully impaired in the current year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 16: PARENT ENTITY INFORMATION

Statement of profit or loss and other comprehensive income

	Parent	
	2016	**2015**
	$	**$**
Profit (loss) after income tax	(5,478,483)	(1,270,382)
Total comprehensive income/(loss)	(5,478,483)	(1,270,382)

Statement of financial position

	Parent	
	2016	**2015**
	$	**$**
Total current assets	42,871,675	105,865
Total assets	48,824,976	5,445,989
Total current liabilities	6,251,458	711,366
Total liabilities	6,251,458	711,366
Equity		
Issued capital	63,502,087	19,884,707
Retained profits	(20,628,567)	(15,150,084)
Total equity	42,873,520	4,734,623

NOTE 17: CONSOLIDATED ENTITIES

The Group operates in the exploration industry in Australia only. The Group has the following wholly owned subsidiaries whose transactions have been consolidated into the Group accounts:

Silver Investment Holdings Australia Limited
Bowdens Silver Pty Limited

NOTE 18: RECONCILIATION OF OPERATING (LOSS)/PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating (loss)/profit from	(5,478,483)	(1,262,496)
Impairment of exploration asset	-	-
Depreciation	8,949	10,645
Finance costs on convertible note	-	16,000
Write-off/loss of investment	147,702	237,684
	(5,321,832)	(998,167)
Movements in working capital:		
Increase/(decrease) in receivables and prepayments	2,534,105	4,801
Increase/(decrease) in payables and provision	(333,602)	207,399
Net cash outflows from operating activities	**(3,121,329)**	**(785,967)**

NOTE 19: FINANCIAL INSTRUMENT DISCLOSURES

The Group'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 Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise adverse affects on the financial performance of the Group. The Group 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 company secretary under policies approved by the Board of Silver Mines.

The company secretary identifies and evaluates the risks in close cooperation with the Group's management and Board.

(a) Market risk

(i) Foreign exchange risk

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

(ii) Price risk

The Group in the current year did not have any significant exposure to investment or commodity price risk. The Group 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 Group 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 Group policy is to ensure that the best interest rate is received for the short-term deposits. The Group 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 19: FINANCIAL INSTRUMENT DISCLOSURES (continued)

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		
	%	$	$	$	$	$
2016						
FINANCIAL ASSETS						
Cash assets		-	-	-	11,557,239	11,557,239
Performance guarantee bonds	3.1	-	-	100,000	50,000	150,000
Other financial assets		-	-	-	2,472,002	2,472,002
		-	-	100,000	14,179,241	14,179,241
FINANCIAL LIABILITIES						
Payables (current)		-	-	-	(7,453,035)	(7,453,035)
Borrowings (current)		-	-	-	-	-
Payables (non-current)		-	-	-	-	-
		-	-	-	(7,453,035)	(7,453,035)
NET FINANCIAL ASSETS/(LIABILITIES)		**-**	**-**	**100,000**	**6,626,206**	**6,726,206**

	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturing		Non-interest bearing	Total
			Within 1 year	Over 1 year		
	%	$	$	$	$	$
2015						
FINANCIAL ASSETS						
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
FINANCIAL LIABILITIES						
Payables (current)		-	-	-	(422,066)	(422,066)
Borrowings (current)					(289,300)	(289,300)
Payables (non-current)		-	-	-	-	-
		-	-	-	(711,366)	(711,366)
NET FINANCIAL ASSETS		**-**	**100,000**	**-**	**(544,326)**	**(444,326)**

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 19: FINANCIAL INSTRUMENT DISCLOSURES (continued)

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

	2016 $	2015 $
Net financial assets per above	6,726,206	(444,326)
Inventory (current)	117,550	-
Plant & equipment	180,896	8,949
Land & buildings	7,805,381	-
Deferred exploration & development	28,043,486	5,170,000
Net assets per statement of financial position	**42,873,519**	**4,734,623**

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

(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 Group 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

	2016 Cents	2015 Cents
NOTE 20: EARNINGS PER SHARE		
Basic earnings per share	(12.22)	(0.18)
Diluted earnings per share	(12.15)	(0.18)
	Number	**Number**
Weighted average number of shares used as the denominator		
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	**45,085,499**	**692,922,714**
	$	**$**
Reconciliation of earnings used in calculating basic and diluted earnings per share		
Earnings used in calculating basic and diluted earnings per share	**(5,478,483)**	**(1,262,496)**

NOTE 21: BASIS OF ACQUISITION – SIHA AND BOWDENS SILVER PTY LTD

Summary of Terms of Acquisition

The Group purchased 100% of the issued shares in Silver Investment Holdings Limited (SIHA) from the shareholders of SIHA based on the following consideration to the shareholders of SIHA:

1) Payment of AUD$200,000 in cash;
2) A loan of AUD$1,800,000 as Tranche 1 Loan to SIHA for payment to KCN as partial consideration for Bowdens Silver Project which upon completion shall become an intercompany loan between the Group and SIHA;
3) A loan AUD$18,000,000 as Tranche 2 Loan to SIHA for payment to KCN as final consideration for Bowdens Silver Project which upon completion shall become an intercompany loan between the Group and SIHA;
4) The issuance of 40,000,000 in ordinary shares in Silver Mines Limited at fair value at acquisition date;
5) The provision of a 1% Gross Revenue Royalty interest over the 85% interest held by the Group (via SIHA) in the Bowdens Silver Project and all other tenements at the time of the purchase that are 100% owned by the Group;
6) Tranche 1 Deferred Consideration of 20,000,000 ordinary shares in Silver Mines Limited subject to the submission of the Environmental Impact Statement for the Bowdens Silver Project to the New South Wales Government Department of Planning & Environment;
7) Tranche 2 Deferred Consideration of 20,000,000 ordinary shares in Silver Mines Limited subject to a mining lease being granted under the Mining Act by the New South Wales Government Department of Industry, Resources and Energy in relation to a tenement.

On 3rd March 2016, Silver Mines Limited announced it had entered into a Sale and Purchase Agreement ("the Agreement") whereby it would acquire 85% of the Bowdens Silver Project from Kingsgate Consolidated Limited ("Kingsgate Consolidated") for a total cash consideration of AUD$20 million. Under the Agreement, Silver Mines Limited and Kingsgate Consolidated would operate the project on an unincorporated joint venture basis. The purchase of Bowdens Silver was completed on 29th June 2016 through the payment of AUD$18 million, with AUD$2 million having been previously paid by way of a deposit.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

Also on 29th June 2016, Silver Mines Limited advised that it had entered into a Deed of Variation with Kingsgate Consolidated whereby the acquisition price for the purchase of 100% of Bowdens Silver was varied to AUD$25 million with the balance of AUD$5 million to be paid by 30th September 2016 or such other date as may be agreed.

Name of acquiree:	Acquisition date	% of voting equity interest acquired
Silver Investment Holdings Australia Limited	8/06/2016	100%
Bowdens Silver Pty Ltd	29/06/2016	100%

Primary reasons for the business combination:
The restructuring plan was in line with the Group's stated objective to consolidate quality silver deposits to form Australia's pre-eminent silver company.

Consideration transferred	
Identifiable assets acquired	$
Property plant and equipment	7,986,276
Deferred exploration	22,298,486
Inventories	117,550
Receivables	113,489
Cash and cash equivalents	1,844,076
Trade and other payables	(46,577)

NOTE 22: EVENTS SUBSEQUENT TO REPORTING DATE

During the interval between the end of the 2016 financial year and the date of this report, the Group has executed a farm-in agreement with Thomson Resources Limited relating to Exploration Licence 7391 in central west New South Wales, Under the farm-in agreement, Silver Mines Limited commits to spend an initial $300,000 to earn 80% of the tenement and drill a minimum of 1,000 metres over a three year period.

On 30th September 2016, Silver Mines Limited advised that it had entered a Deed of Variation with Kingsgate Consolidated where by the final payment to Kingsgate Consolidated of AUD$5 million for the purchase of Bowdens Silver is amended as follows;

- a non-refundable payment of AUD$1 million on 30th September 2016, with the residual amount to be paid on or prior to 30th December 2016;
- the remaining AUD$4 million (plus interest of 10% per annum calculated from 30th September 2016 to the date payment is made) of the post completion amount is payable to Kingsgate Consolidated; and
- should Silver Mines Limited not pay the final balance of AUD$4 million by 30th December 2016, the parties will form an unincorporated joint venture as originally contemplated under the original agreement.

Other than the above, the Group has not entered any transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 23: COMPANY DETAILS

The registered office and principal place of business of the Group is:
Silver Mines Limited
Level 11
52 Phillip Street,
Sydney NSW 2000
Australia

Tel:	+61 2 8316 3997
Fax:	+61 2 8316 3999

DIRECTORS' DECLARATION

The directors declare that:

1 the financial statements and notes, as set out on pages 16 to 37 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 30th June 2016 and of the performance for the year ended on that date of the Group and economic entity;

2 the managing director and company secretary, who perform the functions of Chief Executive Oficer and Chief Financial Officer respectively, have each declared that:

(a) the financial records of the Group 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 directors' opinion there are reasonable grounds to believe that the Group 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.

Keith Perrett
Chairman

Anthony McClure
Managing Director

30th September 2016

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INDEPENDENT AUDITOR'S REPORT

To the members of Silver Mines Limited

Report on the financial report

We have audited the accompanying financial report of Silver Mines Limited and its controlled entities, which comprises the consolidated statement of financial position as at 30 June 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes comprising 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.

Matters Relating to Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report and remuneration report of the company for the year ended 30 June 2016 included on the website of Silver Mines Limited. The directors of the consolidated entity are responsible for the integrity of the website and we have not been engaged to report on its integrity. This auditor's report refers only to the subject matter described above.

It does not provide an opinion on any other information which may have been hyperlinked to or from the financial report or the remuneration report. If users of this report are concerned with the inherent risk arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained on this website version of the financial report and remuneration report

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We have given the directors of Silver Mines Limited a written Auditors Independence Declaration a copy of which is included in the financial 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 consolidated entity' financial position as at 30 June 2016 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 regarding going concern

We draw attention to Note 1 (b) to the financial statements which makes reference to the directors' assessment of the ability of the company to continue as a going concern. Having regards to information made available to us by the directors, our opinion is not modified in respect of this matter

Report on the remuneration report

We have audited the Remuneration Report included on pages 11 to 13 of the directors' report for the year ended 30 June 2016. 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 2016, 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

30 September 2016

Chartered Accountants

CORPORATE DIRECTORY

Directors
Keith Perrett – Non-Executive Chairman
Anthony McClure – Managing Director
Peter Langworthy – Non-Executive Director

Company Secretary
Trent Franklin

Australian Company Number
107 452 942

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Company's Solicitor
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Fax: +61 2 8216 3001

Additional securities exchange information as at 28th September 2016

At 28th September 2016 issued capital was 340,475,643 fully paid ordinary shares held by 3,794 holders.

Subject to the Listing Rules, Silver Mines Limited'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 28th September 2016

1	National Nominees Limited	56,156,792	16.49%
2	Citicorp Nominees Pty Limited	13,612,323	4.00%
3	J P Morgan Nominees Australia Limited	10,960,452	3.22%
4	BNP Paribas Noms Pty Ltd <DRP>	10,700,263	3.14%
5	Morgan Stanley Australia Securities (Nominee) Pty Limited <No 1 Account>	10,433,761	3.06%
6	Mr Anthony McClure	8,687,500	2.55%
7	UBS Nominees Pty Ltd	8,211,834	2.41%
8	Perth Select Seafoods Pty Ltd	7,533,334	2.21%
9	HSBC Custody Nominees (Australia) Limited	7,053,604	2.07%
10	HSBC Custody Nominees (Australia) Limited-Gsco Eca	7,004,785	2.06%
11	Gascoyne Holdings Pty Ltd	7,000,000	2.06%
12	Coolhand Nominees Pty Limited <Coolhand Investment A/C>	6,666,667	1.96%
13	Ms Georgina King	5,712,500	1.68%
14	Palmer Bookmaking Pty Limited	5,175,000	1.52%
15	Gurravembi Investments Pty Ltd <The Gurravembi S/Fund A/C>	5,000,000	1.47%
16	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	4,482,692	1.32%
17	Laguna Bay Capital Pty Ltd <Laguna Bay Cap Trading A/C>	4,046,543	1.19%
18	Farouk and Associates FZE	3,600,000	1.06%
19	HSBC Custody Nominees (Australia) Limited - A/C 2	3,284,474	0.97%
20	Ochre Group Holdings Limited	2,525,000	0.74%
		187,847,524	55.18%
	Total of Securities	**340,475,643**	

Distribution of Holders and Holdings at 28th September 2016

Holdings Ranges	Holders	Total Units	%
1-1,000	1,281	344,584	0.101
1,001-5,000	688	2,218,659	0.652
5,001-10,000	434	3,660,488	1.075
10,001-100,000	1,086	42,059,505	12.353
100,001 and over	283	292,192,407	85.819
Totals	**3,769**	**340,475,643**	**100.000**

Substantial shareholders at 29th September 2016

Silver Mines Limited has the following substantial shareholders:

Holder	Shares	Percentage
BlackRock Group (BlackRock Inc and its subsidiaries)	41,800,000	12.27%
Paradice Investment Management Ltd	20,000,000	5.87%
Anthony John McClure	17,875,000	5.25%

List of Tenements

The Group holds the following licenses:

Tenement Information as at 30th June 2016:

Tenement	Project Name	Location	Silver Mines Ownership	Status
EL 5920	Bowdens Silver	NSW	100%	Current
EL 6354	Bowdens Silver	NSW	100%	Renewal pending
EL 8159	Bowdens Silver	NSW	100%	Renewal pending
EL 8160	Bowdens Silver	NSW	100%	Renewal pending
EL 8168	Bowdens Silver	NSW	100%	Renewal pending
EL 8268	Bowdens Silver	NSW	100%	Current
EL 7391[1]	Bowdens Silver	NSW	0%	Current
EL 8403	Bowdens Silver	NSW	100%	Current
EL 8405	Bowdens Silver	NSW	100%	Current
ELA 5235	Bowdens Silver	NSW	Application	Application
ELA 5257	Tuena	NSW	Application	Application
EL 5674	Webbs	NSW	100%	Current

Tenements acquired since 30th June 2016

Tenement	Project Name	Location	Silver Mines Ownership	Status
EPL1050	Conrad	NSW	100%	Current
EL 5977	Conrad	NSW	100%	Renewal pending
ML 6040	Conrad	NSW	100%	Current
ML 6041	Conrad	NSW	100%	Current
ML 5992	Conrad	NSW	100%	Current

1. Under Joint Venture with Thomson Resources Limited

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement of Silver Mines Limited (**the 'Group'**) has been prepared in accordance with the 3rd Edition of the Australian Securities Exchange's ('**ASX**') Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council ('**ASX Principles and Recommendations'**). The Group is required to disclose the extent to which it has followed the recommendations during the financial year, including reasons where the Group has not followed a recommendation and any related alternative governance practice adopted.

Both this Corporate Governance Statement and the ASX Appendix 4G have been lodged with the ASX. This statement has been approved by the Group's Board of Directors ('Board') and is current as at 30th September 2016.

The following governance related documents can be found on the Group'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:
Code of Conduct
Continuous Disclosure
Selection and Appointment of New Directors
Trading in Company Securities
Assessing the Independence of Directors
Independent Professional Advice
Selection, Appointment and Rotation of External Auditor
Performance Evaluation of the Board, Board Committees, Individual Directors and Key Executives
Compliance Strategy (summary)
Shareholder Communication Strategy
Risk Management Policy

The ASX Principles and Recommendations and the Group's response as to how and whether it follows those recommendations are set out below.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1 - A listed entity should disclose:

- **(a) the respective roles and responsibilities of its board and management; and**
- **(b) those matters expressly reserved to the board and those delegated to management.**

The Group 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 Group website.

The Board is collectively responsible for promoting the success of the Group through its key functions of overseeing the management of the Group, providing overall corporate governance of the Group, monitoring the financial performance of the Group, engaging appropriate management commensurate with the Group's structure and objectives, involvement in the development of corporate strategy and performance 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 firector and assisting the managing director in implementing the running of the general operations and financial business of the Group in accordance with the delegated authority of the Board. Senior executives are responsible for reporting all matters which fall within the Group's materiality thresholds at first instance to the managing director, or, if the matter concerns the managing director, directly to the chairman or the lead independent director, as appropriate.

Recommendation 1.2 - A listed entity should:

- **(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and**
- **(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.**

Before appointing a director, or putting forward to shareholders a director for appointment, the Group undertakes comprehensive reference checks that cover elements such as the person's character, experience, employment history and qualifications. Directors are required to declare each year that they have not been disqualified from holding the office of director by the Australian Securities and Investments Commission ('ASIC').

An election of directors is held each year. A director that has been appointed during the year must stand for election at the next Annual General Meeting ('AGM'). Retiring directors are not automatically re-appointed.

The Group has provided in the Director's Report (in the Annual Report) information about each candidate standing for election or re-election as a director that the Board considers necessary for shareholders to make a fully informed decision. Such information includes the person's biography, which includes experience and qualifications, details of other directorships, and any material information which may affect the person's ability to act independently on matters before the Board, and whether the Board supports the appointment or re-election.

Recommendation 1.3 - A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment

The terms of the appointment of a non-executive director are set out in writing and cover matters such as the term of appointment, required committee work, notice requirements and other special duties and remuneration entitlements.

Executive directors and senior executives are issued with service contracts which detail the above matters as well as the circumstances in which their service may be terminated (with or without notice) and any entitlements upon termination.

Recommendation 1.4 - The company secretary of a listed entity should be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

The company secretary reports directly to the Board through the chairman and is accessible to all directors. The company secretary's role, in respect of matters relating to the proper functioning of the Board, includes:

- (a) advising the Board and its committees on governance matters;
- (b) monitoring compliance of the Board and associated committees with policies and procedures;
- (c) coordinating all Board business;
- (d) retaining independent professional advisors;
- (e) ensuring that the business at Board and committee meetings is accurately minuted; and
- (f) assisting with the induction and development of directors.

Recommendation 1.5 - A listed entity should:

- **(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;**
- **(b) disclose that policy or a summary of it; and**
- **(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:**

- **(i) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or**
- **(ii) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.**

The Board does not intend to set measurable objectives for achieving gender diversity. It is the Board's policy that gender discrimination has no position in the workplace and that men and women must be treated equally and without any discrimination. It is the Board's belief that employment should be on a merit-based system and that a diversity policy may hinder this system due to the size of the organisation.

The respective proportion of women employees in the whole organisation, women in senior executive positions and women on the Board as at the date of this statement are set out in the following table:

	Portion of women
On the Board	0 out of 3 (0%)
In senior executive positions	0 out of 1 (0%)
Across the whole organisation	5 out of 20 (25%)

Recommendation 1.6 - A listed entity should:

- **(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and**
- **(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.**

The Chairman is responsible for evaluation of the Board and individual directors. The Board has not established any independent committees.

The Chairman evaluates the performance of the Board and individual directors by way of ongoing review with reference to the compositions of the Board and its suitability to carry out the Group's objectives. The Chairman reports back to the Board as to its performance at least annually.

During the 2015/2016 financial year an evaluation of the Board and the individual directors did not take place as the Board is made up of recently appointed directors who were evaluated prior to being appointed. The Board intends to carry out a performance evaluation during the coming period. The Group's process for performance evaluation is disclosed on the Group's website.

Recommendation 1.7 - A listed entity should:

- **(a) have and disclose a process for periodically evaluating the performance of its senior executives; and**
- **(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.**

The Chairman in consultation with the Board reviews the performance of the senior executives. The current size and structure of the Group allows the managing director to conduct informal evaluation of the senior executives regularly. Open and regular communication with senior executives allows the Chairman to ensure that senior executives meet their responsibilities as outlined in their contracts with the Group, 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 2015/ 2016 financial year, there was a change in senior executives, who were evaluated prior to being appointed. The Board intends to carry out a performance evaluation of these executives during the coming period. The Group's Process for Performance Evaluation is disclosed on the Group's website.

Principle 2: Structure the board to add value

Recommendation 2.1 - The board of a listed entity should:

(a) have a nomination committee which:

(i). has at least three members, a majority of whom are independent directors; and

(ii). is chaired by an independent director,

(b) and disclose:

(i). the charter of the committee;

(ii). the members of the committee; and

(iii). as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

(c) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

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 by the Group's Nomination Committee Charter, which is available on the Group's website.

The Board deals with any conflicts of interest that may occur when convening as the nomination committee by ensuring that the director with the conflicting interests is not party to the relevant discussions.

Recommendation 2.2 - A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Board's skills matrix which it is looking to achieve in its membership includes technical experience, 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 Group.

Recommendation 2.3 - A listed entity should disclose:

(a) the names of the directors considered by the Board to be independent directors;

(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and

(c) the length of service of each director.

The Board considers that Peter Langworthy and Keith Perrett are independent directors. 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 be reasonably perceived to interfere with, the independent exercise of their judgment.

When considering the independence of a director, the Board considers whether the director:

(a) is a substantial shareholder of the Group or an officer of, or otherwise;
(b) associated directly with, a substantial shareholder of the Group;
(c) is employed, or has previously been employed in an executive capacity by the Group or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
(d) has within the last three years been a principal of a material professional adviser or a material consultant to the Group or another group member, or an employee materially associated with the service provided;
(e) is a material supplier or customer of the Group or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or

(f) has a material contractual relationship with the Group or another group member other than as a director.

Family ties and cross-directorships may be relevant in considering interests and relationships which may affect independence, and should be disclosed to the Board.

Details of the Board of directors, their appointment dated, length of service as independence status is as follows:

Director's name	Appointment date	Length of service at 29 September(approx.)	Independence status
Anthony McClure	20th June 2016	3 months	Executive
Keith Perrett	20th June 2016	3 months	Independent non-executive
Peter Langworthy	20th June 2016	3 months	Independent non-executive

Where it is determined that a non-executive director should no longer be considered independent, the Group shall make an announcement to the market.

Recommendation 2.4 - A majority of the board of a listed entity should be independent directors.

As at 29th September 2016, two thirds of the Board is considered independent. The Board considers that the current size and composition of the Board is appropriate for the execution of the Board's responsibilities. To assist directors with independent judgement, it is the Board's policy (set out on the Group's website) 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 chairman for incurring such expense, the Group will pay the reasonable expenses with obtaining such advice.

Recommendation 2.5 - The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO/ managing director of the entity.

Keith Perrett is the chairman of the Board and is considered an independent director.

Recommendation 2.6 - A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

The Board in its capacity as nomination committee has a responsibility to ensure all new directors are provided with an induction into the Group and that directors have access to ongoing education relevant to their position in the Group.

Principle 3: Act ethically and responsibly

Recommendation 3.1 - A listed entity should:

(a) have a code of conduct for its directors, senior executives and employees; and
(b) disclose that code or a summary of it.

The Group has established a Code of Conduct as to the practices necessary to maintain confidence in the Group'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 Code of Conduct is available on the Group's website.

Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1 - The board of a listed entity should:

(a) have an audit committee which:
  (i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and
  (ii) is chaired by an independent director, who is not the chair of the board,
(b) and disclose:
  (i) the charter of the committee;
  (ii) the relevant qualifications and experience of the members of the committee; and
  (iii) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
(c) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

The Board has not established a separate audit committee and therefore it is not structured in compliance with recommendation 4.1. Given the current size and composition of the Board, the Board believes there would be no efficiencies gained by establishing a separate audit committee. The Board performs the role of audit committee. Items required to be discussed by an audit committee are marked as separate agenda items at Board meetings as required. When the Board convenes as the audit committee it carries out those functions which are delegated to it in the Group's Audit Committee Charter, which is available on the Group's website.

The Board deals with any conflicts of interest that may occur when convening in the capacity of the audit committee ensuring that the director with conflicting interests is not party to the relevant discussions.

The Group has adopted an Audit Committee Charter which describes the role, compositions, functions and responsibilities of the audit committee.

The qualifications of the Board and company secretary are set out on the Group's website.

Recommendation 4.2 - The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO/managing director and CFO/company secretary a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

For the financial year ending on 30th June 2016, the Board received a statement from its managing director and company secretary, whom perform the functions of CEO and CFO respectively, declaring that in their opinion, the financial records of the Group have been properly maintained and comply with the appropriate accounting standards.

Recommendation 4.3 - A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The external auditor attends the Group's AGM and is available to answer questions from security holders relevant to the audit.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1 - A listed entity should:

- **(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and**
- **(b) disclose that policy or a summary of it.**

The Group 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 Group's Policy on Continuous Disclosure and Compliance Procedure is disclosed on the Group's website.

Principle 6: Respect the rights of security holders

Recommendation 6.1 - A listed entity should provide information about itself and its governance to investors via its website.

The Group maintains information in relation to governance documents, directors and senior executives, Board and committee charters, annual reports, ASX announcements and contact details on the Group's website.

Recommendations 6.2 and 6.3

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors (6.2).

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders (6.3).

The Group has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings. The policy is disclosed on the Group's website.

Recommendation 6.4 - A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

The Group's website allows security holders to receive communications from and send communications to the entity electronically. Investors may elect to receive email alerts from the Group.

Principle 7: Recognise and manage risk

Recommendations 7.1 and 7.2

The board of a listed entity should:

- **(a) have a committee or committees to oversee risk, each of which:**
  - **(i) has at least three members, a majority of whom are independent directors; and**
  - **(ii) is chaired by an independent director,**
- **(b) and disclose:**
  - **(i) the charter of the committee;**
  - **(ii) the members of the committee; and**
  - **(iii) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**
- **(c) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework (7.1).**

The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place (7.2).

The Board does not have a specific risk management committee. The Board's audit committee as referred to in recommendation 4 above assists with monitoring and reviewing the Group's risk management processes and systems.

The Risk Management Policy, disclosed on the Group website, demonstrates the measures taken and policies implemented to manage risks associated with the Group's business.

The Board has recently received a report from management as to the effectiveness of the management of material business risks.

Recommendation 7.3 - A listed entity should disclose:

(a) if it has an internal audit function, how the function is structured and what role it performs; or
(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

Given the size and composition of the Group, the Board has not established an internal audit function, other than the audit committee function which the Board serves as disclosed in recommendation 4 above and in the Audit Committee Charter disclosed on the website. The Board may from time to time engage an external auditor to conduct additional reviews of Group processes.

Recommendation 7.4 - A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The risk profile of the Group is as follows:

Market-related.
Financial reporting.
Operational.
Environmental.
Economic cycle/marketing.
Legal and compliance.

These risks are managed using the Risk Management Policy disclosed on the Group's website. Under the policy, the Board is responsible for updating the Group's material business risks. In addition, the following risk management measures have been adopted by the Board to manage the Group's material business risks:

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

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1 - The board of a listed entity should:

(a) have a remuneration committee which:
  (i) has at least three members, a majority of whom are independent directors; and
  (ii) is chaired by an independent director,
(b) and disclose:
  (i) the charter of the committee;
  (ii) the members of the committee; and
  (iii) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
(c) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Board has not established a separate remuneration committee and accordingly it is not structured in accordance with recommendation 8.1. 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 the remuneration committee.

Items usually required of 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 by the Remuneration Committee Charter which is disclosed on the Group's website. 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 remuneration committee did not meet during the 2016 financial year however, remuneration related discussions were held by the Board from time to time as required.

Recommendation 8.2 - A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

Details of remuneration are set out in the remuneration report which forms part of the directors report (in the Annual Report) and is set out in the Remuneration Charter on the Group's website. The policy on remuneration clearly distinguishes the structure of non-executive director's remuneration from that of executive directors. Executive directors are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness.

There are no termination or retirement benefits for non-executive directors (other than superannuation).

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

Recommendation 8.3 - A listed entity which has an equity-based remuneration scheme should:

- **(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and**
- **(b) disclose that policy or a summary of it.**

Not applicable. The Group does not have an equity-based remuneration scheme.