Silver Mines Limited
ABN 45 107 452 942

SILVER MINES LIMITED

2018

ANNUAL REPORT

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REVIEW OF OPERATIONS

Silver Mines Limited's (Silver Mines or the Company) focus throughout the 2018 Financial Year has involved the completion of the Company's Feasibility Study and progression of the Environmental Impact Statement, along with substantial exploration works in relation to the Bowdens Silver Project. The Company and its wholly owned subsidiaries (together, "the Group") also maintain the Webbs, Conrad and Tuena Projects.

PROJECTS

During the year, the Group controlled the following projects, all of which are located in New South Wales, Australia:

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

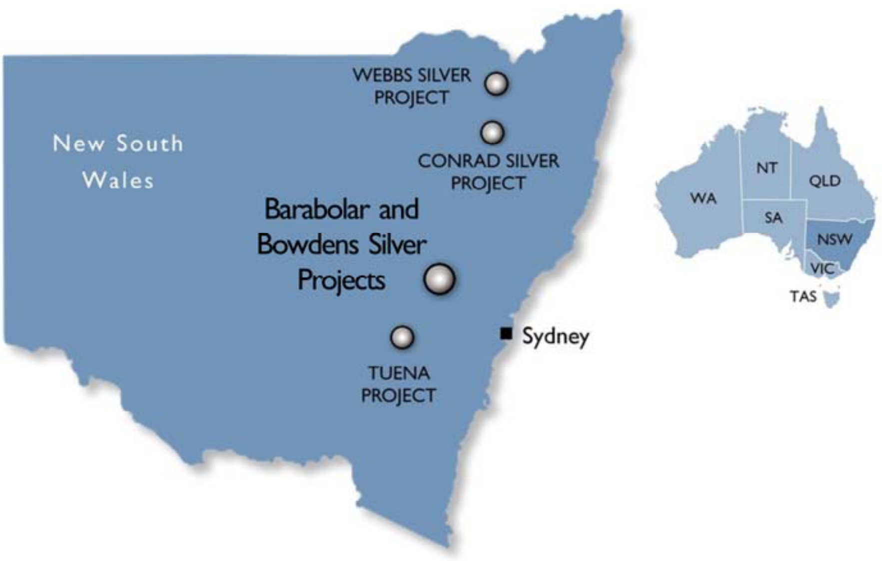

Figure 1. Group Project Locations.

Bowdens Silver Project and Barabolar Metals Project

Introduction

During the 2018 Financial Year, the Company's focus has been the continued Feasibility Study and Environmental Impact Statement works at the Bowdens Silver Project located near Mudgee in the Central Tablelands Region of New South Wales, Australia. In addition, the Company has further progressed mineral exploration at the Bowdens Silver Project and during the 2018 Financial Year, discovered and progressed the Barabolar Project located approximately 10 kilometres northwest of the Bowdens Silver Project.

The projects comprise 2,007 km^2 (496,000 acres) of titles covering approximately 80 kilometres of strike of the highly mineralised Permian Rylstone Volcanics overlying Ordovician and Silurian Formations.

The Group holds 100% of Exploration Licence EL5920 which contains the Bowdens Silver Deposit and also holds exploration licences EL6354, EL8159, EL8160, EL8168, EL8268, EL8403, EL8405, EL8480 and EL8682. In addition, the Company is earning an 80% interest and manages a Joint Venture over exploration licence EL7391 with Thomson Resources Limited. (*Refer to Figure 2*).

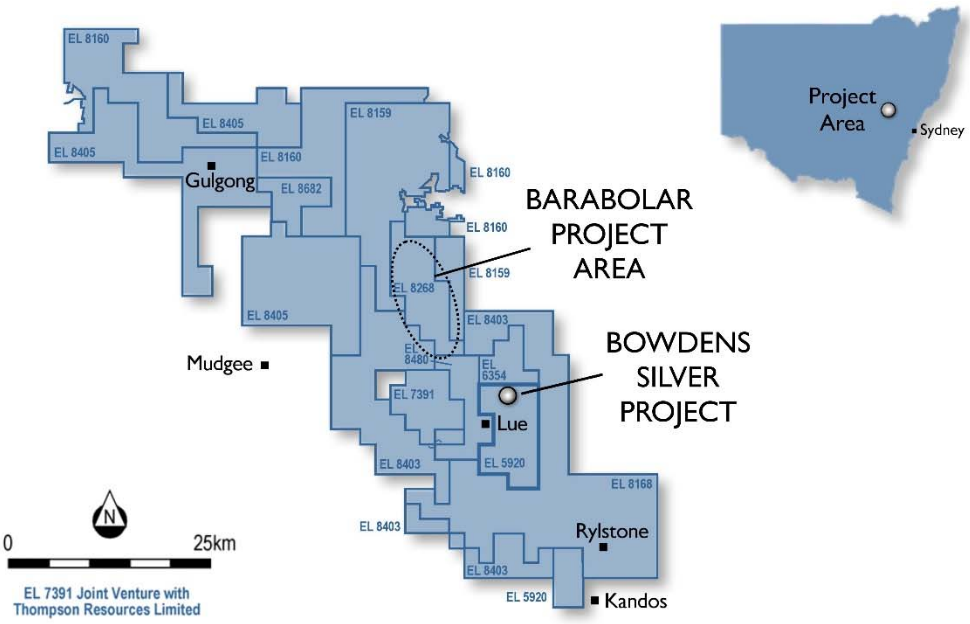

Figure 2: Silver Mines Limited Tenement and Project locations in Mudgee district.

<u>Bowdens Silver Project</u>

Description

The Bowdens Silver Project is the largest known undeveloped silver deposit in Australia with substantial mineral resources.

The tenement portfolio is situated on the eastern margin of the Lachlan Orocline / Macquarie Arc where it is in contact with the younger, unconformable overlying Permian aged units. These units comprise the highly mineralised early Permian Rylstone Volcanics and the on-lapping later Permian, sedimentary units of the Shoalhaven Group within the Sydney Basin. The Rylstone Volcanics unconformably overlie the Ordovician Coomber Formation and Silurian Dungaree Volcanics (*Refer to Figure 3*).

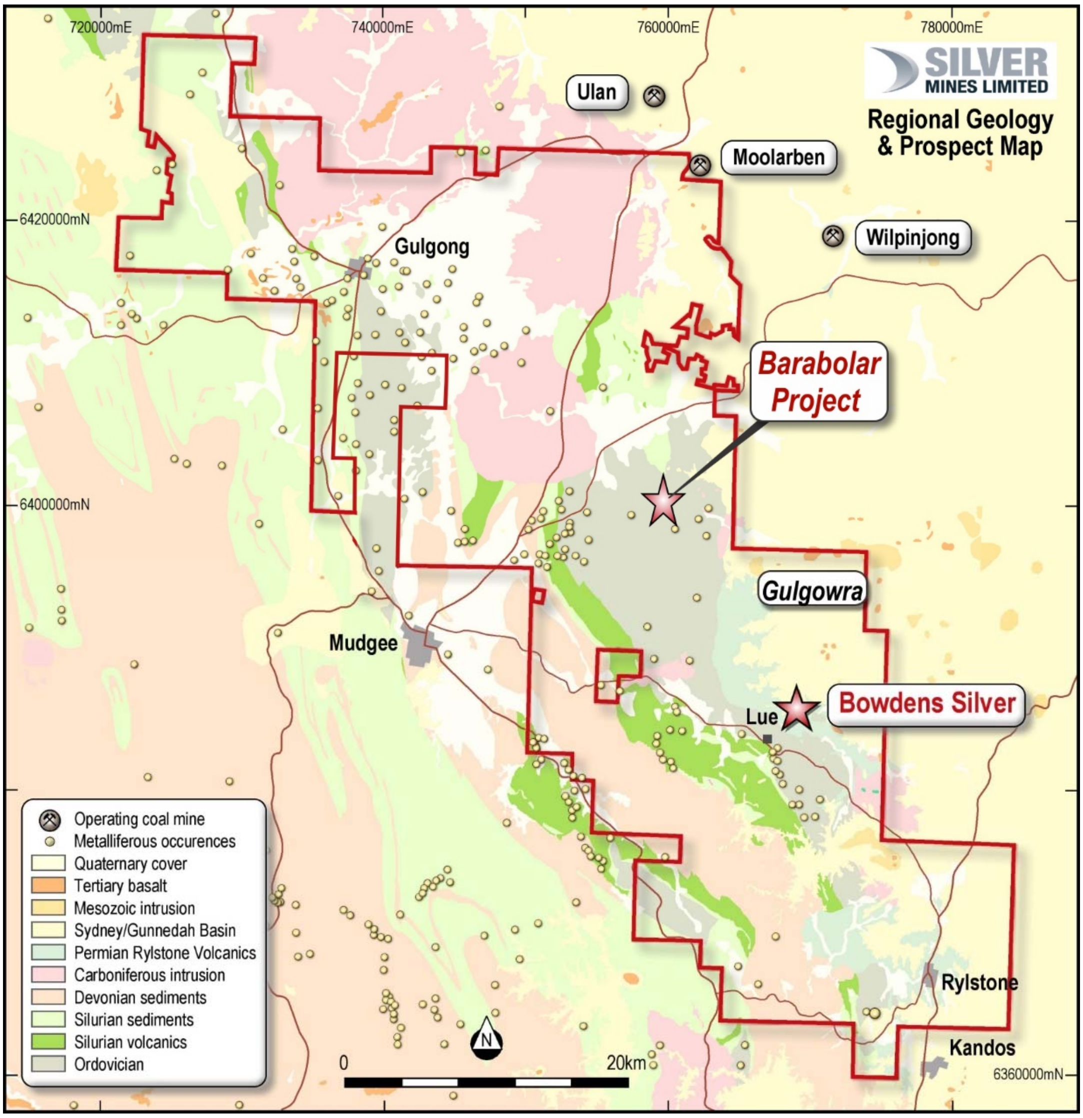

Figure 3: Silver Mines Limited prospect locations in the Mudgee district.

In June 2018, the Company and its consultants completed a Feasibility Study comprising a single open-cut mine with an initial mine life of 16 years. *(for full details see ASX announcement of 14th June 2018).* A new processing plant designed to process 2.0 million tonnes per annum would include a conventional semi-autogenous grinding (SAG) and ball mill circuit, differential flotation, thickening and dewatering to produce two concentrates that will be sold for smelting and refining to finished metals. The Feasibility Study has demonstrated that the Bowdens Silver Project will produce an average of 3.4 million ounces of silver per annum, together with approximately 6,900 tonnes of zinc and 5,100 tonnes of lead per annum. Due to higher silver grades in the early stages of mining, average production during the first three years of operation will be approximately 5.4 million ounces of silver per annum and 6,000 tonnes of zinc per annum and 5,200 tonnes of lead per annum.

Ore Reserve and Mineral Resource

The Bowdens Silver Ore Reserve is estimated at 29.9 million tonnes at 69.0 g/t silver, 0.44% zinc and 0.32% lead containing 66.32 million ounces of silver, 130.8 kilotonnes of zinc and 95.3 kilotonnes of lead.

The Ore Reserve estimate was prepared by mining engineering consultancy firm AMC Consultants Pty Ltd (AMC Consultants) and is based on the September 2017 Mineral Resource Estimate generated for Silver Mines by H & S Consultants Pty Ltd (H & S Consultants) *(see ASX announcement 19th September 2017).*

Measured and Indicated Mineral Resources were converted to Proved and Probable Ore Reserves respectively, subject to mine designs, modifying factors and economic evaluation. The Ore Reserve estimate for the Bowdens Silver Project as at May 2018 is outlined in Table 1 below:

Table 1. Bowdens Silver Deposit Ore Reserve

Reserve Category	Tonnes	Reserve Grades			Contained Metal		
		Ag	Zn	Pb	Ag Metal	Zn	Pb
	(Mt)	(g/t)	(%)	(%)	Moz	(kt)	(kt)
Proved	28.6	69.75	0.44	0.32	64.05	125.11	91.43
Probable	1.3	53.15	0.43	0.29	2.27	5.74	3.91
Total	29.9	69.01	0.44	0.32	66.32	130.84	95.33

Notes:
1. Refer to ASX announcement 30 May 2018 for further details.
2. Calculations have been rounded to the nearest 100,000 t, 0.1 g/t silver and 0.01% zinc and lead grades respectively. The Ore Reserve is reported by economic cut-off grade with appropriate consideration of modifying factors including costs, geotechnical considerations, mining and process recoveries and metal pricing.

The Bowdens Silver Mineral Resource Estimate of September 2017 was completed by H & S Consultants using recoverable Multiple Indicator Kriging and the reporting is compliant with the 2012 JORC Code and Guidelines (*see ASX announcement of 19th September 2017).* The Mineral Resource estimate for the Bowdens Silver Project as at September 2017 is outlined in Table 2 below:

Table 2. Bowdens Silver Deposit Mineral Resource

Category	Tonnes (Mt)	Silver Eq. (g/t)	Silver (g/t)	Zinc (%)	Lead (%)	Million Ounces Silver	Million Ounces Silver Eq.
Measured	76	72	45	0.37	0.25	111	175
Indicated	29	59	31	0.38	0.25	29	55
Inferred	23	60	31	0.40	0.28	23	45
Total	**128**	**67**	**40**	**0.38**	**0.26**	**163**	**275**

Notes:
1. Refer to ASX announcement of 19th September 2017 for full details.
2. Bowdens' silver equivalent: Ag Eq (g/t) = Ag (g/t) + 33.48*Pb (%) + 49.61*Zn (%) calculated from prices of US$20/oz silver, US$1.50/lb zinc, US$1.00/lb lead and metallurgical recoveries of 85% silver, 82% zinc and 83% lead estimated from test work commissioned by Silver Mines Limited.
3. Bowdens Silver Mineral Resource Estimate is reported to a 30g/t Ag Eq cut off and extends from surface and is trimmed to 300 metres RL which is approximately 320 metres below surface representing a potential volume for open-pit optimisation models.
4. In the Company's opinion, the silver, zinc and lead included in the metal equivalent calculations have a reasonable potential to be recovered and sold.
5. Variability of summation may occur due to rounding.

Table 3. Bowdens Silver Deposit Mineral Resource Estimate by Cut-Off Grade

Cut-off g/t Ag Eq.	Tonnes (Mt)	Silver Eq. (g/t)	Silver (g/t)	Zinc (%)	Lead (%)	Million Ounces Silver	Million Ounces Silver Eq.
0	397.2	30.7	17.6	0.18	0.12	225	392
10	261.7	43.7	25.2	0.26	0.17	212	368
20	185.2	54.6	31.7	0.32	0.21	189	325
30	**127.9**	**66.8**	**39.6**	**0.38**	**0.26**	**163**	**275**
40	89.2	79.7	48.6	0.43	0.29	139	229
50	63.6	92.8	58.4	0.47	0.33	119	190
60	**46.1**	**106.3**	**69.1**	**0.51**	**0.36**	**102**	**158**
70	33.7	120.8	80.9	0.54	0.39	87	131
80	**25.1**	**135.5**	**93.4**	**0.57**	**0.42**	**75**	**109**
90	19.2	149.9	105.6	0.59	0.45	65	93
100	**15.1**	**163.7**	**117.5**	**0.62**	**0.47**	**57**	**80**
120	9.6	192.3	141.4	0.67	0.53	44	59

Notes:
1. Refer to ASX announcement of 19th September 2017 for full details.

The model is a non-linear recoverable-type model incorporating proportional tonnages and grades above cut-off for both silver equivalent grade (Ag Eq) and silver (Ag), while also incorporating linear ordinary kriged panel estimates for lead (Pb), zinc (Zn) and other elements.

The Proved Ore Reserve estimate is based on Mineral Resources classified as Measured, after consideration of all mining, metallurgical, social, environmental, statutory and financial aspects of the Project. The Probable Ore Reserve estimate is based on Mineral Resources classified as Indicated, after consideration of all mining, metallurgical, social, environmental, statutory and financial aspects of the Project.

Feasibility Study Financial Evaluation and Sensitivity Analysis

The financial model for the economic evaluation of the Bowdens Feasibility Study utilises the discounted cashflow methodology. Key financial metrics are calculated on both a pre- and post-tax basis.

The financial model is constructed on a nominal basis with a revenue currency of USD, a base currency of AUD and an interest/inflation rate of 2.5% is assumed. An exchange rate of 0.75 is used for AUD/USD.

Forecast metal pricing was based on consensus forecasts obtained by the Company in late 2017 and was sourced from a range of Australian and internationally renowned financial institutions. Initial silver prices assumed for the model were: CY20 = US$21.50 /oz, CY21 = US$22.00 /oz, CY22 = US$22.50 /oz. A zinc price of US$1.25 /lb was used and a lead price of US$1.00 /lb.

Table 4. Life of Mine (LOM) Project Metrics

Physical Metrics	**Unit**	**Value**
Production Life	Years	16
Ore Mined	Mt	29.9
Waste Mined	Mt	48.2
W:O Strip Ratio	x	1.6
Ag Recovered in Concentrate	Moz	52.91
Zn Recovered in Concentrate	kt	108.0
Pb Recovered in Concentrate	kt	79.3
Financial Metrics	**AUD M**	**USD M**
Revenue	1,899.5	1,424.7
Operating Expenses	1,340.8	1,005.6
Operating Margin	558.7	419.0
Undiscounted Cashflow before Tax	257.7	193.3
Undiscounted Cashflow after Tax	155.7	116.7
Project NPV (Pre-Tax)	143.9	107.9
Project NPV (Post Tax)	70.6	52.9
Project IRR (Pre-Tax): Nominal	20.8%	
Project IRR (Post Tax): Nominal	14.6%	
Capital Costs	**AUD M**	**USD M**
Initial	246.0	184.5
LOM Sustaining	53.9	40.4
Unit Costs (Ag Basis)	**AUD/oz**	**USD/oz**
C1 Costs	15.47	11.60
All in Sustaining Cost (AISC)	17.25	12.94

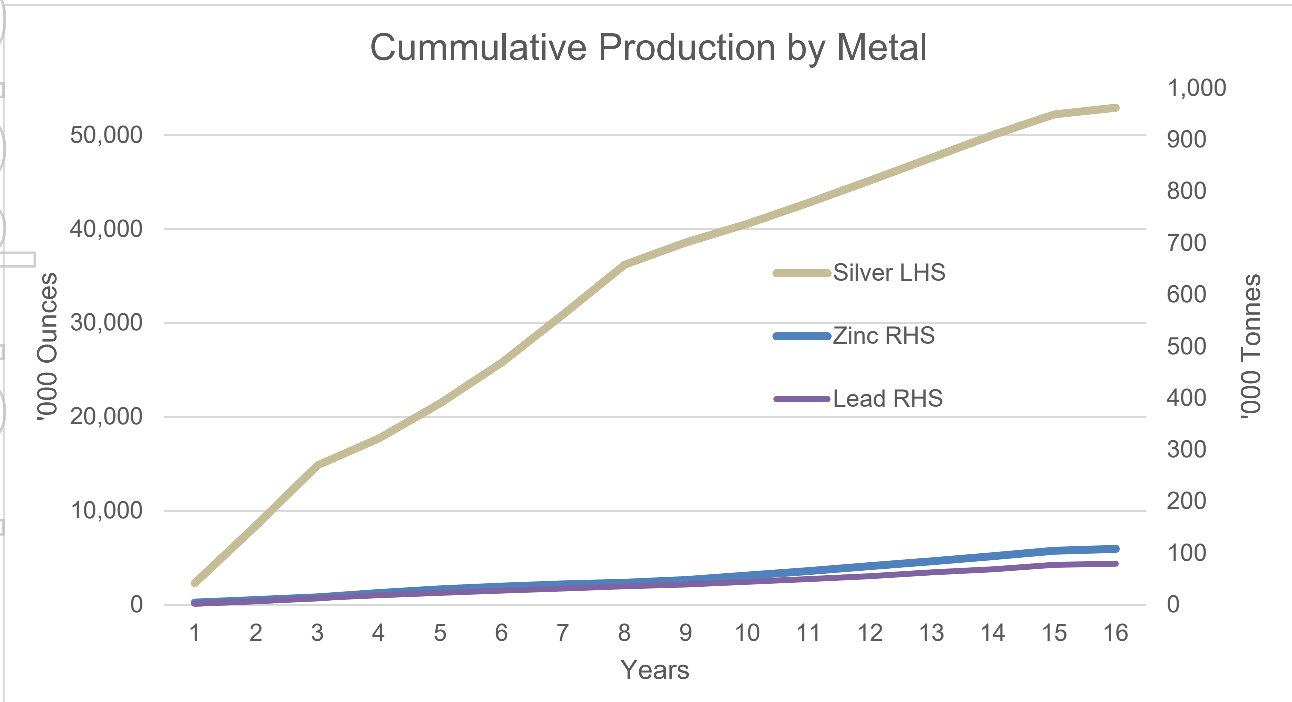

Figure 4. Cumulative Production by Metal

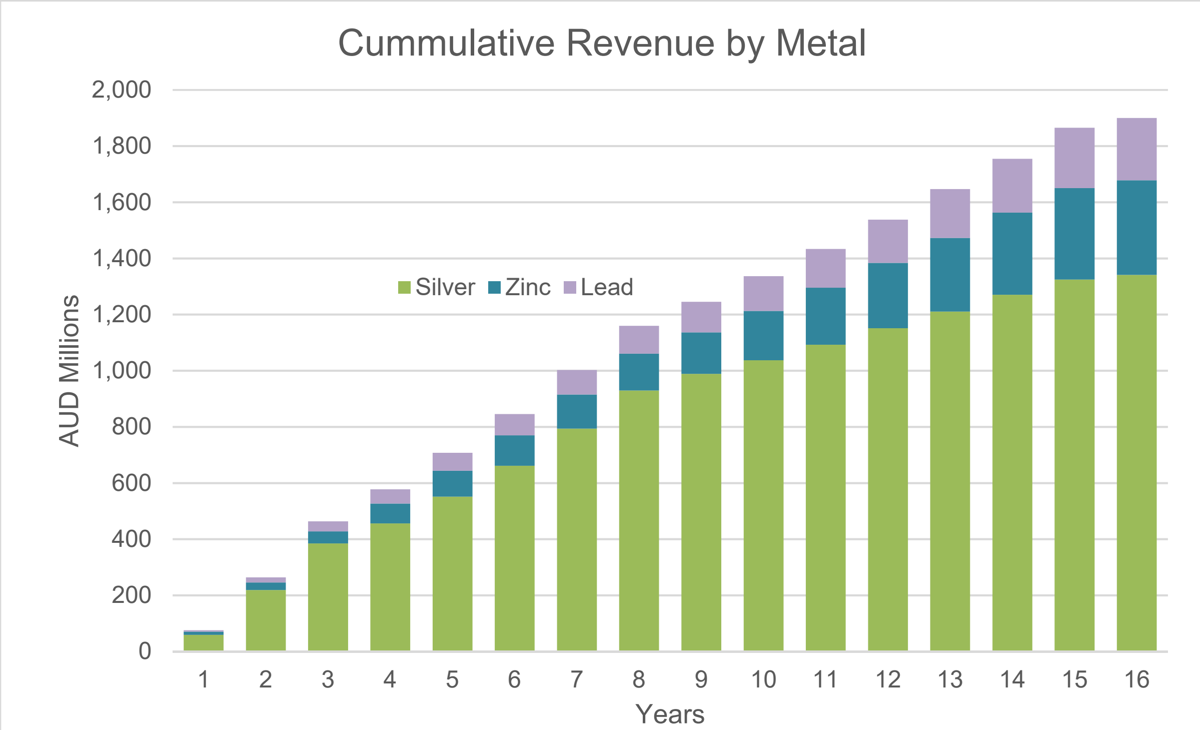

Figure 5. Cumulative Revenue by Metal

Sensitivity analysis was conducted on the Project against the following variables:

- Silver, zinc and lead prices together;
- Silver price;
- Capital and sustaining capital costs;
- Overall operating costs;
- Mining operating costs;
- Plant operating costs; and
- Downstream operating costs (freight and smelting).

The results in Table 5 show that the Project is most sensitive to a combined move in the three metals prices, followed by a move in silver price alone or overall operating cost and then capital. In general, the Project's NPV is about 60%-80% as sensitive to changes in operating costs as it is to all prices together and about 20% as sensitive to changes in capex as to price. The Project is less sensitive to downstream costs, given the Project's reasonable access to smelting and port facilities.

The following Table 5 demonstrates a range of NPV outcomes utilising varying assumption parameters.

Table 5. Sensitivity Analysis

Sensitivity Analysis	**Movement**						
(AUD M) NPV$_5$ After Tax	**-30%**	**-20%**	**-10%**	**Base Case**	**+10%**	**+20%**	**+30%**
Silver, Lead & Zinc Prices	(217.78)	(113.39)	(17.27)	70.58	155.12	239.30	323.45
Silver Price	(128.35)	(59.01)	7.72	70.58	132.90	195.00	257.04
Overall Opex	246.49	188.01	129.47	70.58	9.97	(58.33)	(127.04)
Capex (incl. Sustaining.)	131.80	111.41	91.00	70.58	50.15	29.70	9.19
Mining Opex	137.54	115.31	92.99	70.58	48.07	25.37	1.63
Plant Opex	155.45	127.27	99.01	70.58	41.76	11.92	(21.20)
Downstream Opex	95.30	87.08	78.84	70.58	62.31	53.99	45.64

Environmental Impact Statement, Approvals and Community Consultation

The Environmental Impact Statement (EIS) is in the process of being finalised and is expected to be lodged during the 2019 Financial Year.

A range of Commonwealth and New South Wales legislation and State, regional and local planning instruments apply to the Project. These items of legislation and statutory instruments have been reviewed to identify any environmental aspects requiring consideration in the EIS.

The Project is a “State Significant Development”, having a capital investment value of greater than $30 million. The Development Application (DA) for the Project will be accompanied by a comprehensive EIS supported by a range of specialist consultant studies. The EIS will also exhaustively address the specific requirements of the Secretary’s Environmental Assessment Requirements (SEARs). An application for a Mining Lease will be submitted with the DA.

Throughout the 2018 Financial Year, the Group continued an expansive program of consultation with State and Local Governments along with interested stakeholders and community and interest groups.

The Group’s community consultation processes examine the potential impacts and benefits of exploration and development across the Bowdens Silver Project and focus on the current proposed mine development area and the surrounding areas in which the Group is proposing exploration programs.

A new Community Consultative Committee was established during the 2018 Financial Year, as part of the requirements of the Department of Planning and Environment.

Exploration

During the 2018 Financial Year, the Company continued and completed a substantial exploration drilling program with a primary focus on:

- further drilling of advanced exploration targets where substantial mineralisation has been discovered but not yet fully evaluated; and
- testing exploration targets proximate to the current resource beneath surface geochemical and geophysical anomalies.

The completed deep drilling campaign has provided a platform to extend the Bowdens Silver Project with results from Bowdens NW and Bundarra Deeps zones providing valuable geological data to allow exploration to be vectored towards a source of mineralisation (refer to ASX Announcements of 5th February 2018 and 13th March 2018). Of particular focus in future exploration will be the follow up to the recent discovery of the porphyritic felsic intrusion beneath the Bowdens Silver Deposit (refer to ASX Announcement of 19th February 2018).

Barabolar Project

Regional exploration work during the 2018 Financial Year has led to the discovery and initial definition of the Barabolar Project located approximately 10 kilometres north of the Bowdens Silver Project (*refer to ASX Announcement of 19th July 2018*).

Current exploration at the Barabolar Project is indicating considerable potential. Geological and structural mapping in conjunction with a regional soil geochemical program has highlighted a corridor with surface geochemistry anomalies in copper, silver, molybdenum, lead and zinc. Of particular interest is a mapped mineralised skarn over a strike extent of approximately 5,000 metres and a width of 800 metres. Coincident with skarn is broad copper anomalism while molybdenum anomalism is towards the east at Botobolar (*refer to Figures 6 and 7.*).

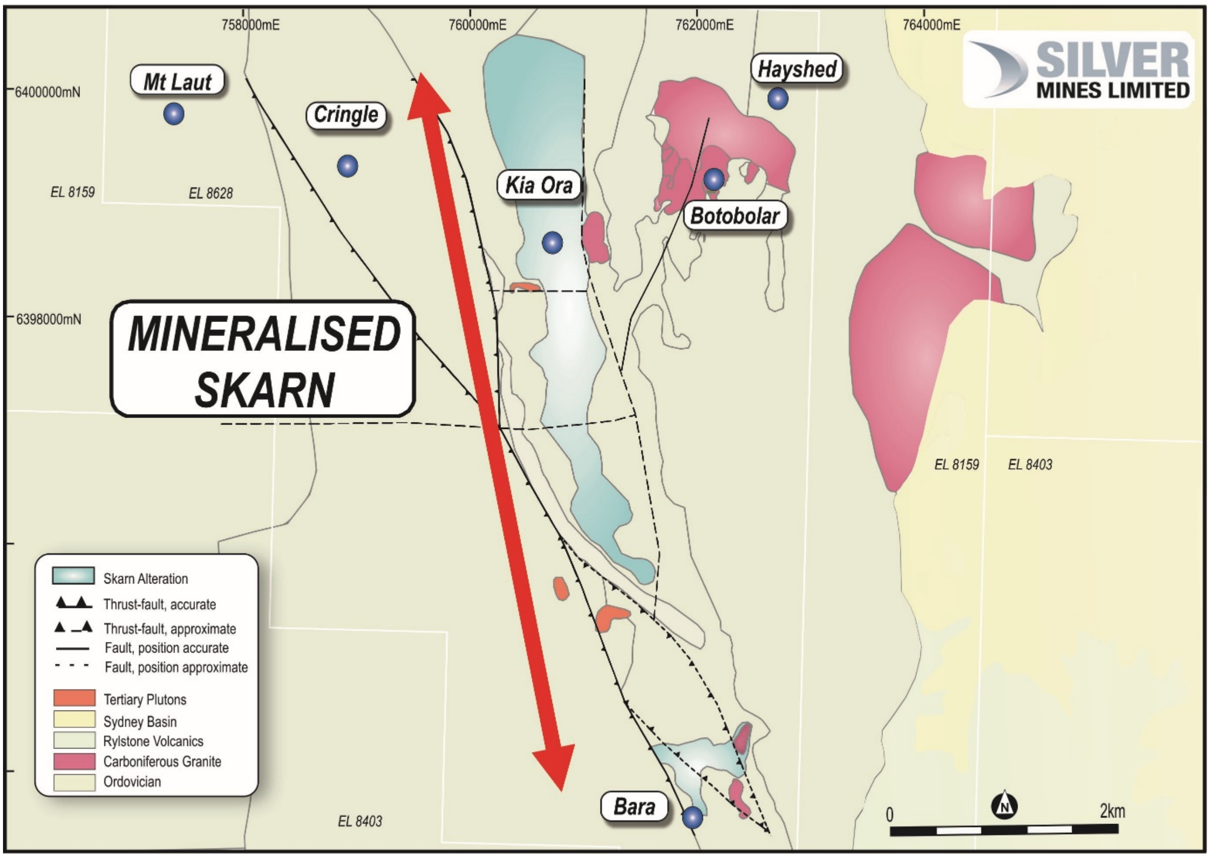

Figure 6: Barabolar prospect showing mineralised skarn in outcrop.

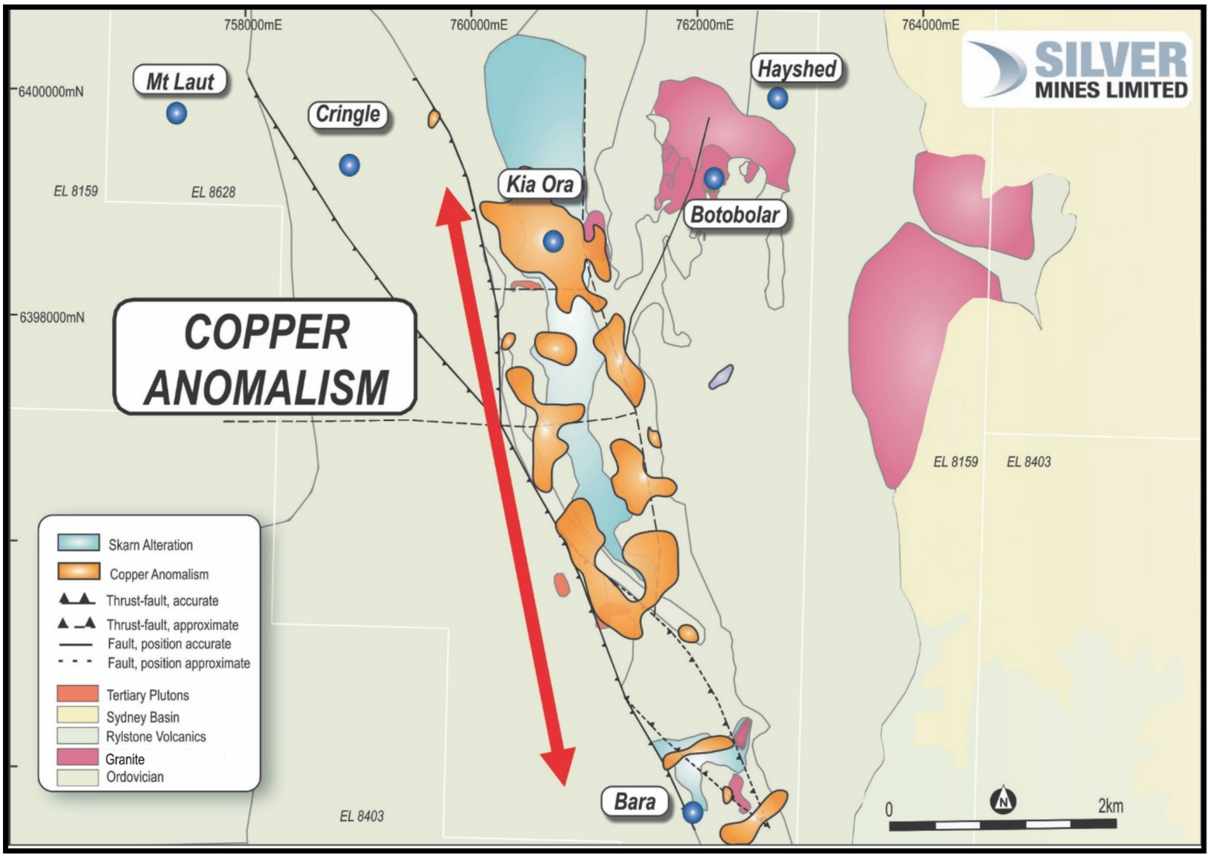

Figure 7: Barabolar prospect showing copper anomalism in soil sampling (>100ppm) coincident with mineralised skarn.

The Company recently completed 30 line kilometres of dipole-dipole Induced Polarisation (IP) including the collection of both chargeability and resistivity data. The survey was modelled and interpreted by the Company's own geological team with the assistance of specialist consultants. Areas of high chargeability are interpreted to potentially represent accumulations of sulphide mineralisation whereas the resistivity is potentially indicative of increased quartz veining and silicification.

The IP survey interpretation to date has generated several targets that are coincident or proximal to surface anomalism.

The Company is planning an initial drilling program of up to 7,500 metres of reverse circulation and diamond core drilling. Broad targets will be initially tested with shallow drill holes amounting to up to 5,000 metres of drilling. Targeted deeper holes totalling approximately 2,500 metres will also be undertaken. Drilling is expected to start in September 2018 subject to planning and approvals.

For further details of the Barabolar Project refer to ASX Announcement of 19th July 2018.

<u>Webbs Silver Project</u>

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

The dominant geological feature in the wider region is the Mole Granite which is associated with extensive mineralisation with over 2,000 separate mineral occurrences. At Webbs, mineralisation is hosted in sediments and consists of polymetallic vein lode zones in a narrow two kilometre long north trending zone which is marked by scattered historic workings. The veins contain high grades of silver along with lead, zinc and copper sulphide mineralisation.

The Webbs Silver Project has some of the highest grades of any undeveloped silver project in Australia. The previous mineral resource estimate was completed under the JORC 2004 code and although it has been reviewed by Silver Mines and is understood to be a reasonable estimate of the mineral system, it has not been updated to the JORC 2012 code. During the 2018 Financial Year, Silver Mines continued to review the Webbs Silver Project to assess exploration and is presently exploring a divestment strategy for this project.

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 with an additional body of near-surface greisen style disseminated and veinlet sulphide mineralisation, 20 metres to 40 metres wide. Mineralisation consists of high grades of silver along with lead, zinc, tin and copper sulphides and tin oxide (cassiterite). Outside the main line of historic workings, there are more than 20 other historic shafts and diggings that have not yet been adequately tested and as a result, Silver Mines believes that the project has considerable potential to expand beyond the current known mineralised zone.

The previous mineral resource estimate was completed by Malachite Resources Limited under the JORC 2004 code and although it has been reviewed by Silver Mines and is understood to be a reasonable representation of the mineral system, it has not yet been updated to the JORC 2012 code. During the 2018 Financial Year, Silver Mines continued to review the Conrad Silver Project to assess exploration and is presently exploring a divestment strategy for this project.

The mineral resource estimates for Webbs and Conrads were reviewed during the year. There have been no further drilling or changes to the geological model for either project and as a result the resource estimates have not changed.

For historical mineral resource estimates for the Webbs & Conrad Projects, see pages 17.

Tuena Project

During the 2018 Financial Year, the Group continued to hold EL8526, being the Tuena Project tenement which is located to the south of Orange, New South Wales. The area is targeted for precious metals. Silver Mines is presently exploring a divestment strategy for this project.

Tenement Information as at 30th June 2018

Tenement	Project Name	Location	Silver Mines Ownership
EL 5920	Bowdens Silver	NSW	100%
EL 6354	Bowdens Silver	NSW	100%
EL 8159	Bowdens Silver	NSW	100%
EL 8160	Bowdens Silver	NSW	100%
EL 8168	Bowdens Silver	NSW	100%
EL 8268	Bowdens Silver	NSW	100%
EL 7391[1]	Bowdens Silver	NSW	0%
EL 8403	Bowdens Silver	NSW	100%
EL 8405	Bowdens Silver	NSW	100%
EL 8480	Bowdens Silver	NSW	100%
EL 8682	Bowdens Silver	NSW	100%
EL 8526	Tuena	NSW	100%
EL 5674	Webbs	NSW	100%
EPL1050	Conrad	NSW	100%
EL 5977	Conrad	NSW	100%
ML 6040	Conrad	NSW	100%
ML 6041	Conrad	NSW	100%
ML 5992	Conrad	NSW	100%

1. Under Joint Venture with Thomson Resources Limited. Silver Mines Limited earning 80%.

CORPORATE

PLACEMENT

In October 2017, the Company successfully completed a placement to sophisticated investors raising A$4.3 million (before costs) to institutional, professional and sophisticated investors, via the issue of 53,750,000 shares. The funds raised under this placement were primarily utilised for exploration and the progression of the Company's Feasibility Study and Environmental Impact Statement for the Bowdens Silver Project.

In April 2018, the Company successfully completed a placement to sophisticated investors raising A$2.75 million (before costs) to institutional, professional and sophisticated investors, via the issue of 68,750,000 shares. The funds raised under this placement were primarily utilised for the completion of the Company's Feasibility Study, progression of the Environmental Impact Statement and also for further exploration at the Bowdens Silver Project.

RESULTS AND DIVIDENDS

The loss of Group for the financial year after providing for income tax amounted to $2,066,433 compared to a loss of $2,278,907 for the previous year.

The Group incurred exploration and development expenditure of $6,245,150 during the year (2017: $9,085,266). The total net assets of the Group stands at $56,790,853 (2017: $52,190,340) of which investment in exploration expenditure accounts for $47,373,902 (2017: $41,128,752).

The Group is a mining exploration company, and as such does not earn income from the sale of product. No dividends have been declared or paid during the year.

ENVIRONMENTAL REGULATIONS

The Group's operations are subject to various environmental controls under State regulations. The directors are not aware of any material breaches during the financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS DURING THE FINANCIAL YEAR AND AFTER THE END OF THE REPORTING PERIOD

On 5th September 2018, the Company announced the completion of a renounceable entitlements issue and shortfall placement. The Offer was for one new share for every four shares held by eligible shareholders at an issue price of $0.03 per share ("New Shares") to raise $3.85 million (before costs), together with one free attaching option for every two New Shares subscribed for, exercisable at $0.06 with an expiry date three years from the date of issue ("New Options").

The successful Offer and shortfall placement resulted in the issue of 128,200,214 New Shares and 64,100,107 Options.

The funds raised are primarily to be utilised for exploration at the Barabolar Project, the completion of the Bowdens Silver Environmental Impact Statement and other working capital purposes.

The Group has not had any other significant changes in the state of the affairs of the Group during the year. Since year end, the Group has not had any significant events that have affected, or may significantly affect, the Group operations, the results of the Group or the Group's state of affairs in future financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The directors believe, on reasonable grounds, that it would unreasonably prejudice the interests of the Group if any further information on likely developments, future prospects and business strategies in the operations of the Group and the expected results of these operations, were included in this report.

PREVIOUS AND HISTORICAL MINERAL RESOURCES ESTIMATES

The mineral resource estimates for the Conrads Silver Deposit and the Webbs Silver Deposit were completed under JORC code 2004 and have not been updated to JORC code 2012 and hence are classed as 'historical estimates' and not reported in accordance with the JORC Code. A competent person has not done sufficient work to classify the historical estimates of mineral resources in accordance with the JORC code. It is uncertain that following evaluation and/or further exploration work that the historical estimates will be able to be reported as a mineral resource in accordance with the JORC code 2012.

The Conrads Silver Deposit Resource Estimate was first presented by Malachite Resources NL 16th December 2008 based on work by Hellman and Schofield Pty Ltd and disclosed under the JORC code 2004. Since the mineral resource estimate was last calculated there has been no further material drill results from the project and as a result the historical resource estimate has not been updated. It is the intention to continue to review the historical estimates and, in time, update these estimates to be compliant with JORC code 2012. This will be conducted prior to any economic studies, when these historical estimates will be updated accordingly.

The Webbs Silver Deposit Resource Estimate was presented by Silver Mines Limited on 27th February 2012 based on work compiled by GeoRes Pty Ltd and disclosed under the JORC code 2004. Since the mineral resource estimate was last calculated there has been no further material drill results from the project and as a result the historical resource estimate has not been updated. It is the intention to continue to review the historical estimates and, in time, update these estimates to be compliant with JORC code 2012. This will be conducted prior to any economic studies, when these historical estimates will be updated accordingly.

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.

Notes:

[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 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.

Notes:

[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.

FORWARD LOOKING STATEMENTS

This Annual Report may contain forward looking information and statements that are subject to risk factors associated with mineral exploration, mining, processing and production businesses.

It is believed that the expectations reflected in these statements are reasonable however such information is not a guarantee of future performance and involve unknown risks and uncertainties, as well as other factors, many of which are beyond the control of the Company. Actual results and developments may differ materially from those expressed or implied by these forward-looking statements depending on a variety of factors including but not limited to price fluctuations, commodity demand, currency fluctuations, drilling and production results, Mineral Resource and Ore Reserve estimations, loss of market, competition, environmental risks, physical risks, legislative, fiscal and regulatory changes, economic and financial market conditions, political risks, project delay or advancement, approvals and cost estimates.

Forward-looking information and statements, including projections, forecasts and estimates, are provided as a general guide only and should not be relied on as an indication or guarantee of future performance. No representation or warranty, expressed or implied, is made or given by or on behalf of the Company, any of the Company's directors, or any other person as to the accuracy or completeness or fairness of the information or opinions contained in this announcement and no responsibility or liability is accepted by any of them for such information or opinions or for any errors, omissions, misstatements, negligent or otherwise, or for any communication written or otherwise, contained or referred to in this announcement.

COMPETENT PERSONS STATEMENTS

Bowdens Silver Project

The information in this report that relates to Mineral Resources is based on work compiled by Mr Arnold van der Heyden who is a Director of H & S Consultants Pty Ltd. Mr van der Heyden is a Member and Chartered Professional (Geology) of The Australasian Institute of Mining and Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the activity being undertaken, 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 van der Heyden consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Ore Reserves within the Bowdens Silver Project is based on information compiled or reviewed by Mr Adrian Jones of AMC Consultants Pty Ltd who is a consultant to the Company. Mr Jones is a member of The Australasian Institute of Mining and Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the activity being undertaken, 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 Jones consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

Mr Jones visited the Bowdens mine site during April 2017 and August 2018 to review the operations, consider the conditions of the site, and assess the data collection methods and techniques used by site personnel.

The Ore Reserve has been prepared by Mr Adrian Jones, AMC Consultants Pty Ltd, after peer review of the mining section of the Feasibility Study. Other experts relied upon include H & S Consultants Pty Ltd, GR Engineering Services Limited, ATC Williams Pty Limited. and Jacobs Australia Pty Limited, for Mineral Resources, Metallurgy & Process Design and Tailing Storage Facility design. Work on environmental, marketing and logistics and the financial modelling were undertaken by other consultants on behalf of the Company and certified by representatives of Silver Mines.

Exploration and Drill Results

The information in this report that relates to mineral exploration drill results from Bowdens Silver and exploration at the Barabolar Project, the Webbs Silver Project and the Conrads Silver Project is based on information compiled or reviewed by Mr Darren Holden who is an advisor to the company. Mr Holden is a member of The Australasian Institute of Mining and Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the activity being undertaken, 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 the information in the form and context in which it appears.

INFORMATION ON BOARD

DIRECTORS

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

Keith Perrett	Non-Executive Chairman
Anthony McClure	Managing Director
Peter Langworthy	Non-Executive Director
Jonathan Battershill	Non-Executive Director

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 a Director in June 2016 and was appointed the Non-Executive Chairman in August 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 company Mekong Minerals Limited since (2010). 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), Managing Director of Gateway Mining Limited 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 Non-Executive Director in June 2016.

Mr Jonathan Battershill, Non-Executive Director
Mr Battershill graduated with a Bachelor of Engineering (Geology) degree (Hons) from the Camborne School of Mines, United Kingdom in 1995. His career spans over 20 years in mining, business development and finance both in Australia and internationally. His industry experience includes senior operational and business development roles with WMC Resources Limited as well as significant stockbroking experience at Hartleys, Citigroup and UBS both in Sydney and London. Mr Battershill was consistently voted one of the leading mining analysts in Australia between 2009 and 2015 by institutional investors.

Mr Battershill is also a director of TSX listed company Black Dragon Gold Corp. Until recently, Mr Battershill was the Global Mining Strategist (Executive Director) with the UBS investment bank in London and is currently the Principal of JJB Advisory Limited, a private advisory and consulting firm based in the UK.

Mr Battershill was appointed as Non-Executive Director of Silver Mines in June 2017.

COMPANY SECRETARY

Mr Trent Franklin, Company Secretary
Mr Franklin holds qualifications in finance, risk management, 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 Enrizen Financial Group, a financial services, accounting and legal firm. He is also a director of listed company Gateway Mining Limited, and Company Secretary of listed company ATC Alloys Limited and has previously served as a director of Mandalong Resources Limited, the Australian Olympic Committee Inc and the Australian Olympic Foundation.

Meetings of Directors

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

	Meetings eligible to attend	Meetings attended
A McClure	6	6
K Perrett	6	6
P Langworthy	6	6
J Battershill	6	6

REMUNERATION REPORT

Remuneration policy

The remuneration policy of the Group 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 an arrangement with the Group in which he receives total remuneration of $450,000 per annum (inclusive of superannuation). The agreement provides a notice period of six months in the event of termination. Since the end of the 2018 Financial Year, Mr McClure's total remuneration has been reduced to $337,500 per annum (inclusive of superannuation).

Mr Peter Langworthy has entered into a non-executive director service agreement with the Group whereby he receives non-executive director fees 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 Jonathan Battershill has entered into a non-executive director service agreement with the Group whereby he receives non-executive director fees of $60,000 per annum. The agreement between Mr Battershill and the Group is ongoing on a month-to-month basis. Mr Battershill 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 acts as Company Secretary to the Group on behalf of Enrizen Accounting Pty Ltd.

Voting and comments made at the Group's 2017 Annual General Meeting (AGM).

At the 2017 AGM, 98.9% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration:

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled shares	Equity-settled options	
2018	$	$	$	$	$	$	$	$
Non-Executive Directors:								
K Perrett (Chairman)	80,000	-	-	-	-	-	-	80,000
P Langworthy	60,000	-	-	-	-	-	-	60,000
J Battershill	62,500	-	-	-	-	-	-	62,500
Executive Directors:								
A McClure[1]	410,959	-	-	39,041	-	-	-	450,000
Other Key Management Personnel:								
T Franklin[2]	102,000		-	-	-	-	-	102,000
	715,459	**-**	**-**	**39,041**	**-**	**-**	**-**	**754,500**

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled shares	Equity-settled options	
2017	$	$	$	$	$	$	$	$
Non-Executive Directors:								
K Perrett (Chairman)	80,000	-	-	-	-	-	-	80,000
P Langworthy	60,000	-	-	-	-	-	-	60,000
J Battershill	-	-	-	-	-	-	-	-
N Featherby (Resigned)	9,965	-	-	-	-	-	-	9,965
Executive Directors:								
A McClure[1]	410,959	-	-	39,041	-	-	-	450,000
Other Key Management Personnel:								
T Franklin[2]	85,000	-	-	-	-	-	-	85,000
	645,924	**-**	**-**	**39,041**	**-**	**-**	**-**	**684,965**

1. Since the end of the 2018 Financial Year total remuneration for Anthony McClure has been reduced to $337,500 per annum (inclusive of superannuation).
2. Fees payable to Mr Franklin are paid to Enrizen Accounting Pty Ltd and encompass Company Secretarial as well as accounting services to the Group.

Additional disclosures relating to key management personnel

Shareholding
The number of shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, directly and indirectly, including their personally related parties, is set out below:

Ordinary shares	Balance 30 June 2017	Net change	Balance 30 June 2018
Directors			
A McClure	17,875,000	-	17,875,000
K Perrett	1,000,000	-	1,000,000
P Langworthy	500,000	-	500,000
J Battershill	-	500,000	500,000
Specified executives			
T Franklin	1,000,000	1,571,306	2,571,306

Option holding
The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

Options	Balance 30 June 2017	Net change	Options lapsed/written off	Balance 30 June 2018
Directors				
A McClure	-	-	-	-
P Langworthy	1,000,000	-	-	1,000,000
K Perrett	500,000	-	-	500,000
J Battershill	-	6,000,000	-	6,000,000
Specified executives				
T Franklin	-	-	-	-

CORPORATE GOVERNANCE

The Company's Corporate Governance Statement, is attached to this report and located on the Company's website. The Company has mostly complied with the applicable principles of corporate governance, and if it has not, it has explained why that is so.

Proceedings on behalf of the Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

Non-audit services

There were no non-audit services performed by the external auditor during the financial year.

Directors and officers indemnification

The Group has paid a premium to insure the directors and officers of the Group. The insurance agreement limits disclosure of premium details. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

AUDITORS INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is enclosed and forms part of this annual report.

Events subsequent to reporting date

On 5th September 2018, the Company announced the completion of a renounceable entitlements issue and shortfall placement. The Offer was for one new share for every four shares held by eligible shareholders at an issue price of $0.03 per share ("New Shares") to raise $3.85 million (before costs), together with one free attaching option for every two New Shares subscribed for, exercisable at $0.06 with an expiry date three years from the date of issue ("New Options").

The successful Offer and shortfall placement resulted in the issue of 128,200,214 New Shares and 64,100,107 Options. The Directors of Silver Mines have subscribed for 12,885,417 New Shares and 6,442,709 New Options totalling $386,563 as part of the Offer and Shortfall Placement. The Shortfall Placement component to Directors comprising $237,500 will be subject to shareholder approval.

No other matter or circumstance has arisen since the reporting date that has significantly affected, or may significantly affect, the consolidated entity's operations, the results of those operations or the consolidated entity's state of affairs in future financial years.

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

Keith Perrett
Chairman

Anthony McClure
Managing Director

27th September 2018

Crowe Horwath

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27 September 2018

The Board of Directors
Silver Mines Limited
Level 11, 52 Phillip Street
Sydney NSW 2000

Dear Board Members

Silver Mines Limited

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

As lead audit partner for the audit of the financial report of Silver Mines Limited for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, that there have been no contraventions of:

(i) the auditor 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.

Yours sincerely

Crowe Horwath Sydney

CROWE HORWATH SYDNEY

L Russell

LEAH RUSSELL
Senior Partner

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	2018 $	2017 $
Revenue	109,759	55,643
Cost of sales	(50,433)	(27,008)
Gross Profit from continuing operations	**59,326**	**28,635**
Other income	667	5,603
Share registry and exchange fees	(90,356)	(171,614)
Auditors	(47,111)	(77,000)
Marketing	(107,936)	(98,268)
Office expenses	(64,563)	(67,637)
IT and communication	(13,198)	(15,838)
Depreciation	(225,168)	(250,848)
Accountancy	(101,682)	(85,000)
Professional and technical advisors	(529,220)	(616,258)
Employee benefits expenses	(751,326)	(641,595)
Travel and accommodation	(161,855)	(157,814)
Foreign exchange gains/(losses)	(421)	-
Other expenses	(51,894)	(93,209)
Loss from continuing operations before interest and income tax	(2,084,737)	(2,240,843)
Interest income	25,404	65,816
Finance costs	(7,100)	(103,880)
Loss from continuing operations before income tax	(2,066,433)	(2,278,907)
Income tax	-	-
Loss from continuing operations after income tax	(2,066,433)	(2,278,907)
Comprehensive income	-	-
Total comprehensive income (loss) (attributable to owners of the company)	**(2,066,433)**	**(2,278,907)**
Earnings per share (cents per share)		
Basic & diluted earnings per share	(0.46)	(0.63)

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 2018

	Notes	2018 $	2017 $
Current assets			
Cash and cash equivalent	3	730,679	3,641,237
Receivables	4	75,037	281,387
Inventory - livestock	5	164,310	170,794
Total current assets		**970,026**	**4,093,418**
Non-current assets			
Financial assets	6	91,000	50,000
Deferred exploration and development	7	47,373,902	41,128,752
Intangible assets	8	1,770,000	875,000
Land and buildings	9	7,625,013	7,718,031
Property, plant and equipment	10	360,415	500,922
Total non-current assets		**57,220,330**	**50,272,705**
Total assets		**58,190,356**	**54,366,123**
Current liabilities			
Payables	11	1,212,474	2,045,938
Employee provisions	12	187,029	129,845
Total current liabilities		**1,399,503**	**2,175,783**
Total liabilities		**1,399,503**	**2,175,783**
Net assets		**56,790,853**	**52,190,340**
Equity			
Contributed equity	13	77,764,760	71,097,814
Reserve	13	4,000,000	4,000,000
Accumulated losses		(24,973,907)	(22,907,474)
Total Equity		**56,790,853**	**52,190,340**

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 2018

	Notes	Ordinary Shares $	Share capital reserve $	Accumulated losses $	Total $
Balance at 1 July 2016		**63,502,086**	**-**	**(20,628,567)**	**42,873,519**
Correction of error		**-**	4,000,000	**-**	4,000,000
Restated total equity at the beginning of the financial year		**63,502,086**	**4,000,000**	**(20,628,567)**	**46,873,519**
Transactions with owners, in their capacity as owners					
Equity funds received, issue of shares		8,316,936	-	-	8,316,936
Shares buy-back		(107,784)	-	-	(107,784)
Cost of funds raised		(613,424)	-	-	(613,424)
Total transactions with owners, in their capacity as owners		7,595,728	-	-	7,595,728
Comprehensive income for period					
Loss attributable to owners of the company		-	-	(2,278,907)	(2,278,907)
Total comprehensive income for the period		-	-	(2,278,907)	(2,278,907)
Balance at 30 June 2017		**71,097,814**	**4,000,000**	**(22,907,474)**	**52,190,340**
Balance at 1 July 2017		**71,097,814**	**4,000,000**	**(22,907,474)**	**52,190,340**
Transactions with owners, in their capacity as owners					
Equity funds received, issue of shares		7,050,600	-	-	7,050,600
Shares buy-back		-	-	-	-
Costs of funds raised		(383,654)	-	-	(383,654)
Total transactions with owners, in their capacity as owners		6,666,946	-	-	6,666,946
Comprehensive income for period					
Loss attributable to owners of the company		-	-	(2,066,433)	(2,066,433)
Total comprehensive income for the period		-	-	(2,066,433)	(2,066,433)
Balance at 30 June 2018	13	**77,764,760**	**4,000,000**	**(24,973,907)**	**56,790,853**

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 2018

	Notes	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers		110,426	59,449
Payments to suppliers & employees		(1,975,771)	(2,745,140)
Interest received		25,404	65,816
Finance costs		(7,100)	(103,880)
Net cash outflows from operating activities	16	(1,847,041)	(2,723,755)
Cash flows from investing activities			
Payments for deferred exploration		(7,097,309)	(13,402,141)
R&D Tax Benefit		266,071	-
Payment to acquire intangible		(895,000)	(875,000)
Payment for property, plant and equipment		(4,225)	(487,078)
Proceeds from sale of property, plant and equipment		-	2,273
Net cash outflows from investing activities		(7,730,463)	(14,761,946)
Cash flows from financing activities			
Proceeds from issues of shares		7,050,000	10,290,907
Option conversion		600	-
Payments for share buy-back		-	(107,784)
Payments for capital raising costs		(383,654)	(613,424)
Net cash inflows from financing activities		6,666,946	9,569,699
Net (decrease)/increase in cash and cash equivalent		**(2,910,558)**	**(7,916,002)**
Cash and cash equivalent at the beginning of the financial year		3,641,237	11,557,239
Cash and cash equivalent at the end of the financial year	3	**730,679**	**3,641,237**

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 2018

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 will raise sufficient cash and liquid assets.

The Directors have prepared a forecast for the foreseeable future reflecting the abovementioned expectations and their effect on the Group. The forecast is conservative, and reflects current market prices, reduction in interest income, 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 30 June 2018 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
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

d. 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 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 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 and the amendments from 1 July 2018. It is not expected for the application of the new standard to have a significant impact on the Group's financial statements.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 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 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 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 1 July 2018 and as the entity is not generating revenue at present it is not expected to impact on the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 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 Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) 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 1 July 2019.

e. 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 review 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Critical accounting estimates and significant judgments used in applying accounting policies

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.

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 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.

Exploration and evaluation costs

Exploration and evaluation costs have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 2: INCOME TAX

(a) Reconciliation of income tax expense to prima facie tax payable	2018 $	2017 $
Operating loss before income tax	(2,066,433)	(2,278,907)
Prima facie income tax benefit/(expense) at 27.5% on operating profit/(loss)	568,269	622,361
Add tax effect of:		
Tax losses and temporary differences not recognised	(568,269)	(622,361)
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.

(b) Deferred tax assets and (liabilities) are attributable to the following:	2018 $	2017 $
Exploration expenditure	(3,857,486)	-
Tax losses	3,857,486	-
	-	-

(c) Tax losses	2018 $	2017 $
Unused tax losses for which no tax loss has been booked as a deferred tax asset adjusted for non temporary differences	29,282,950	33,654,622
Potential tax benefit at 27.5%	8,052,811	9,255,020

(d) Unrecognised temporary differences	2018 $	2017 $
Non deductible amounts as temporary differences	504,053	565,801
Accelerated deductions for book compared to tax	-	-
Total	8,556,864	9,820,821
Potential effect on future tax expense	8,556,864	9,820,821

The Group's ability to recover unrecognised tax losses depends on the Group's earnings as well as the Group meeting the Same Business Test or the Continuity of Ownership Test

NOTE 3: CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Current		
Cash at bank and on hand	730,679	3,641,237

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 4: RECEIVABLES

	2018 $	2017 $
Current		
Sundry debtors	75,037	281,387
	75,037	281,387

Sundry debts comprise of GST refundable amounting to $74,881 (2017: $266,176) and prepayment amounting to $156 (2017: $15,211).

NOTE 5: INVENTORY - LIVESTOCK

	2018 $	2017 $
Current		
Livestock	164,310	170,794

NOTE 6: FINANCIAL ASSETS

	2018 $	2017 $
Non-current		
Performance guarantee bonds	91,000	50,000

NOTE 7: DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE

	2018 $	2017 $
Non-current		
Exploration expenditures		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phase		
Opening balance	41,128,752	32,043,486
Expenditure in the period	6,245,150	9,085,266
Closing balance	47,373,902	41,128,752

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 7: DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE (continued)

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.

NOTE 8: INTANGIBLE ASSETS

	2018 $	2017 $
Non-current		
Opening balance	875,000	-
Additions	895,000	875,000
Disposals	-	-
Closing balance	1,770,000	875,000

The Group has entered into a number of option agreements to purchase properties attaching to the tenements. As consideration for these agreements, the Group has paid total option fees of $895,000 (2017: $875,000) during the year. However, if the Group chooses not to exercise with the option agreements, the rights to purchase the land will be forfeited and the amount will be written off through the Profit and Loss statement.

NOTE 9: LAND AND BUILDINGS

	2018 $	2017 $
Non-current		
Properties at cost	8,140,619	8,140,619
Accumulated Depreciation	(515,607)	(422,588)
	7,625,013	7,718,031

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Land $	Buildings $	Buildings improvements $	Total $
Balance at 1 July 2016	7,181,532	237,836	386,013	7,805,381
Additions	-	-	6,000	6,000
Depreciation expense	-	(6,750)	(86,600)	(93,350)
Balance at 30 June 2017	7,181,532	237,836	305,413	7,718,031
Additions	-	-	-	-
Depreciation expense	-	(6,750)	(86,268)	(93,018)
Balance at 30 June 2018	7,181,532	224,336	219,145	7,625,013

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 9: LAND AND BUILDINGS (continued)

Land and buildings are shown at cost, less subsequent depreciation and impairment for buildings.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of buildings and building improvements (excluding land) over their expected useful lives as follows:

Buildings	40 years
Building improvements	4-8 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Items of land and buildings are derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	2018 $	2017 $
Plant and equipment - at cost	1,173,263	661,541
Less: accumulated depreciation	(812,848)	(160,145)
	360,415	500,922

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant & Mining Equipment $	Office & Camp Equipment $	Motor Vehicles $	Other Assets - Farming $	Computer Equipment $	Total $
Balance at 30 June 2016 and 1 July 2016	85,618	46,842	33,380	15,057	-	180,896
Additions	63,813	137,752	276,264	-	2,817	480,646
Disposals	-	-	(475)	-	-	(475)
Depreciation expense	(61,638)	(58,756)	(34,501)	(4,058)	(1,193)	(160,145)
Balance at 30 June 2017 and 1 July 2017	87,793	125,839	274,667	10,998	1,625	500,922
Additions	-	-	-	-	4,225	4,225
Disposals	-	-	-	-	-	-
Depreciation expense	(33,926)	(60,224)	(44,068)	(4,058)	(2,456)	(144,732)
Balance at 30 June 2018	53,867	65,615	230,599	6,940	3,394	360,415

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 10: PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Plant & Mining Equipment	4-20 years
Office & Camp Equipment	3-8 years
Motor Vehicles	6-8 years
Other Assets - Farming	5 years
Computer Equipment	2 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

NOTE 11: PAYABLES

	2018 $	2017 $
Current		
Trade creditors and accruals	1,212,474	2,045,938

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

NOTE 12: EMPLOYEE PROVISIONS

	2018 $	2017 $
Current - employee provisions	187,029	129,845

Short-term employee benefits
Liabilities for wages and salaries, including annual leave to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 13: CAPITAL AND RESERVES

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$
1-Jul-16		**340,475,643**		**63,502,086**
31-Dec-16	Issued capital	32,223,856	0.165	5,316,936
31-Dec-16	Capital Raising costs			(463,424)
30-Jun-17	Issued capital	18,181,968	0.165	3,000,000
30-Jun-17	Shares buy-back	(582,611)	0.185	(107,784)
30-Jun-17	Capital Raising costs			(150,000)
30-Jun-17		**390,298,856**		**71,097,814**
10-Oct-17	Placement	53,750,000	0.08	4,300,000
10-Oct-17	Capital Raising costs			(264,675)
13-Oct-17	Option exercise	2,000	0.30	600
4-Apr-18	Placement	68,750,000	0.04	2,750,000
4-Apr-18	Capital Raising costs			(118,979)
30-Jun-18		**512,800,856**		**77,764,760**

(b) 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.

(c) Share options

At 30 June 2018 details of Listed and Unlisted Options are as follows:

Details	Number	Exercise price	Expiry date
Unlisted options	9,000,000	$0.30	20-Jun-19
Unlisted options	5,000,000	$0.20	3 years from milestone achievement[1]
Total	**14,000,000**		

1. Expiry which is three years from the date of achievement of Project Financing, which must achieve a minimum of $150 million (Financing Milestone). This was set out in the Company's Notice of Annual General meeting dated 30 October 2017.

Movements in options	2018 Number	2017 Number
Balance at the beginning of the financial year	42,098,614	38,951,614
Options lapsed	(34,096,614)	(58,000)
Options exercised	(2,000)	-
Options issued	6,000,000	3,205,000
Balance at the end of the financial year	**14,000,000**	**42,098,614**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 13: CAPITAL AND RESERVES (continued)

(d) Reserves

In June 2016, the Company completed the acquisition of Silver Investment Holdings Australia Ltd (SIHA) and Bowdens Silver Pty Ltd. As part of the consideration for the purchase of SIHA, 40,000,000 ordinary shares in the capital of the Group are to be issued as a deferred consideration. On review of the accounting for the acquisition, the Company discovered the recognition of the deferred consideration had been misinterpreted. This error has now been amended by restating the deferred exploration and development expenditure and share capital reserve.

Consolidated	Equity Reserve $
Balance at 1 July 2016	4,000,000
Movement during the year	-
Balance at 30 June 2017	4,000,000
Movement during the year	-
Balance at 30 June 2018	4,000,000

(e) Capital risk 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.

NOTE 14: RELATED PARTY TRANSACTIONS

(a) Directors

The names and positions held of Group key personnel are:

Key Management Person	Position
Keith Perrett	Non-Executive Chairman
Anthony McClure	Managing Director
Peter Langworthy	Non-Executive Director
Jonathan Battershill	Non-Executive Director
Trent Franklin	Company Secretary

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	2018 $	2017 $
Short-term employee benefits	715,459	645,924
Post-employment benefits	39,041	39,041
	754,500	705,965

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14: RELATED PARTY TRANSACTIONS (continued)

(b) Trading transactions

During the year, the Company entered into the following trading transactions with related parties of Trent Franklin, the Company Secretary, as follows: Enrizen Capital Pty Ltd received $50,000 (2017: $300,000 and was issued 1 million fully paid ordinary shares in the Company at an issue price of $0.15) in relation to corporate advisory, capital raising and underwriting services; Enrizen Pty Ltd received $950 (2017: $900) in relation to insurance services; and Enrizen Lawyers Pty Ltd received $38,482 (2017: $44,151) in relation to legal services.

(c) Consolidated Entities

The Group operates in the exploration industry in Australia only. The Group has the following 100% wholly owned subsidiaries whose transactions have been consolidated into the Group accounts:

Silver Investment Holdings Australia Pty Limited
Bowdens Silver Pty Limited
Conrad Resources Pty Ltd
Tuena Resources Pty Ltd
Webbs Resources Pty Ltd

NOTE 15: PARENT ENTITY INFORMATION

Statement of profit or loss and other comprehensive income

	Parent	
	2018 $	2017 $
Profit (loss) after income tax	(1,678,248)	(1,707,497)
Total comprehensive income/(loss)	(1,678,248)	(1,707,497)

Statement of financial position

	Parent	
	2018 $	2017 $
Total current assets	614,445	2,965,729
Total assets	57,899,828	52,929,749
Total current liabilities	182,382	201,001
Total liabilities	182,382	201,001
Equity		
Issued capital	81,764,760	75,097,814
Retained profits	(24,047,314)	(22,369,066)
Total equity	57,717,446	52,728,748

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16: RECONCILIATION OF OPERATING (LOSS)/PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2018 $	2017 $
Operating (loss)/profit after income tax	(2,066,433)	(2,278,907)
Depreciation	225,168	250,848
Employee provisions	57,184	
	(1,784,081)	(2,028,059)
Movements in working capital:		
(Increase)/decrease in receivables and prepayments	27,965	85,221
(Increase)/decrease in inventory	6,484	(53,244)
Increase/(decrease) in payables and provision	(97,410)	(727,673)
Net cash outflows from operating activities	**(1,847,041)**	**(2,723,755)**

NOTE 17: FINANCIAL INSTRUMENT DISCLOSURES

The Group's activities expose it to a variety of financial risks: market risk (including 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
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17: FINANCIAL INSTRUMENT DISCLOSURES (continued)

(iii) Cash flow and fair value interest rate risk (continued)

	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturing		Non-interest bearing	Total
			Within 1 year	Over 1 year		
	%	$	$	$	$	$
2018						
FINANCIAL ASSETS						
Cash assets		730,679	-	-	-	730,679
Performance guarantee bonds		-	-	-	91,000	91,000
Other financial assets		-	-	-	75,037	75,037
		730,679	-	-	166,037	896,716
FINANCIAL LIABILITIES						
Payables (current)		-	-	-	(1,212,474)	(1,212,474)
Borrowings (current)		-	-	-	-	-
Payables (non-current)		-	-	-	-	-
		-	-	-	(1,212,474)	(1,212,474)
NET FINANCIAL ASSETS/(LIABILITIES)		**730,679**	**-**	**-**	**(1,046,437)**	**(315,758)**

	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturing		Non-interest bearing	Total
			Within 1 year	Over 1 year		
	%	$	$	$	$	$
2017						
FINANCIAL ASSETS						
Cash assets		3,641,237	-	-	-	3,641,237
Performance guarantee bonds		-	-	-	50,000	50,000
Other financial assets		-	-	-	281,387	281,387
		3,691,237	-	-	331,387	3,972,623
FINANCIAL LIABILITIES						
Payables (current)		-	-	-	(2,045,938)	(2,045,938)
Borrowings (current)		-	-	-	-	-
Payables (non-current)		-	-	-	-	-
		-	-	-	(2,045,938)	(2,045,938)
NET FINANCIAL ASSETS/(LIABILITIES)		**3,691,237**	**-**	**-**	**(1,714,552)**	**1,926,685**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17: FINANCIAL INSTRUMENT DISCLOSURES (continued)

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

	2018 $	2017 $
Net financial assets per above	(315,758)	1,926,685
Inventory (current)	164,310	170,794
Plant & equipment	360,415	500,922
Land & buildings	7,625,013	7,718,031
Intangible assets	1,770,000	875,000
Deferred exploration & development	47,373,902	41,128,752
Employees provision	(187,029)	(129,844)
Net assets per statement of financial position	**56,790,853**	**52,190,340**

(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 interest rate risk and 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 sales during the year, and minimal balances with interest.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18: EARNINGS PER SHARE

	2018 Cents	2017 Cents
Basic earnings per share	(0.46)	(0.63)
Diluted earnings per share	(0.46)	(0.63)
	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	**445,375,629**	**360,378,354**
	$	**$**
Reconciliation of earnings used in calculating basic and diluted earnings per share		
Earnings used in calculating basic and diluted earnings per share	**(2,066,433)**	**(2,278,907)**

NOTE 19: REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Crowe Horwath Sydney, the auditor of the company:

	2018 $	2017 $
Audit services - Crowe Horwath Sydney		
Audit or review of the financial statements	52,244	53,000
Other services - Crowe Horwath Sydney		
Preparation of tax advice	-	10,975
	52,244	63,975

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 20: COMMITMENTS

	2018 $	2017 $
Capital commitments-option		
Committed at the reporting date but not recognised as liabilities, payable:		
Intangible assets	5,690,000	3,465,000
Lease commitments-operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	18,962
Tenement minimum spend for a year	4,145,000	4,395,000

Capital commitments include contracted amounts for options agreement for the right to purchase properties at the execution date. However, if the company chooses not to execute the agreements, the rights will be forfeited and the amount will be written off through the Profit and Loss statement.

Operating lease commitments include contracted amounts for motor vehicle operating leases expiring within one year.

To maintain the right to a tenement the Group is committed to a minimum spend on the tenement in a 12 month period

NOTE 21: EVENTS SUBSEQUENT TO REPORTING DATE

On 5th September 2018, the Company announced the completion of a renounceable entitlements issue and shortfall placement. The Offer was for one new share for every four shares held by eligible shareholders at an issue price of $0.03 per share ("New Shares") to raise $3.85 million (before costs), together with one free attaching option for every two New Shares subscribed for, exercisable at $0.06 with an expiry date three years from the date of issue ("New Options").

The successful Offer and shortfall placement resulted in the issue of 128,200,214 New Shares and 64,100,107 Options. The Directors of Silver Mines have subscribed for 12,885,417 New Shares and 6,442,709 New Options totalling $386,563 as part of the Offer and Shortfall Placement. The Shortfall Placement component to Directors comprising $237,500 will be subject to shareholder approval.

No other matter or circumstance has arisen since the reporting date that has significantly affected or may significantly affect the consolidated entity's operations, the results of those operations or the consolidated entity's state of affairs in future financial years.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 22: 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 27 to 48 are in accordance with the *Corporations Act 2001* and:

(a) comply with Accounting Standards and the *Corporations Regulations 2001*;

(b) give a true and fair view of the financial position as at 30th June 2018 and of the performance for the year ended on that date of the Group and economic entity; and

(c) comply with International Financial Reporting Standards as issued by the International Accounting Standard Board as described in note 1 to the financial statements;

2 The Managing Director and the Company Secretary, who perform the functions of Chief Executive Officer 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

27th September 2018

Crowe Horwath Sydney
ABN 97 895 683 573
Member Crowe Horwath International

Audit and Assurance Services

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Independent Auditor's Report to the Members of Silver Mines Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Silver Mines Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How we addressed the Key Audit Matter
Deferred Exploration and Development Expenditure – Note 7	
The carrying amount of deferred exploration and development expenditure was a significant component of the Group's total assets at $47,373,905 at 30 June 2018, representing three active areas of interest, Bowdens, Webbs and Conrad, in New South Wales. As outlined in Note 7 of the financial report, the application of the Group's accounting policy in respect of capitalised (deferred) exploration and development expenditure required significant judgment, as follows: ▪ The assessment of areas of interest; ▪ Relating the expenditure to an area of interest; and ▪ Determining the extent to which expenditure is expected to be recouped through successful development of the area.	Our procedures included, amongst others: ▪ Reviewing the Group's accounting policy to ensure it met the requirements of AASB 6 – *Exploration for and Evaluation of Mineral Resources*. ▪ Evaluating the Group's processes and controls in regards the recognition and deferral of exploration and development expenditure. ▪ Selecting a sample of exploration and development expenditure and testing the allocation of the expenditure to the project reference and evaluating that the capitalisation (deferral) of expenditure was in accordance with the Group's accounting policy. ▪ Obtaining the *Resource Authority Public Report* to verify the Group's ownership interest of each of the tenements to which the exploration and development expenditure relates.
Furthermore, exploration assets are required to be tested for impairment when facts and circumstances suggest that the carrying amount of exploration and evaluation asset may exceed its recoverable amount. This required a high degree of judgement by directors, particularly in respect of impairment indicators which included: ▪ The Group's title to the tenement lapses; ▪ The Group ceasing to explore, or is unable to fund the minimum capital commitments to maintain the tenement title; and ▪ Reports indicating the asset will not be viable because of the impact of changes in the industry, geography of project, committed expenditure and tenement expiry date.	We challenged the director's assumptions that support the evaluation of impairment indicators by: ▪ Reviewing the Group's budgets and drilling programs and assessing whether they covered the committed expenditure before the expiry date. ▪ Ensuring that substantive exploration and development expenditure was planned and budgeted for each tenement. ▪ Assessing the Group's capacity to fund future committed exploration expenditure. ▪ Obtaining the *Resource Authority Public Report* to verify the Group's ownership interest for each of the tenements to which the exploration expenditure relates.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group will require further funding in the next twelve months from the date of this report to fund its planned exploration and development projects and operating costs. These conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect to this matter.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, International Financial Reporting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial report. The auditor is responsible for the direction, supervision and performance of the group audit. The auditor remains solely responsible for the audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Crowe Horwath

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 23 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Silver Mines Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

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.

Crowe Horwath Sydney

CROWE HORWATH SYDNEY

L Russell

LEAH RUSSELL
Senior Partner

Dated at Sydney this 27th day of September 2018

ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 27 SEPTEMBER 2018

At 27th September 2018 the issued capital in the Company was comprised of:

- 633,084,403 fully paid ordinary shares held by 3,125 holders;
- 60,141,774 listed options, held by 700 holders, with and exercise price of $0.06 and an expiry date of 6th September 2021;
- 9,000,000 unlisted options held by 7 holders, with an exercise price of $0.30 and an expiry date of 20th June 2019; and
- 5,000,000 unlisted options held by one holder, with an exercise price of $0.20 and an expiry date which is three years from the date of achievement of certain milestones, set out in the Company's Notice of Annual General Meeting dated 31th October 2017.

Each fully paid ordinary share in the Company entitles the holder to one vote at a meeting of shareholders. Options do not carry voting rights.

At 27th September 2018, the Company has 1,171 shareholders whose holdings are less than a marketable parcel of shares (total value of A$500, assuming a share price of $0.027).

Substantial shareholders at 27th September 2018

Silver Mines Limited has the following substantial shareholders:

Holder	Shares	%
SENECA SECURITIES PTY LTD	45,000,000	7.108%

20 Largest Holders of Ordinary Shares and their holdings at 27 September 2018

Position	Holder Name	Holding	%
1	SENECA SECURITIES PTY LTD	45,000,000	7.108%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	44,451,292	7.021%
3	CITICORP NOMINEES PTY LIMITED	19,268,336	3.044%
4	NATIONAL NOMINEES LIMITED	16,336,848	2.581%
5	MR ANTHONY MCCLURE	10,859,375	1.715%
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	9,484,242	1.498%
7	COOLHAND NOMINEES PTY LIMITED	8,666,667	1.369%
8	ALDON FINANCE PTY LTD	7,500,000	1.185%
9	MR JINHUA GUAN	7,444,005	1.176%
10	MS GEORGINA SUSAN KING	7,140,625	1.128%
11	GASCOYNE HOLDINGS PTY LTD	7,000,000	1.106%
12	BNP PARIBAS NOMINEES PTY LTD	6,405,115	1.012%
13	PERTH SELECT SEAFOODS PTY LTD	6,000,000	0.948%
14	MR CHRISTOPHER JAMES RANSOM & MR CRAIG LEHMANN FARROW	5,000,000	0.790%
15	L11 CAPITAL PTY LTD	5,000,000	0.790%
16	NATIONAL NOMINEES LIMITED	4,673,667	0.738%
17	LGL TRUSTEES LIMITED	4,666,667	0.737%
18	MR GRANT PALMER	4,346,157	0.687%
19	TASMAN BRIDGE FINANCE PTY LTD	3,983,638	0.629%
20	MR ERLE EDWINSON	3,847,212	0.608%
	Total Securities of Top 20 Holdings	**227,073,846**	**35.868%**

Distribution of holders and holdings at 27th September 2018

Fully paid ordinary shares:

Holdings Ranges	Holders	Total Units	%
1-1,000	183	41,452	0.007
1,001-5,000	316	1,155,666	0.183
5,001-10,000	382	3,063,863	0.484
10,001-100,000	1,483	62,522,473	9.876
100,001-9,999,999,999	761	566,300,949	89.451
Totals	**3,125**	**633,084,403**	**100.000**

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 27th September 2018.

The following governance related documents can be found on the Group's website at http://www.silvermines.com.au, 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 director 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:

	Proportion of women
On the Board	0 out of 4 (0%)
In senior executive positions	1 out of 2 (50%)
Across the whole organisation	7 out of 20 (35%)

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.

During the 2018 Financial Year an evaluation of the Board and the individual directors did not take place as the Company conducted an in-depth evaluation of the current Board, prior to and upon its appointment at the end of the previous financial year. 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 2018 Financial Year, the Group conducted an evaluation of certain senior executives within the Group who were employed throughout the period. Other senior executives will be evaluated in the coming period upon the anniversary of their engagement with the Group. 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 of the ASX Corporate Governance Principles, 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, Keith Perrett and Jonathan Battershill 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 28 September (approx.)	Independence status
Anthony McClure	20th June 2016	2 years 3 months	Executive
Keith Perrett	20th June 2016	2 years 3 months	Independent Non-Executive
Peter Langworthy	20th June 2016	2 years 3 months	Independent Non-Executive
Jonathan Battershill	16th June 2017	1 year 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 30 June 2018, three quarters 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 2018, the Board received a statement from its Managing Director and Company Secretary, who 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 2018 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.

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.