

29<sup>th</sup> July 2016

Company Announcement Officer  
ASX Limited  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

## **ACTIVITIES REPORT FOR THE QUARTER ENDED**

**30 JUNE 2016**

### **Highlights**

- **Acquisition and financing confirm Silver Mines' position as Australia's pre-eminent silver company**
- **Completion of purchase of Bowdens Silver Project**
- **A\$35.0 million placement completed**
- **Company is fully funded for the recommencement of activities at Bowdens Silver**
- **Planning is advanced for Feasibility Study and Environmental Impact Statement recommencement**
- **Planning well advanced for exploration activities**
- **Drilling to commence in the current quarter with a focus on resource expansion and upgrade**
- **Board and management changes and reorganisation**

### **Acquisition of Bowdens Silver Project**

The Bowdens Silver Project ("Bowdens Silver") is located in central New South Wales, approximately 26 kilometres east of Mudgee. See Figure 1. The recently consolidated Project area comprises 1,654 km<sup>2</sup> (408,000 acres) of titles covering approximately 80 kilometres of strike of the highly mineralised Rylstone Volcanics. Multiple target styles and mineral occurrences have potential throughout the district including analogues to Bowdens Silver, silver-lead-zinc epithermal and volcanogenic massive sulphide (VMS) systems and copper-gold targets.

Bowdens Silver is the largest undeveloped silver deposit in Australia with substantial resources.<sup>1</sup> A considerable body of high quality technical work has already been completed. The Projects boasts outstanding logistics for future mine development.

On 3<sup>rd</sup> March 2016, Silver Mines Limited (“Silver Mines” or “the Company”) announced it had entered into a Sale and Purchase Agreement (“the Agreement”) whereby it would acquire 85% of the Bowdens Silver from Kingsgate Consolidated Limited (“Kingsgate Consolidated”) for a total cash consideration of A\$20 million.<sup>2</sup> Under the Agreement Silver Mines and Kingsgate Consolidated would operate the Project on an unincorporated Joint Venture basis.

The purchase of Bowdens Silver was completed on 29<sup>th</sup> June 2016 through the payment of A\$18 million with A\$2 million having been previously paid by way of a deposit.

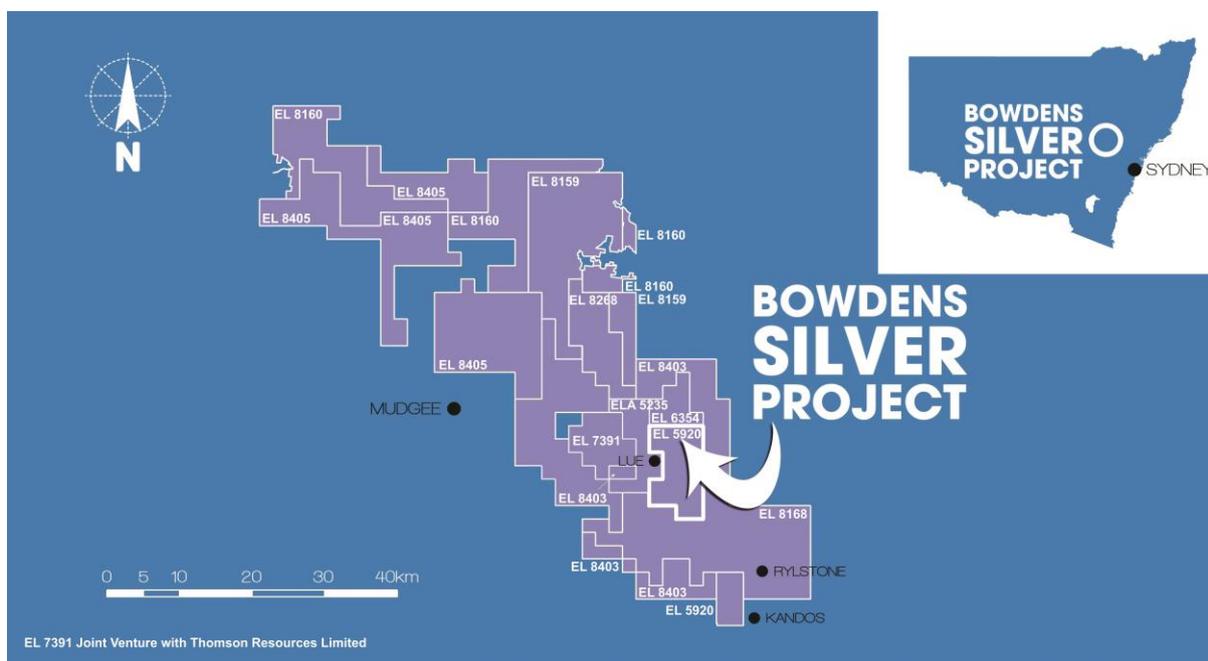


Figure 1. Bowdens Silver tenement holdings in the Mudgee district.

### **Purchase of Outstanding 15% Interest in Bowdens Silver**

Also on 29<sup>th</sup> June 2016, the Company advised that it has entered into a Deed of Variation with Kingsgate Consolidated whereby:

- The acquisition price for the purchase of 100% of Bowdens Silver was varied to A\$25 million;
- Silver Mines now owns 100% of Bowdens Silver;
- Silver Mines will pay the balance of A\$5 million by 30<sup>th</sup> September 2016, or such other date as may be agreed; and

1. Refer to the Bowdens Mineral Resource Estimate completed by MPR Geological Consultants as at October 2013 with summary table appended to this report.

2. Refer to the Company’s announcement of 21<sup>st</sup> June 2016 for further details.

- Should the Company elect not to complete the final payment, the parties will form an unincorporated Joint Venture as originally contemplated under the Agreement.

The acquisition of the outstanding 15% interest in the Bowdens Silver resulted in the immediate expansion of the Company's attributable resource base. The consolidation simplifies and allows substantially greater flexibility around developing and financing the Bowdens Silver.

### **Bowdens Silver Work Programs**

The Company's immediate focus is on recommencing work related to the Feasibility Study and the Environmental Impact Statement (EIS). Planning is advanced for the recommencement of activities with a target of pre-feasibility completion towards the end of the current half year and EIS completion during the first half 2017.

### **Feasibility Study**

Bowdens Silver has had a very substantial body of work completed covering all aspects of mine development. The components of the Feasibility Study are currently being revised and evaluated in conjunction with the Company's consultants.

The priority for Silver Mines is to fast-track mine development. Part of the reassessment of the project and the feasibility works is to examine a more capital cost effective development with enhanced project economics. Pre-feasibility works are expected to be completed by end of the current half year.

### **Environmental Impact Study**

Environmental Impact Study work to date has been comprehensive. Many elements requiring significant lead time have mostly been completed or are well advanced allowing the Company to expedite lodgement.

Planning for the revision and update of the previous work is advanced and will comprise certain modifications to align with the Feasibility Study program.

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

The Company is targeting Environmental Impact Statement lodgement in first half 2017.

### **Upcoming Drilling and Exploration Programs**

Planning is well advanced for the commencement of a significant drilling campaign. The focus of the program includes:

- Increase silver resources within and in the immediate vicinity of the current resource area;

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

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

The first drilling program is expected to commence during the current quarter. Further details including descriptions of priority targets will be provided as work programs commence.

### **Community Engagement**

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

### **Other Projects**

No work was undertaken during the quarter on the Webbs or Conrad project. A technical review program will be undertaken during the current quarter as the Company assesses exploration options for these projects.

The Tuena Project is a new tenement application located to the south of Orange, New South Wales.

### **Corporate**

#### **Share Placement**

As announced on 21<sup>st</sup> June 2016, Silver Mines successfully completed a capital raising of A\$35.0 million ("Placement").

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

Bell Potter Securities acted as Lead Manager to the Placement with strong international and domestic support from institutional resource funds as well as professional and sophisticated investors.

### **Capital Consolidation**

As approved by Shareholders at and a General Meeting on 6<sup>th</sup> June 2016, the Company's capital has been consolidated on a 100:1 basis. Please refer to the accompanying Appendix 5B detailing the post consolidated issued capital as 30<sup>th</sup> June 2016.

### **Board of Directors and Management Changes**

During the June 2016 quarter, the Company advised of the following appointments and other changes to the Board of Directors.

#### **Mr Anthony John McClure**

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

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

Mr McClure joins the Board of Silver Mines as Managing Director.

#### **Peter James Langworthy**

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 led 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 joins the Board of Silver Mines as a Non-Executive Director.

#### **Keith Gascoyne Perrett**

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 holds substantial agricultural interests in north-west New South Wales.

Mr Perrett joins the Board of Silver Mines as a Non-Executive Director.

### **Director Resignations**

As part of the transition of the Company, during the quarter, Mr Darren Holden, Mr Charles Straw and Mr Saxon Ball resigned as Directors of Silver Mines. Mr Holden remains a technical consultant to the Company.

### **Further Changes**

Further changes to the Board of Directors are expected during the current quarter.

Yours faithfully  
Silver Mines Limited

A handwritten signature in black ink, appearing to read "Trent Franklin", written in a cursive style.

Trent Franklin  
Company Secretary

### **About Silver Mines Limited**

*The Silver Mines strategy has been to consolidate quality silver deposits in New South Wales and to form Australia's pre-eminent silver company.*

*The Company's goal is to provide exceptional returns to shareholders through the acquisition, exploration and development of quality silver projects and maximising leverage to an accretive silver price.*

## Appendix: Bowdens Mineral Resource Estimate

Bowdens Mineral Resource Estimate (30g/t AgEq cut-off), November 2012 <sup>3</sup>							
Resource Category	Tonnes (Million)	Silver (g/t)	Lead (%)	Zinc (%)	Ag Eq (g/t)	Silver (Moz)	Ag Eq (Moz)
Measured	23.6	56.6	0.31	0.41	74.5	43.0	57
Indicated	28.4	48.0	0.27	0.36	63.6	43.8	58
<b>Meas + Ind</b>	<b>52.0</b>	<b>51.9</b>	<b>0.29</b>	<b>0.38</b>	<b>68.6</b>	<b>86.8</b>	<b>115</b>
Inferred	36	41	0.3	0.4	58	47.5	68
<b>Total</b>	<b>88.0</b>	<b>47.4</b>	<b>0.29</b>	<b>0.39</b>	<b>64.4</b>	<b>134.1</b>	<b>182</b>

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

- a) *Bowdens silver equivalent: Ag Eq (g/t) = Ag(g/t) + 27.5 x Pb(%) + 22.8 x Zn (%) calculated from prices of US\$26.33/oz Ag, US\$2206/t Pb, US\$2111/t Zn and NSR metallurgical recoveries of 72% Ag, 75% Pb, and 66% Zn estimated from test work by Kingsgate Consolidated. NSR or net smelter return metallurgical recovery is defined as the payable metal recovered after allowing for smelter deductions, which includes deductions for precious metals.*
  - b) *As at reporting date it was the company's opinion, the silver, lead and zinc included in the metal equivalent calculations have a reasonable potential to be recovered.*
1. *Silver Mines confirms that it is not aware of any new information received since the original disclosure (Kingsgate Consolidated announcement 18<sup>th</sup> October 2013) or data that materially affects the information included in this table. The Company confirms that all material assumptions and technical parameters underpinning the mineral resource estimates continue to apply and have not materially changed.*

## Competent Persons Statements

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

Other technical information in this report that relates to Exploration Results is based on information compiled by Mr Darren Holden, Consultant to Silver Mines. Mr Holden is a Member of The Australasian Institute of Mining and Metallurgy. Mr Holden has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mr Holden consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

**Tenement Information as at 30 June 2016:**

<b>Tenement</b>	<b>Project Name</b>	<b>Location</b>	<b>Silver Mines Ownership</b>	<b>Change in Quarter</b>
EL5920	Bowdens Silver	NSW	100%	100%
EL 6354	Bowdens Silver	NSW	100%	100%
EL 8159	Bowdens Silver	NSW	100%	100%
EL 8160	Bowdens Silver	NSW	100%	100%
EL 8168	Bowdens Silver	NSW	100%	100%
EL 8268	Bowdens Silver	NSW	100%	100%
EL 7391 <sup>1</sup>	Bowdens Silver	NSW	0%	-
EL 5674	Bowdens Silver	NSW	100%	-
EL 8403	Bowdens Silver	NSW	100%	-
EL 8405	Bowdens Silver	NSW	100%	-
ELA 5235	Bowdens Silver	NSW	application	-
ELA 5257	Tuena	NSW	application	-
EL 5674	Webbs	NSW	100%	-

1. Under Joint Venture with Thomson Resources Limited

# Appendix 5B

## Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Silver Mines Limited

ABN

45 107 452 942

Quarter ended ("current quarter")

30 June 2016

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (nine months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(173)	(908)
1.3 Dividends received	(2,816)	(4,042)
1.4 Interest and other items of a similar nature received	7	13
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)		
<b>Net Operating Cash Flows</b>	<b>(-2,982)</b>	<b>(4,937)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	(19,800)	(20,000)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets		102
1.10 Loans to other entities		(483)
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
<b>Net investing cash flows</b>	<b>(19,800)</b>	<b>(20,381)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(22,782)</b>	<b>(25,318)</b>

<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	36,316	39,021
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
	<b>Net financing cash flows</b>	36,316	39,021
<b>Net increase (decrease) in cash held</b>		13,534	13,703
1.20	Cash at beginning of quarter/year to date	269	100
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	13,803	13,803

### Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	124
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Fees to Directors and Associates of Directors

### Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

## Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

## Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,000
4.2 Development	
4.3 Production	
4.4 Administration	1,900
<b>Total</b>	<b>2,900</b>

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	13,803	269
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>13,803</b>	<b>269</b>

## Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements and petroleum tenements acquired or increased	EL 5920 EL 6354 EL 8159 EL 8160 EL 8168 EL 8268	0% 0% 0% 0% 0% 0%	100% 100% 100% 100% 100% 100%

## Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> (description)			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	340,475,643	340,475,643	
7.4	Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs	242,108,116 40,000,000	242,108,116 40,000,000	
7.5	<b>+Convertible debt securities</b> (description)			

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> (description and conversion factor)	23,393,614 58,000 7,500,000 8,000,000	23,393,614 58,000 7,500,000	<i>Exercise price</i> \$0.30 \$4.30 \$0.30 \$0.30	<i>Expiry date</i> 13 October 2017 31 May 2017 20 June 2018 20 June 2019
7.8	Issued during quarter	7,500,000 8,000,000	7,500,000	\$0.30 \$0.30	20 June 2018 20 June 2019
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> (totals only)				
7.12	<b>Unsecured notes</b> (totals only)				

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: SIGNATURE ON FILE  
(Company secretary)

Date: 29 July 2016

Print name: TRENT FRANKLIN

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining

tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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