Silver Mines Limited
ABN 45 107 452 942



SILVER MINES LIMITED

ANNUAL REPORT 2017

For personal use only

CONTENTS

CORPORATE DIRECTORY 3

INFORMATION ON BOARD 15

AUDITOR'S INDEPENDENCE DECLARATION 20

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 22

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 23

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 24

CONSOLIDATED STATEMENT OF CASH FLOWS 25

NOTES TO THE FINANCIAL STATEMENTS 26

DIRECTORS' DECLARATION 43

INDEPENDENT AUDITOR'S REVIEW REPORT 44

ADDITIONAL SECURITIES EXCHANGE INFORMATION 48

CORPORATE GOVERNANCE STATEMENT 50

For personal use only

CORPORATE DIRECTORY

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

Company Secretary
Trent Franklin

Australian Company Number
107 452 942

Registered Office
Silver Mines Limited
Level 11
52 Phillip Street
Sydney NSW 2000
Australia

Tel: +61 2 8316 3997
Fax: +61 2 8316 3999
E-mail: info@silvermines.com.au
Website**:** www.silvermines.com.au

Share Registry
Boardroom Pty Limited
Level 11
225 George Street
Sydney NSW 2000
Tel : +61 2 9290 9600
Fax : +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Auditors
Crowe Horwath Sydney
Level 15
1 O'Connell Street
Sydney NSW 2000
Tel: +61 2 9262 2155
Fax: +61 2 9262 2190

For personal use only

For personal use only

REVIEW OF OPERATIONS

Following the purchase of the Bowdens Silver Project and the associated corporate and business restructuring at the end of the 2016 Financial Year, Silver Mines Limited's ("Silver Mines" or "the Company") focus throughout the 2017 Financial Year has involved advancing the Definitive Feasibility Study and Environmental Impact Statement along with substantial exploration works. 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);**
- **Webbs Project (silver/polymetallic);**
- **Conrad Project (silver/polymetallic); and**
- **Tuena Project (gold/silver).**

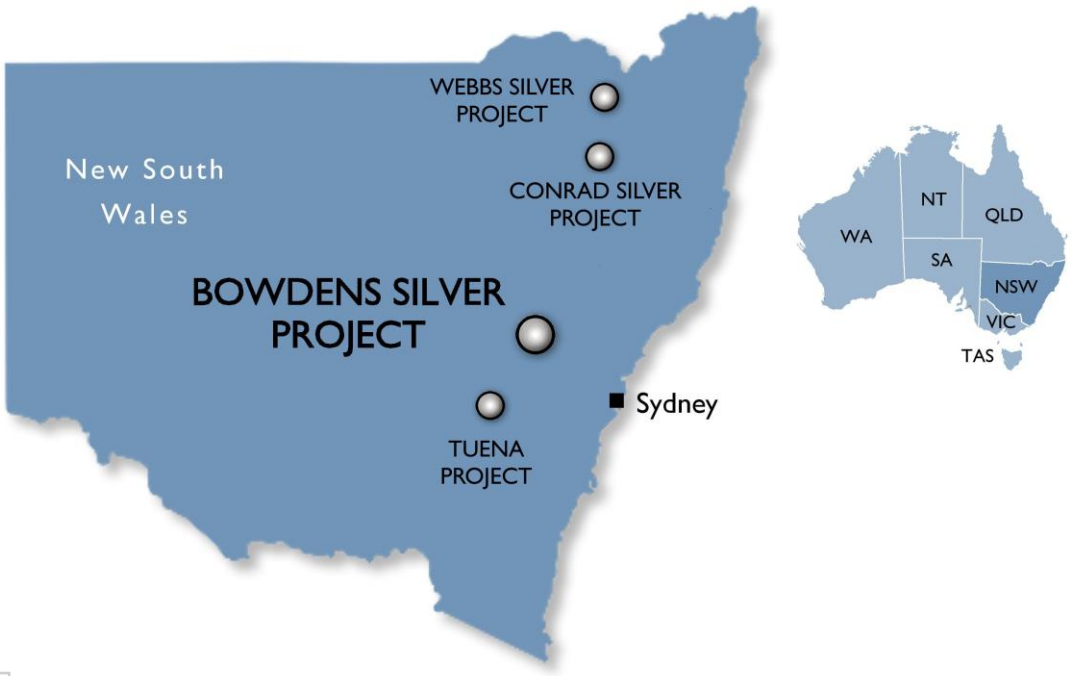


Figure 1. Group Project Locations.

Bowdens Silver Project

Introduction

The Bowdens Silver Project ("Bowdens Silver") is located in central New South Wales, approximately 26 kilometres east of Mudgee. (See Figure 2). The project area comprises 1,654 km^2 (408,000 acres) of titles covering approximately 80 kilometres of strike in the highly mineralised Rylstone Volcanics.

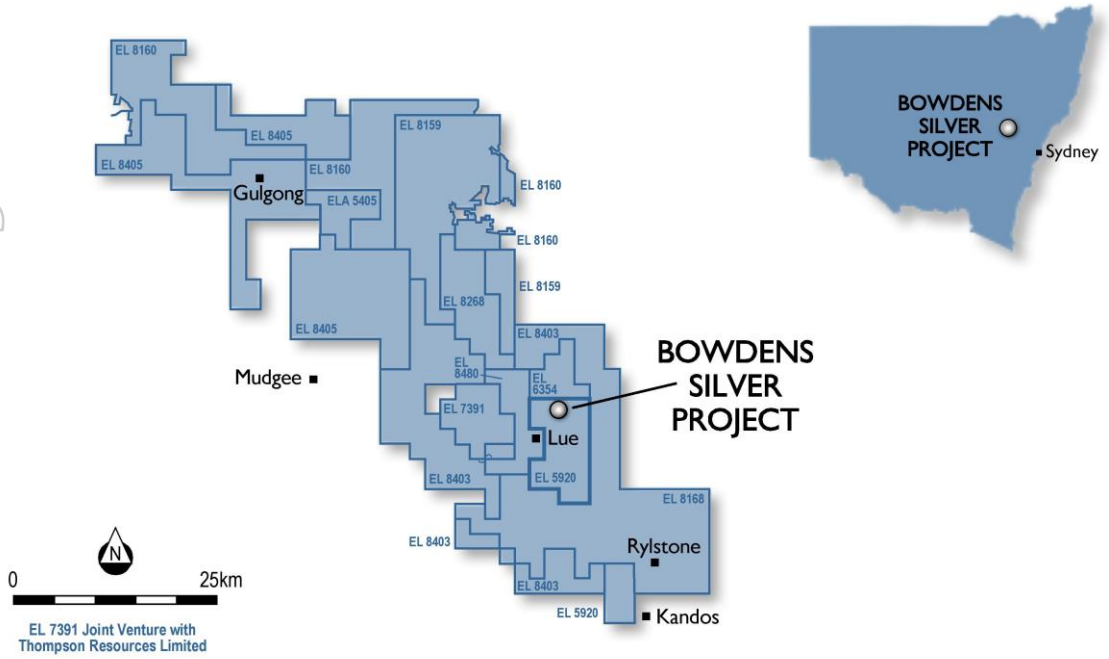


Figure 2. Bowdens Silver tenement holdings in the Mudgee district.

Description

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

The Group holds 100% of Exploration Licence EL5920 which contains the Bowdens Silver Deposit. The Group also holds exploration licences EL6354, EL8159, EL8160, EL8168, EL8268, EL8403, EL8405 and EL8480. In addition, the Group holds an 80% interest and manages a Joint Venture over Exploration Licence EL7391 with Thomson Resources Limited.

The tenement group is situated on the eastern margin of the Lachlan Orocline 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 Orodvician Coomber Formation and Silurian Dungaree Volcanics. Multiple target styles and mineral occurrences have potential throughout the district including analogues to Bowdens Silver, silver-lead-zinc epithermal and volcanogenic massive sulphide (VMS) systems and copper-gold targets.

For personal use only

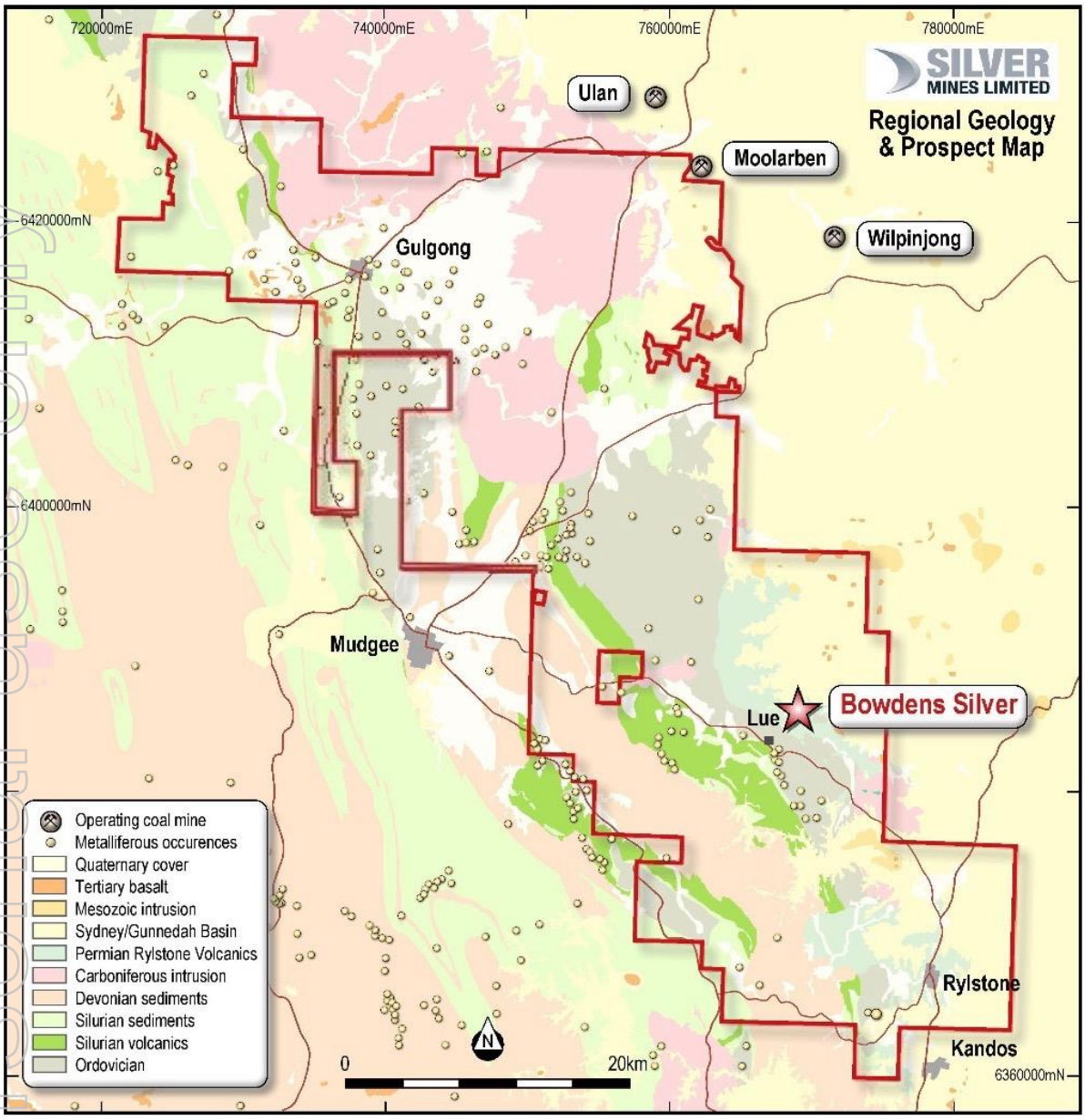


Figure 3. Bowdens Silver Geological Plan.

Drilling and Exploration Programs

During the 2017 Financial Year the Group conducted a substantial drilling program which focused on:

- Increasing silver resources within and in the immediate vicinity of the current resource area;
- Converting silver resources to higher levels of confidence as part of the Definitive Feasibility Study;
- Further drilling advanced exploration targets where substantial silver mineralisation has been discovered but not yet fully evaluated; and
- Testing exploration targets proximal to the current resource beneath surface geochemical and geophysical anomalies.

During the 2017 Financial Year the Group also conducted the following exploration activities:

- A regional airborne geophysical survey covering the entire tenement area, identifying future exploration targets;
- Surface geochemical surveys along structural trend both north and south of the Bowdens Silver Resource area identifying several anomalous zones for future exploration programs and drilling;
- Ground-based Induced Polarisation (IP) surveys covering the Bowdens Silver Resource area and zones immediately surrounding in all directions; and

For personal use only

- Further exploring the potential for high-grade mineralisation including zones containing gold and silver at depth below the resource area.

A substantial amount of drilling has been completed within the Bowdens Silver Project including:

	Diamond Drilling	Reverse Circulation Drilling	Total
Previous	**14,910**	**53,750**	**68,660**
Silver Mines	**11,683**	**10,848**	**22,531**
Total	**26,593**	**64,598**	**91,191**

Planned Upcoming Exploration Activities

Planning is underway to commence significant Bowdens Silver Project extensional and regional exploration programs including:

- Drill testing of geophysical IP targets beneath the Bowdens Silver Resource; and
- Drill testing of high-grade silver extensions downplunge to the northwest of the Bowdens Silver Resource.
- Geophysical surveys including IP surveys across the tenement package including at the Bara/Mt Laut and Coomber Prospects;
- Potential ground-based electromagnetic and gravity surveys over prospective areas;
- Surface geochemical sampling on prospective target areas; and
- Potential drill testing of regional target areas.

Mineral Resources

Subsequent to the financial year, the Group provided an update on Mineral Resources for the Bowdens Silver Project. The Bowdens Mineral Resource Estimate has been completed by H&S Consultants using Multiple Indicator Kriging and the reporting is compliant with the 2012 JORC Code and Guidelines. Please refer to Tables 1 and 2, and the accompanying notes for further details.

Table 1 – Bowdens Silver Deposit Mineral Resource Estimate as at September 2017

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. 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.
2. 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.
3. In the Group's opinion, the silver, zinc and lead included in the metal equivalent calculations have a reasonable potential to be recovered and sold.
4. Variability of summation may occur due to rounding.

For personal use only

Table 2 – Bowdens Silver Deposit Mineral Resource Estimate by Cut Off Grade as at September 2017							
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

Note: For the previous Mineral Resource Estimates for Bowdens Silver, see page 12.

The updated resource is the result of additional drilling conducted in 2013 by Kingsgate Consolidated (13 drill holes for 2,440 metres) and most recently by the Group (127 drill holes for 22,531 metres) over the past 12 months. This additional information includes 86 reverse circulation drill holes for 10,848 metres and 54 diamond core holes for 14,123 metres.

The updated Mineral Resource Estimate compares to the previous estimate (October 2012) of 88 million tonnes @ 64g/t Ag Eq for 182Moz silver equivalent. The September 2017 update is a 45% increase in tonnes, a 4% increase in silver equivalent grade, a 22% increase in silver ounces and a 51% increase in silver equivalent ounces. In addition, the Measured and Indicated component of the total resource has increased from 59% to 82% (refer Table 3). The majority of the increase is the result of resource extensions at depth beneath the northern portion of the deposit and more notably beneath the Bundarra Lens to the northwest. Additional resource extensions also occur down plunge to the northwest.

Reported at a 30 g/t silver equivalent cut-off, the Bowdens Silver Mineral Resource extends from surface and is trimmed to approximately 320 metres below surface. It is the opinion of the Group and its resource consultants that this represents a potential volume for open-pit optimisation models. Table 2 and Figure 1 demonstrate that the Bowdens Silver Deposit contains significant higher-grade portions within the resource estimate.

The Bowdens Silver Deposit remains open plunging to the northwest while at depth beneath the “Bundarra” lens (northwest quadrant of the resource). The resource remains open both along strike and down dip to the west.

The updated Mineral Resource Estimate will be used as the basis to establish an initial Ore Reserve for the Bowdens Silver Project, due for completion in late 2017. Pit optimisation and mine scheduling studies will be completed over the coming months to determine initial project economics. The initial Ore Reserve Estimates will focus on the higher cut-off grade portions of the Mineral Resource and will facilitate completion of the final elements for the currently progressing Definitive Feasibility Study which is due for completion in early 2018.

For personal use only

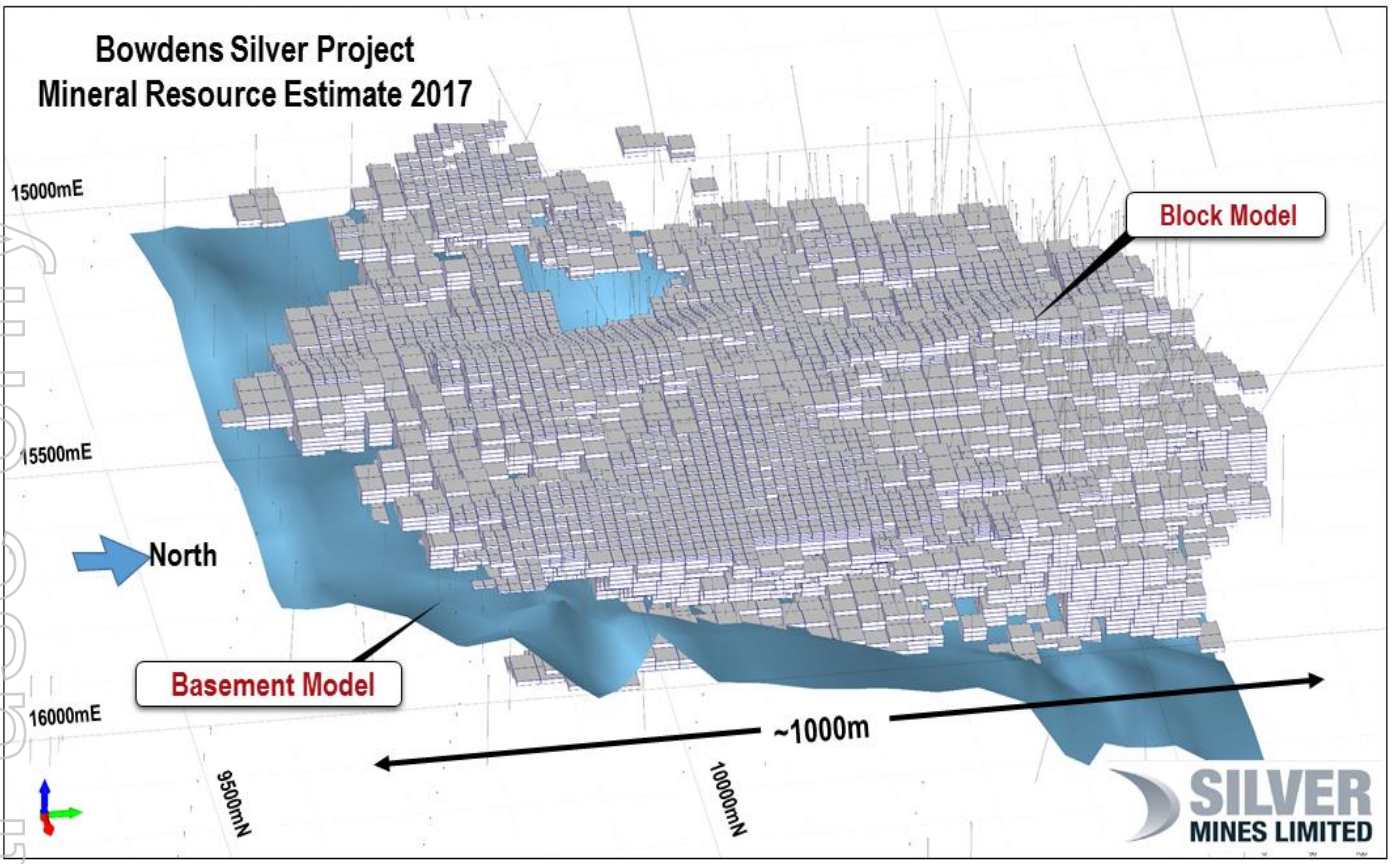


Figure 4. Bowdens Silver Mineral Resource Block Model.

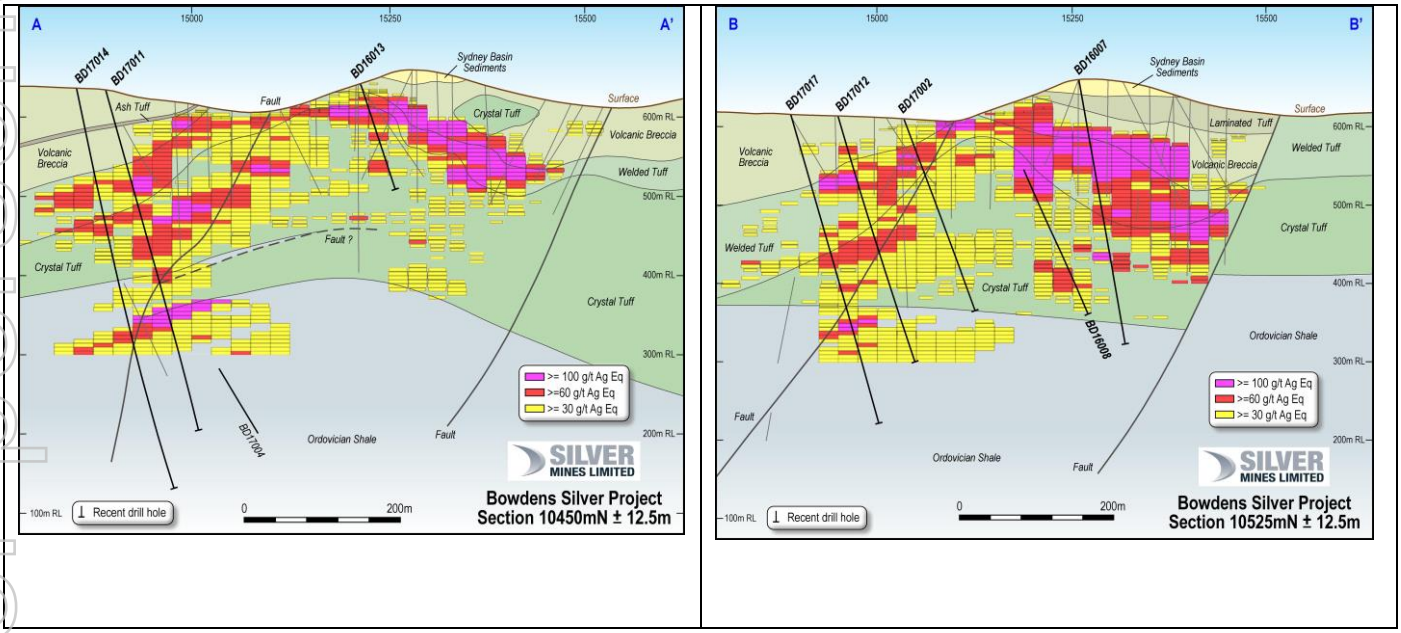


Figure 5. Cross-sections A (10450mN) and B (10525mN) through the northern portion of the Bowdens Silver Deposit.

Definitive Feasibility Study and Environmental Impact Statement

Bowdens Silver has had a very substantial body of work completed covering all aspects of the feasibility and environmental examination of a considerable silver/zinc/lead mine development. During the 2017 Financial Year, the Group continued works on the Bowdens Silver Definitive Feasibility Study with primary consultants GR Engineering, AMC and ATC Williams. Works during the year included:

- Geology, drilling and mineral resources;
- Mine planning and scheduling;

For personal use only

- Metallurgical testing;
- Flowsheet development;
- Process and plant design;
- Infrastructure;
- Environmental management;
- Water and tailings management; and
- Capital and operating cost assessment.

It is the Group's priority to finalise its Definitive Feasibility Study and Environmental Impact Statement which are targeted for completion in the first quarter of calendar 2018.

Government Commitment and Community Engagement

Throughout the 2017 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 commencing or proposing to commence exploration programs.

A new Community Consultative Committee will be established, as part of the requirements of the Department of Planning and Environment.

Webbs Silver Project

The Webbs Silver Project (EL 5674) is located in the New England region of northern New South Wales approximately 45 kilometres north of Glen Innes 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 2017 financial year, Silver Mines continued to review the Webbs Silver Project to assess exploration and other options 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 2017 financial year, the Group completed its acquisition of the Conrad Project from Malachite Resources Limited and the tenements were

For personal use only

transferred to Silver Mines. During the year, the Group commenced a review of the Conrad Project and began considering exploration and other options for the Conrad 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 both projects and as a result the resource estimates have not changed.

For historical mineral resource estimates for the Webbs & Conrad Projects, see pages 12 & 13.

Tuena Project

During the 2017 Financial Year, the Group was granted EL8526, being the Tuena Project tenement which is located to the south of Orange, New South Wales. The area is targeted for precious metals.

Tenement Information as at 30th June 2017

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%
ELA 5405	Bowdens Silver	NSW	application
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

Appointment of Director

On 16th June 2017, Mr Jonathan Battershill was appointed to the Board of Silver Mines Limited as a Non-Executive Director. Mr Battershill, whose qualifications are further outlined in the remuneration report, brings to the Group a substantial array of experience in the mining, business development and financial industries both in Australia and internationally.

Placement

In December 2016, Silver Mines successfully completed a placement to sophisticated investors raising A$5 million (net of costs) at $0.165 per share. This financing was utilised to make the final payment to Kingsgate Consolidated for the acquisition of the remaining 15% ownership of the Bowdens Silver Project.

For personal use only

Share Purchase Plan

In March 2017, Silver Mines conducted a Share Purchase Plan to existing shareholders, allowing them to purchase packages of shares valued at A$5,000, A$10,000 or A$15,000 at $0.165 per share. This Share Purchase Plan raised A$3 million (before costs). The funds raised under the Share Purchase Plan were allocated towards continued works at Bowdens Silver and for general working capital.

Minimum Shareholding Buy-Back

During the Financial Year, Silver Mines also conducted a minimum shareholding buy-back, for shareholders with parcels of shares valued at less than A$500. Under the buy-back, a total of 582,611 shares, held by 1,205 shareholders were bought back at $0.185 per share, and were cancelled by the Company.

RESULTS AND DIVIDENDS

The loss of the Group for the financial year after providing for income tax amounted to $2,278,907 compared to a loss of $5,478,483 for the previous year.

The Group incurred exploration and development expenditure of $9,085,266 during the year (2016: $26,873,486). The total net assets of the Group stands at $52,190,340 (2016: $46,873,519) of which investment in exploration expenditure accounts for $41,128,752 (2016: $32,043,486).

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

The Group has not had any 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

For personal use only

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.

Previous Bowdens Silver Mineral Resource Estimate

Bowdens Silver Deposit Mineral Resource Comparison October 2012 compared with September 2017 Estimates							
Category	**Tonnes (Mt)**	**Silver Eq. (g/t)**	**Silver (g/t)**	**Zinc (%)**	**Lead (%)**	**Million Ounces Silver**	**Million Ounces Silver Eq.**
Measured 2012	23.6	74.5	56.6	0.41	0.31	43	57
Measured 2017	75.7	72.0	45.5	0.37	0.25	111	175
Indicated 2012	28.4	63.6	48.0	0.36	0.27	44	58
Indicated 2017	29	58.8	31.4	0.38	0.25	29	55
Inferred 2012	36	58.0	41.0	0.4	0.30	47	68
Inferred 2017	23.2	59.9	30.6	0.4	0.28	23	45
Total 2012	88	64.4	47.4	0.39	0.29	134	182
Total 2017	**127.9**	**66.8**	**39.6**	**0.38**	**0.26**	**163**	**275**

Notes:
1. The October 2012 estimate was based on metal prices of US$26.33/oz silver, US$0.94/lb zinc and US$0.98/lb lead with net smelter return metallurgical recoveries of 72% silver, 66% zinc and 75% lead, giving a formula of Ag Eq (g/t) = Ag (g/t) + 27.5*Pb (%) + 22.8*Zn (%).
2. The 2017 silver equivalent is based on 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 and 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 300mRL which is approximately 320m below surface representing a potential volume for open-pit optimisation models.
4. In the Group's opinion, the silver, lead and zinc included in the metal equivalent calculations have a reasonable potential to be recovered and sold.
5. Variability of summation may occur due to rounding.

Historical Webb's Mineral Resource Estimate

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**

[1] 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.

[2] 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.

[3] 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.

[4] In the Group's opinion, the silver, lead, copper and zinc included in the metal equivalent calculations have a reasonable potential to be recovered.
[5] For clarification on the reporting of these results, see page 12.

For personal use only

Historical Conrad Mineral Resource Estimate

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

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

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

[2] Conrad silver equivalent is presented as calculated in the original release 16th December 2008 which were AgEq = Ag (g/t) + 22.5 Pb (%) + 20.0 Zn (%) + 73.3 Cu (%)+203.1 Sn (%) Based on a ratio of metal prices on 8th December 2008 of US$9.50 per oz Ag, US$1000/t Pb, US$1100/t Zn, US$3100/t Cu,US$11600/t Sn, estimated Net Smelter Return with factored process recoveries estimated by Malachite Resources on metallurgical testing and previous experience.

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

[4] For clarification on the reporting of these results, see page 12..

COMPETENT PERSONS STATEMENT

Bowdens Silver Resource Estimation

The information in this report that relates to mineral resources for the current Bowdens Silver Resource Estimate 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 Australian 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.

Bowdens Silver Exploration and Drill Results

The information in this report that relates to the Bowdens Silver drill hole intercepts and exploration in the Bowdens Silver area is based on information compiled by Scott Munro an employee of Bowdens Silver and a member of Australian Institute of Geoscientists (AIG) and Darren Holden the principal of GeoSpy Pty Ltd and a member of the Australasian Institute of Mining and Metallurgy (MAusIMM) respectively. Mr Munro and Mr Holden have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves' (JORC code). Mr Munro and Mr Holden consent to the inclusion in this report of the matters based on this information in the form and context in which it appears.

Webbs Silver Project and Conrad Silver Project

Technical information in this report that relates to exploration at the Webbs Silver Project and Conrads Silver Project is based on information reviewed by Mr Darren Holden, advisor to the Group and principal of GeoSpy Pty Ltd. Mr Holden is a Member of The Australasian Institute of Mining and Metallurgy (MAusIMM). Mr Holden has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mr Holden consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

For personal use only

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 - *Appointed 16th June 2017*
Nathan Featherby	Non-Executive Director - *Resigned 26th August 2016*

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. He is also a past director of Bolnisi Gold NL and European Gas Limited.

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

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

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

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

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 a Non-Executive Director of Silver Mines in June 2017.

For personal use only

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 companies Ochre Group Holdings Limited and 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, 4 meetings of directors were held:

	Meetings eligible to attend	Meetings attended
A McClure	4	4
K Perrett	4	4
P Langworthy	4	4
J Battershill	0	0
N Featherby (resigned)	0	0

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.

For personal use only

Performance based remuneration

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

Group performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. Currently, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The Group believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance-based bonuses based on key performance indicators are expected to be introduced. The Group has not employed any executive officers, other than directors, who were involved in, concerned in, or who took part in the management of the Group's affairs.

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

Key Service Agreements

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

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

Mr Peter Langworthy has entered into a non-executive director service agreement with the Group whereby he receives 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 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.

Mr Nathan Featherby The service agreement with Plage Mala Limited provided for the engagement of Nathan Featherby as a non-executive director of the Group for a monthly fee of $5,000. The agreement between Mr Featherby and the Group was terminated upon Mr Featherby's resignation on 26th August 2016.

Voting and comments made at the Group's 2016 Annual General Meeting (AGM).
At the 2016 AGM, 97.72% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2016. 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	
2017	$	$	$	$	$	$	$	$
Non-Executive Directors:								
K Perrett (Chairman)	80,000	-	-	-	-	-	-	80,000
P Langworthy	60,000	-	-	-	-	-	-	60,000

For personal use only

J Battershill	-	-	-	-	-	-	-	-
N Featherby (Resigned)	9,965	-	-	-	-	-	-	9,965
Executive Directors:								
A McClure	410,959	-	-	39,041	-	-	-	450,000
Other Key Management Personnel:								
T Franklin*	85,000	-	-	-	-	-	-	85,000
	645,924	**-**	**-**	**39,041**	**-**	**-**	**-**	**684,965**

	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**	
2016	$	$	$	$	$	$	$	$
Non-Executive Directors:								
K Perrett (Chairman)	-	-	-	-	-	-	-	-
P Langworthy	-	-	-	-	-	-	-	-
J Battershill	-	-	-	-	-	-	-	-
N Featherby (Resigned)	248,750	-	-	-	-	-	-	248,750
Executive Directors:								
A McClure	-	-	-	-	-	-	-	-
Other Key Management Personnel:								
T Franklin**	51,000	-	-	-	-	-	-	51,000
	299,750	**-**	**-**	**-**	**-**	**-**	**-**	**299,750**

* Fees payable to Mr Franklin are paid to Enrizen Accounting Pty Ltd and encompass Company Secretarial as well as accounting services to the Group.

** Mr Franklin was appointed as Company Secretary in February 2016.
See Note 14 of the Notes to the Financial Statements regarding related party transactions.

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, including their personally related parties, is set out below:

For personal use only

Ordinary shares	Balance 30 June 2016	Net change due to directors' resignations	Net change of associated entities	Balance 30 June 2017
Directors				
D Sutton (resigned)	115,792	(115,792)		-
C Straw (resigned)	23,935	(23,935)		-
J Naughton (resigned)	250,000	(250,000)		-
D Flinn (resigned)	356,044	(356,044)		-
A McClure	17,875,000	-	-	17,875,000
K Perrett	1,000,000	-	-	1,000,000
P Langworthy	500,000	-	-	500,000
J Battershill	-	-	-	-
N Featherby (resigned)	-	-	-	-
Specified executives				
T Franklin	-	-	1,000,000	1,000,000

Employee options	Balance 30 June 2016	Net change due to directors' resignations	Options lapsed/written off	Net change other	Balance 30 June 2017
Directors					
D Flinn (i) (resigned)	62,418	(62,418)	-	-	-
P Langworthy (i)	1,000,000	-	-	-	1,000,000
K Perrett (i)	500,000	-	-	-	500,000
Specified executives					
T Franklin	-	-	-	-	-

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:

(i) Conditions of options: unlisted with an exercise price of $0.30 and expiry date of 20th June 2019.

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.

For personal use only

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.

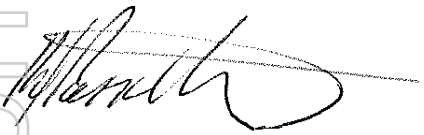
AUDITORS INDEPENDENCE DECLARATION

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.

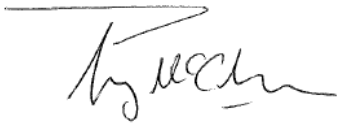
Events subsequent to reporting date

No 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

29th September 2017

For personal use only

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

Audit and Assurance Services

Level 15 1 O'Connell Street
Sydney NSW 2000
Australia

Tel +61 2 9262 2155
Fax +61 2 9262 2190

www.crowehorwath.com.au

29 September 2017

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 2017, 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

Crowe Horwath Sydney is a member of Crowe Horwath International, a Swiss verein. Each member of Crowe Horwath is a separate and independent legal entity. Liability limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees.

For personal use only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	2017 $	2016 $
Revenue	55,643	-
Cost of sales	(27,008)	-
Gross Profit from continuing operations	**28,635**	**-**
Other income	5,603	-
Share registry and exchange fees	(171,614)	(157,661)
Auditors	(77,000)	(27,300)
Marketing	(98,268)	(247,239)
Office expenses	(67,637)	(311,730)
IT and communication	(15,838)	(14,224)
Depreciation	(250,848)	(8,949)
Accountancy	(85,000)	(218,962)
Professional and technical advisors	(616,258)	(3,419,758)
Employee benefits expenses	(641,595)	-
Travel and accommodation	(157,814)	(449,690)
Impairment of exploration assets	-	(45,106)
Impairment of investments	-	(50,000)
Loss on investment	-	(97,702)
Option expense	-	(18,182)
Other expenses	(93,209)	(164,851)
Loss from continuing operations before interest and income tax	(2,240,842)	(5,231,354)
Interest income	65,816	12,962
Finance costs	(103,880)	(260,091)
Loss from continuing operations before income tax	(2,278,907)	(5,478,483)
Income tax	-	-
Loss from continuing operations after income tax	(2,278,907)	(5,478,483)
Comprehensive income	-	-
Total comprehensive income (loss) (attributable to owners of the company)	**(2,278,907)**	**(5,478,483)**
Earnings per share		
Basic & diluted earnings per share	(0.63)	(12.2)

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

For personal use only

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	2017 $	2016 *Restated $
Current assets			
Cash and cash equivalent	3	3,641,237	11,557,239
Receivables	4	281,387	2,472,002
Inventory - livestock	5	170,794	117,550
Total current assets		**4,093,418**	**14,146,791**
Non-current assets			
Financial assets	6	50,000	150,000
Deferred exploration and development	7	41,128,752	32,043,486
Intangible assets	8	875,000	-
Land and buildings	9	7,718,031	7,805,381
Property, plant and equipment	10	500,922	180,896
Total non-current assets		**50,272,705**	**40,179,763**
Total assets		**54,366,123**	**54,326,554**
Current liabilities			
Payables	11	2,045,938	7,406,458
Employee provisions	12	129,845	46,577
Total current liabilities		**2,175,783**	**7,453,035**
Total liabilities		**2,175,783**	**7,453,035**
Net assets		**52,190,340**	**46,873,519**
Equity			
Contributed equity	13	71,097,814	63,502,086
Reserve		4,000,000	4,000,000
Accumulated losses		(22,907,474)	(20,628,567)
Total Equity		**52,190,340**	**46,873,519**

*Refer to note 1g for details regarding the restatement as a result of an amendment.

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

For personal use only

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Ordinary Shares $	Share capital reserve $	Accumulated losses $	Total $
Balance at 1 July 2015		**19,884,707**	**-**	**(15,150,084)**	**4,734,623**
Transactions with owners, in their capacity as owners					
Placement of shares		45,957,166	-	-	45,957,166
Cost of funds raised		(2,339,787)			(2,339,787)
Total transactions with owners, in their capacity as owners		43,617,379	-	-	43,617,379
Comprehensive income for period					
Loss attributable to owners of the company		-	-	(5,478,483)	(5,478,483)
Total comprehensive income for the period		-	-	(5,478,483)	(5,478,483)
Balance at 30 June 2016		**63,502,086**	**-**	**(20,628,567)**	**42,873,519**
Balance at 1 July 2016		**63,502,086**	-	**(20,628,567)**	**42,873,519**
Restated	1(g)	**-**	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)
Costs 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	13	**71,097,814**	**4,000,000**	**(22,907,474)**	**52,190,341**

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

For personal use only

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers (inclusive GST)		59,449	-
Payments to suppliers & employees (inclusive GST)		(4,328,621)	(2,887,162)
Interest received		65,816	12,962
Finance costs		(103,880)	(260,091)
Net cash outflows from operating activities		(4,306,236)	(3,134,291)
Cash flows from investing activities			
Payment for purchase of inventory		-	(117,550)
Payments for deferred exploration		(11,819,660)	(16,482,017)
Payment to acquire intangible		(875,000)	(102,298)
Payment for property, plant and equipment		(487,079)	(7,986,277)
Proceeds from sale of property, plant and equipment		2,273	-
Net cash outflows from investing activities		(13,179,465)	(24,688,142)
Cash flows from financing activities			
Proceeds from issues of shares		10,290,906	41,957,167
Payments for share buy-back		(107,784)	-
Payments for capital raising costs		(613,424)	(2,339,787)
Payment of borrowings		-	(288,126)
Net cash inflows from financing activities		9,569,699	39,329,254
Net (decrease)/increase in cash and cash equivalent		**(7,916,003)**	**11,506,821**
Cash and cash equivalent at the beginning of the financial year		11,557,239	50,418
Cash and cash equivalent at the end of the financial year	3	**3,641,237**	**11,557,239**

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

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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, costs based on the progression of the recent acquisition of Bowdens Silver Pty Limited and the further development of the Group's purchase of tenements along with exploration.

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

c. Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Silver Mines Limited as at 30 June 2017 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.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The consolidated entity has adopted all of the new revised or amended Accounting Standards and Interpretations issued by the Australia Accounting Standards Board (AASB) that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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.

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

The critical estimates and judgments are consistent with those applied and disclosed in the June 2016 annual report.

***g*. Restated interpretation in accounting for asset acquisition**

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 Company are to be issued as a deferred consideration upon completion of project milestones. On review of the accounting treatment, the Company determined that the recognition of the deferred consideration should be amended by including $4,000,000 into non-current assets, along with corresponding increase in the share capital reserve.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2: INCOME TAX

(a) Reconciliation of income tax expense to prima facie tax payable	**2017 $**	**2016 $**
Operating loss before income tax	**(2,278,907)**	**(5,478,483)**
Prima facie income tax benefit/(expense) at 30% on operating profit/(loss)	622,361	1,643,545
Add tax effect of:		
Tax losses and temporary differences not recognised	(622,361)	(1,643,545)
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) There is no amount of tax benefit recognised in equity as the tax effect **of temporary differences has not been booked**

(c) Tax losses

Unused tax losses for which no tax loss has been booked as a deferred tax asset adjusted for non temporary differences	24,284,330	21,600,029
Potential tax benefit at 27.5%	6,678,190	5,940,008

(d) Unrecognised temporary differences

Non deductible amounts as temporary differences	-	-
Accelerated deductions for book compared to tax	-	-
Total	6,678,190	5,940,008
Potential effect on future tax expense	6,678,190	5,940,008

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

Current	**2017 $**	**2016 $**
Cash at bank and on hand	3,641,237	11,557,239

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4: RECEIVABLES

	2017 $	2016 $
Current		
Outstanding deposit	-	1,973,972
Sundry debtors	281,387	498,030
	281,387	2,472,002

Outstanding deposit relates to funds from June 2016 Placement received after 30 June 2016. Sundry debts comprise of GST refundable amounting to $266,176 (2016: $498,030) and prepayment amounting to $15,211 (2016: Nil).

NOTE 5: INVENTORY - LIVESTOCK

	2017 $	2016 $
Current		
Livestock	170,794	117,550

NOTE 6: FINANCIAL ASSETS

	2017 $	2016 $
Non-current		
Performance guarantee bonds	50,000	150,000

NOTE 7: DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE

	2017 $	2016 $
Non-current		
Exploration expenditures		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phase		
Opening balance	32,043,486	5,170,000
Expenditure in the period	9,085,266	26,873,486
Closing balance	41,128,752	32,043,486

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.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

	2017 $	2016 $
Non-current		
Opening balance	-	-
Additions	875,000	-
Disposals	-	-
Closing balance	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 $875,000. 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

	2017 $	2016 $
Non-current		
Properties at cost	8,140,619	8,134,619
Accumulated Depreciation	(422,588)	(329,238)
	7,718,031	7,805,381

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 2015	-	-	-	-
Additions through business acquisitions	7,181,532	237,836	386,013	7,805,381
Depreciation expense	-	-	-	-
Balance at 30 June 2016 and 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	231,086	305,413	7,718,031

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

	2017 $	2016 $
Plant and equipment - at cost	661,541	180,896
Less: accumulated depreciation	(160,145)	-
	500,922	180,896

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 1 July 2015	-	-	-	-	-	-
Additions through business acquisitions	85,618	46,842	33,380	15,057	-	180,896
Depreciation expense	-	-	-	-	-	-
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	87,793	125,839	274,667	10,998	1,625	500,922

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.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

	2017	2016
Current	**$**	**$**
Trade creditors and accruals	2,045,938	2,406,458
Other creditors	-	5,000,000
	2,045,938	7,406,458

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.

Other creditors as at 30th June 2016 amounted to $5,000,000 which was paid to Kingsgate Consolidated Limited for the remaining 15% of the Bowdens Silver Project. A payment of $1,000,000 was paid on 30th September 2016, and the remaining $4,000,000 of the purchase price was paid on 23rd December 2016.

NOTE 12: EMPLOYEE PROVISIONS

	2017	2016
	$	**$**
Current - employee provisions	129,845	46,577

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.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13: CAPITAL AND RESERVES

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$
1-Jul-15		**692,922,714**		**19,884,707**
15-Jul-15	Option Conversion	20,000	0.01	200
1-Sep-15	Rights Issue	2,771,770,856	0.001	2,771,771
19-Oct-15	Option Conversion	875	0.01	9
19-Oct-15	Rights Issue	1,197,003,500	0.001	1,197,004
2-Dec-15	Placement	50,000,000	0.001	50,000
5-Feb-16	Placement	375,000,000	0.0015	562,500
5-Feb-16	Placement	150,000,000	0.001	150,000
5-Feb-16	Placement	77,056,191	0.001622	125,000
9-Feb-16	Option Conversion	33,000	0.003	99
29-Feb-16	Placement	522,910,809	0.0015	784,366
7-Apr-16	Placement	877,454,916	0.0015	1,316,182
	Pre-Consolidation 100:1*	*6,714,172,861*	-	*26,841,823*
10-Jun-16	***Post-Consolidation 100:1****	*67,142,076*	-	*26,841,823*
21-Jun-16	Placement	233,333,567	0.15	35,000,050
21-Jun-16	Placement	40,000,000	0.1	4,000,000
30-Jun-16	Capital Raising costs			(2,339,787)
30-Jun-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**

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

(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 2017 details of Listed and Unlisted Options are as follows:

Details	Number	Exercise price	Expiry date
Listed options	23,393,614	$0.30	13-Oct-17
Listed options	10,705,000	$0.30	20-Jun-18
Unlisted options	8,000,000	$0.30	20-Jun-19
Total	**42,098,614**		

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13: CAPITAL AND RESERVES (continued)

	2017 Number	2016 Number
Movements in options		
Balance at the beginning of the financial year	38,951,614	97,500,135
Options lapsed	-	(91,700,135)
Options exercised	-	(53,875)
Options issued pre-consolidation	-	2,340,387,178
Pre-consolidated total	-	**2,346,133,303**
Consolidation 100:1*	-	23,451,614
Options issued post-consolidation	3,205,000	15,500,000
Options lapsed post-consolidation	(58,000)	-
Balance at the end of the financial year	**42,098,614**	**38,951,614**

** Differences are due to post-consolidated rounding.*

(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 2015	-
Deferred consideration as part of the consideration for the purchase of SIHA	4,000,000
Balance at 30 June 2016	4,000,000
Movement during the year	-
Balance at 30 June 2017	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.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13: CAPITAL AND RESERVES (continued)

Minimum Shareholding Buy-Back

During the Financial Year, Silver Mines also conducted a minimum shareholding buy-back, for shareholders with parcels of shares valued at less than A$500. Under the buy-back, a total of 582,611 shares, held by 1,205 shareholders were bought back at $0.185 per share, and were cancelled by the Company.

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
Nathan Featherby	Non-Executive Director (Resigned 26th August 2016)

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

	2017 $	2016 $
Short-term employee benefits	705,924	299,750
Post-employment benefits	39,041	-
	744,965	299,750

(b) Trading transactions

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

(i) Ochre Group Holdings Limited (OGH), an entity associated with Nathan Featherby, received $632,500 (2016: $838,428) in relation to strategic advice provided to the Group. As at balance date the Group owed $Nil (2016: $550,000) to OGH.

(ii) Mancora Capital Pty Ltd (Mancora), an entity controlled by Mr Nathan Featherby, received $72,243 (2016: $43,923) in relation to corporate advisory services to the Group. As at balance date the Group owed $Nil (2016: $72,243) to Mancora.

(iii) Enrizen Capital Pty Ltd, (EC) an entity associated with Trent Franklin, was issued 1 million fully paid ordinary shares in the Company at an issue price of $0.15. EC received $300,000 (2016: $65,972) in relation to capital raising and underwriting services to the Group. As at balance date the Group owed $Nil (2016: $150,000) to EC.

(iv) Enrizen Pty Ltd, (EPL) an entity associated with Trent Franklin, was paid $900 (2016: $948) in relation to insurance services to the Group. As at balance date the Group owed $Nil (2016: $990) to EPL.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 14: RELATED PARTY TRANSACTIONS (Continued)

(v) Enrizen Lawyers Pty Ltd, (EL) an entity associated with Trent Franklin, was paid $44,151 (2016: $825) in relation to legal services provided to the Group. As at balance date the Group owed nil to EL.

Enrizen Accounting Pty Ltd (EA), an entity associated with Trent Franklin, was paid $93,150 (2016: Nil) in relation to company secretarial and accounting services provided to the Group. As at balance date the Group owed $350 (2016: Nil) to EA.

(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	established 8 August 2016
Tuena Resources Pty Ltd	established 8 August 2016
Webbs Resources Pty Ltd	established 8 August 2016

All the new subsidiaries were established during the year and were not acquired.

NOTE 15: PARENT ENTITY INFORMATION

Statement of profit or loss and other comprehensive income

	Parent	
	2017 $	**2016 $**
Profit (loss) after income tax	(1,707,497)	(5,478,483)
Total comprehensive income/(loss)	(1,707,497)	(5,478,483)

Statement of financial position

	Parent	
	2017 $	**2016 $**
Total current assets	2,965,729	21,071,675
Total assets	52,929,749	49,124,977
Total current liabilities	201,001	6,251,458
Total liabilities	201,001	6,251,458
Equity		
Issued capital	75,097,814	63,502,087
Retained profits	(22,336,066)	(20,628,568)
Total equity	52,728,748	42,873,519

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

	2017 $	2016 $
Operating (loss)/profit after income tax	(2,278,907)	(5,478,483)
Depreciation	250,848	8,949
Write-off/loss of investment	-	147,702
	(2,028,059)	(5,321,832)
Movements in working capital:		
Increase/(decrease) in receivables and prepayments	(1,550,504)	2,521,143
Increase/(decrease) in payables and provision	(727,673)	(333,602)
Net cash outflows from operating activities	**(4,306,236)**	**(3,134,291)**

NOTE 17: FINANCIAL INSTRUMENT DISCLOSURES

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

Risk management is carried out by the company secretary under policies approved by the Board of Silver Mines.

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

(a) Market risk

(i) Foreign exchange risk

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

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

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

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

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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		
	%	$	$	$	$	$
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**

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 17: FINANCIAL INSTRUMENT DISCLOSURES (continued)

	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturing		Non-interest bearing	Total
			Within 1 year	Over 1 year		
	%	$	$	$	$	$
2016						
FINANCIAL ASSETS						
Cash assets		11,557,239	-	-	-	11,557,239
Performance guarantee bonds	3.1	-	-	100,000	50,000	150,000
Other financial assets		-	-	-	2,472,002	2,472,002
		11,557,239	-	100,000	2,522,002	14,179,241
FINANCIAL LIABILITIES						
Payables (current)		-	-	-	(7,406,458)	(7,406,458)
Borrowings (current)		-	-	-	-	-
Payables (non-current)		-	-	-	-	-
		-	-	-	(7,406,458)	(7,406,458)
NET FINANCIAL ASSETS/(LIABILITIES)		**11,557,239**	**-**	**100,000**	**(4,884,456)**	**6,772,783**

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

	2017 $	2016 $
Net financial assets per above	1,926,685	6,772,783
Inventory (current)	170,794	117,550
Plant & equipment	500,922	180,896
Land & buildings	7,718,031	7,805,381
Intangible assets	875,000	-
Deferred exploration & development	41,128,752	32,043,486
Employees provision	(129,845)	(46,577)
Net assets per statement of financial position	**52,190,339**	**46,873,519**

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 17: FINANCIAL INSTRUMENT DISCLOSURES (continued)

(c) Credit risk

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

(d) Liquidity risk

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

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

(e) Net fair values

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

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

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

(f) Sensitivity analysis

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

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 18: EARNINGS PER SHARE

	2017 Cents	2016 Cents
Basic earnings per share	(0.63)	(12.22)
Diluted earnings per share	(0.63)	(12.22)
	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	**360,378,354**	**45,085,499**
	$	**$**
Reconciliation of earnings used in calculating basic and diluted earnings per share		
Earnings used in calculating basic and diluted earnings per share	**(2,278,907)**	**(5,478,483)**

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:

	2017 $	2016 $
Audit services - Crowe Horwath Sydney (2016: Moyes Yong & Co)		
Audit or review of the financial statements	53,000	51,300
Other services - Crowe Horwath Sydney		
Preparation of the tax advice	10,975	-
	63,975	51,300

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 20: COMMITMENTS

	2017 $	2016 $
Capital commitments-option		
Committed at the reporting date but not recognised as liabilities, payable:		
Intangible assets	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	4,395,000	649,000

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

No 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.

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

For personal use only

DIRECTORS' DECLARATION

The directors declare that:

1 The financial statements and notes, as set out on pages 22 to 42 are in accordance with the *Corporations Act 2001* and:

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

(b) give a true and fair view of the financial position as at 30th June 2017 and of the performance for the year ended on that date of the Group and economic entity.

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

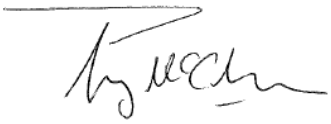
(c) the financial statements and notes for the financial year give a true and fair view.

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

29th September 2017

For personal use only

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

Audit and Assurance Services

Level 15 1 O'Connell Street
Sydney NSW 2000
Australia

Tel +61 2 9262 2155
Fax +61 2 9262 2190

www.crowehorwath.com.au

For personal use only

Silver Mines Limited

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 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 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 2017 and of its financial performance for the year then ended;
(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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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.

Crowe Horwath Sydney is a member of Crowe Horwath International, a Swiss verein. Each member of Crowe Horwath is a separate and independent legal entity. Liability limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees.

For personal use only

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 of the financial report	
The Group has a significant exploration asset, 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 requires significant judgement, as follows: ▪ 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 and concluding that it is consistent with the requirements of AASB 6 *Exploration 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 is 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.
Exploration assets are required to be tested for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Examples of impairment indicators include: ▪ 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 directors' assumptions that support the evaluation of impairment indicators by: ▪ Reviewing the Group's budgets and drilling programs and assessing whether it covers the committed expenditure before the expiry date. ▪ Ensuring that substantive exploration and development expenditure is planned and budgeted for each tenement. ▪ Assessing the Group's capacity to fund future committed exploration expenditure. ▪ Obtained the Resource Authority Public Report to verify the Group's ownership interest for each of the tenements to which the exploration expenditure relates

For personal use only

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 2017, but does not include the financial report and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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.

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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 19 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Silver Mines Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

For personal use only

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



LEAH RUSSELL
Senior Partner

Dated at Sydney this 29th day of September 2017

ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 27 SEPTEMBER 2017

At 27 September 2017 the issued capital in the Company was comprised of:

- 390,298,856 fully paid ordinary shares held by 2,734 holders;
- 23,393,614 listed options held by 537 holders, with an exercise price of $0.30 and an expiry date of 13 October 2017 (**SVLO**);
- 10,705,000 listed options held by 72 holders, with an exercise price of $0.30 and an expiry date of 20 June 2018 (**SVLOA**); and
- 7,000,000 unlisted options held by 6 holders, with an exercise price of $0.30 and an expiry date of 20 June 2019.

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 27 September 2017, the Company has 633 shareholders whose holdings are less than a marketable parcel of shares (total value of A$500, assuming a share price of $0.098).

Substantial shareholders at 27 September 2017
Silver Mines Limited has the following substantial shareholders:

Holder	Shares	%
BlackRock Group (BlackRock Inc and its subsidiaries)	35,484,533	9.09
Paradice Investment Management Ltd	20,000,000	5.12

20 Largest Holders of Ordinary Shares and their holdings at 27 September 2017

1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	37,981,762	9.731%
2.	NATIONAL NOMINEES LIMITED	22,970,599	5.885%
3.	CITICORP NOMINEES PTY LIMITED	21,906,135	5.613%
4.	UBS NOMINEES PTY LTD	10,941,118	2.803%
5.	J P MORGAN NOMINEES AUSTRALIA LIMITED	9,099,872	2.332%
6.	MR ANTHONY MCCLURE	8,687,500	2.226%
7.	GASCOYNE HOLDINGS PTY LTD	7,000,000	1.793%
8.	COOLHAND NOMINEES PTY LIMITED	6,666,667	1.708%
9.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	6,473,965	1.659%
10.	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	6,192,981	1.587%
11.	PERTH SELECT SEAFOODS PTY LTD	6,000,000	1.537%
12.	BNP PARIBAS NOMS PTY LTD	5,986,969	1.534%
13.	MS GEORGINA SUSAN KING	5,712,500	1.464%
14.	BT PORTFOLIO SERVICES LIMITED	5,000,000	1.281%
15.	NATIONAL NOMINEES LIMITED	4,671,667	1.197%
16.	PALMER BOOKMAKING PTY LIMITED	4,346,157	1.114%
17.	FAROUK AND ASSOCIATES FZE	3,600,000	0.922%
18.	VICTOR M LEWIS PTY LTD	3,500,000	0.897%
19.	SENECA SECURITIES PTY LTD	3,478,918	0.891%
20.	CITICORP NOMINEES PTY LIMITED	3,306,788	0.847%

For personal use only

Distribution of holders and holdings at 27 September 2017

Fully paid ordinary shares:

Holdings Ranges	Holders	Total Units	%
1-1,000	196	50,235	0.013
1,001-5,000	432	1,626,978	0.417
5,001-10,000	439	3,587,687	0.919
10,001-100,000	1,230	49,392,657	12.655
100,001-99,999,999,999	437	335,641,299	85.996
Totals	**2,734**	**390,298,856**	**100.000**

For personal use only

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 29th September 2017.

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

Charters:
Board
Audit Committee
Nomination Committee
Remuneration Committee

Policies and Procedures:
Code of Conduct
Continuous Disclosure
Selection and Appointment of New Directors
Trading in Company Securities
Assessing the Independence of Directors
Independent Professional Advice
Selection, Appointment and Rotation of External Auditor
Performance Evaluation of the Board, Board Committees, Individual Directors and Key Executives
Compliance Strategy (summary)
Shareholder Communication Strategy
Risk Management Policy

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

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1 - A listed entity should disclose:

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

The Group has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Board Charter, which is disclosed on the Group website.

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

For personal use only

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.

For personal use only

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	3 out of 7 (43%)
Across the whole organisation	8 out of 30 (27%)

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 2016/2017 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 2016/ 2017 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

For personal use only

(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 29 September (approx.)	Independence status
Anthony McClure	20th June 2016	1 year 3 months	Executive
Keith Perrett	20th June 2016	1 year 3 months	Independent Non-Executive

For personal use only

Peter Langworthy	20th June 2016	1 year 3 months	Independent Non-Executive
Jonathan Battershill	16th June 2017	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 2017, 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.

For personal use only

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 2017, 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).

For personal use only

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.

For personal use only

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 2017 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.

For personal use only