ANNUAL REPORT 2011

SILVER MINES LIMITED

ACN 107 452 942

Contents

Chairman's Letter

The last twelve months has been another period of positive developments for Silver Mines Ltd. Consistent with the Board's vision of establishing a silver based mining operation on the company's Emmaville exploration area, the main focus has been to increase the previously stated resource of 10.0m ozs of silver.

The current phase of the drilling program initiated earlier this year is nearly finished and the Board confidently expects that a resource upgrade will result, both in terms of tonnage and from inferred to indicated tonnage. The question of average grade is still to be determined.

It is important to note that the Company's exploration potential beyond the Webb's South resource is very significant and since the last AGM efforts have been made to identify more exploration targets in the Webb's tenement.

Management is encouraged by the results of surface sampling, geophysical work and drilling. Once the tonnage of the Webb's South deposit has been further defined, it is intended to increase activity on the other prospects, particularly those identified by geophysics.

Elsewhere in the company's exploration licences, particularly at the Mole River area, considerable potential exists for further exploration. The surface area is scarred by small scale mine workings, and has never been seriously tested by modern exploration techniques. In the next twelve months it is intended to increase the exploration activity with a view to identify drilling targets.

A look at the silver market over the last twelve months indicated a period of strong demand. At June 2010 the silver price was trading at around US$18.60.

And by June had reached US $35.00, producing a very buoyant market for ASX listed silver stocks. Unfortunately when the world stock markets retreated during the worsening of the European Debt Crisis commodity prices also fell sharply, reflecting the rush of liquidity to the safe haven of the $US. At present markets are delicately poised awaiting clarification of various bail out plans.

However, whatever the short term outlook it is inevitable that at the core of resolution plans will be the creation of new money and consequently further demand for precious metals, including silver.

David Sutton

CHAIRMAN

Directors' Report

The Directors present their report on the Company for the year ended 30 June 2011

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

David Henty Sutton
Non Executive Director
Chairman

Charles Straw
Managing Director
(appointed 2 August 2010)

Malcolm Harvey Bird
Non Executive Director

David John Straw
Non Executive Director
(retired 2 August 2010)

PRINCIPAL ACTIVITIES

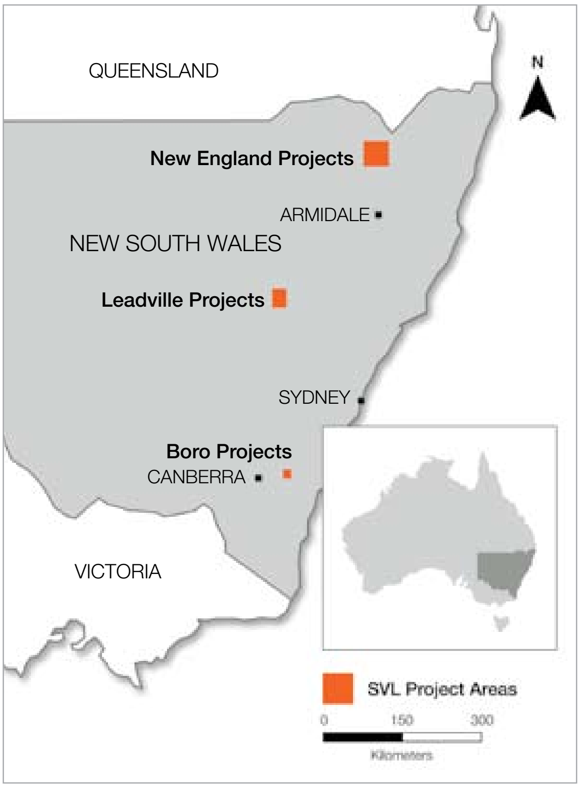
During the 12 months to 30 June 2011 Silver Mines Limited continued to aggressively explore its NSW tenements (Map 1). The majority of work and expenditure again focused on the 100% owned Webb's Silver Project on EL5674. Results from all projects, in particular Webbs, continue to add value to our property portfolio of silver focussed projects in NSW with two projects added and many new drilling targets defined.

HIGHLIGHTS FOR 2011 FINANCIAL YEAR

- Delivery of an updated Resource Estimate1 for Webbs (Table 1) containing over 10 million ounces of silver at an average grade of 256 g/t silver, making Webbs the highest grade undeveloped silver project in Australia.

JORC Category	Tonnes	Ag g/t	Cu %	Pb %	Zn %
Inferred	1,066,000	240	0.27	0.83	1.83
Indicated	167,000	360	0.32	0.55	1.91
Total	1,233,000	256	0.28	0.79	1.8

Table 1: Resource estimate for Webb's Silver Project at 70g/t Ag lower cut-off.



- Completion of 1,236m of diamond drilling (DDH) in 11 holes and 5,551m of reverse circulation (RC) drilling in 76 holes. Results from this drilling will support, upgrade and extend the existing resource.
- Positive Scoping Study completed with significant upside potential demonstrated at Webbs.
- An Exploration Target of between 4.0 million and 7.0 million tonnes at 200-260g/t silver for the Webbs Silver project. This target has the potential to contain between 26-57Moz of silver.
- Regional Exploration North of Webbs returning high grade silver and base metals in rock chips;
  - Silver values in rock chips up to 2,950 g/t, copper to 1.7%, lead to 15.1% and zinc to 28.9%.
  - Silver rich mineralised zones potentially up to 20m wide have been identified along with narrow bonanza lode type mineralisation commonly in association with old workings.

WEBBS SILVER PROJECT (EL5674)

The Company completed a number of drilling programs totalling 1,236m of diamond drilling (DDH) in 11 holes and 5,551m of reverse circulation (RC) drilling in 76 holes. The new drilling was again highly successful in delineating additional high grade silver rich polymetallic mineralisation in the Webbs trend. The first program (1,526m of RC drilling in 19 holes) along with previous drilling culminated in the delivery of an updated Resource Estimate1 for Webbs containing over 10 million ounces of silver at an average grade of 256g/t silver, making Webbs the highest grade undeveloped silver project in Australia.

The Webbs project continues to deliver with drilling during the year again providing further exciting results demonstrating the potential of the project to grow. These results are likely to increase the JORC category and tonnage of the existing resource. The Company has a defined exploration target extending to 250m below surface. Initial testing of this target has focussed on near surface potential down to 120m below surface in and around the current resource and along strike to the north and south. Many high grade zones along the Webbs trend remain open at depth.

DRILLING

During the year the Company drilled at total of 6,967m of RC and DDH drilling in 87 holes. Better results from this drilling are presented in Table 2.

Hole ID	From (m)	To (m)	Int (m)	Ag g/t	Cu %	Pb %	Zn%
RC098	86	108	20	405	0.6	1.7	2.1
Incl.	86	89	3	1220	1.5	4.8	3.1
RC100	73	91	18	548	0.4	1.2	1.2
Incl.	74	84	10	904	0.7	2.0	2.1
Incl.	79	80	1	5970	4.6	7.7	9.5
RC107	25	28	3	478	0.9	2.6	2.4
RC112	48	54	6	461	0.7	2.1	1.7
Incl.	52	53	1	1420	2.1	4.0	2.2
RC115	86	90	4	581	1.1	3.0	3.6
RC116	113	117	4	342	0.1	0.7	1.6
RC121	65	73	8	358	0.5	1.7	2.7
Incl.	66	68	2	933	1.1	3.7	4.2
RC124	53	58	5	344	0.4	2.7	2.4
RC127	173	180	7	834	0.7	0.2	2.4
Incl.	174	177	3	1773	1.4	0.1	3.0
RC130	56	60	4	650	0.5	0.3	2.6
RC135	51	62	11	414	0.3	0.3	2.0
Incl.	56	58	2	1623	1.1	0.1	4.0
RC137	59	63	4	309	0.5	1.0	1.2
RC153	10	12	2	425	0.7	2.1	1.4
RC172	161	164	3	377	0.8	0.1	2.3
DDH006	81.7	84.7	3	408	0.59	2.54	1.93
DDH006	96.15	102.15	6	275	0.39	0.39	2.19
DDH011	88.6	98.55	9.95	417	0.42	0.15	1.85
Incl.	94.6	98.55	3.95	916	0.90	0.16	3.42
DDH012	74.02	77.79	3.77	468	0.43	1.11	2.20
Incl.	74.02	74.43	0.41	3730	3.45	3.19	10.35
DDH013	21.24	29	7.76	485	0.52	1.83	2.36
Incl.	21.24	22.98	1.74	1463	1.66	0.88	3.16

Table 2: Selected drilling results from the Webb's Silver Project at 100g/t Ag lower cut-off allowing for 3m on internal dilution

The Company has committed to additional drilling of approximately 10,000m of RC and 3,000m of DDH drilling. These programs will be completed in late 2011. The Company anticipates that an updated resource estimate will be completed by the end of 2011.

EXPLORATION TARGET

Silver Mines has defined an exploration target at Webbs of between 4.0 million and 7.0 million tonnes at 200-260g/t silver for the Webbs Silver project. This target has the potential to contain between 26 and 57Moz of silver.

In accordance with Clause 18 of the JORC Code, readers are advised that the defining of an exploration target provides the following;

'the potential quantity and grade is conceptual in nature, that there has been insufficient exploration to define Mineral Resources (aside from the resources included and previously reported) and that it is uncertain if further exploration will result in the determination of a Mineral Resource'.

The quantity and grade of the exploration target (aside from the resources included) is based on conservative upper and lower limits applied to a base case estimate. The base case estimate was made by using average thicknesses, grade and density data derived from the Webbs resource model and other relevant data.

Mineral potential can be demonstrated in these zones based on one or more of; geology, geochemistry, geophysics and drilling.

SCOPING STUDY

The Company completed a scoping study based on open cut mining of the Webbs Ag-Cu-Pb-Zn deposit at during the year. The results of the study highlight positive operating revenue from the base case model of approximately $A49 Million (pre capital, i.e. plant costs; and pre-tax) over an initial project life of 15 months Operating revenue increases significantly to approximately $A85 Million dollars using a silver price of $A40/oz and extends the project life to 20 months based only on the current resource. These projections demonstrate that capital pay back is potentially very rapid, based on current estimates, with any extension to project life offering significant additional revenues.

Silver Mines has defined an exploration target at Webbs of between 4.0 million and 7.0 million tonnes at 200-260g/t silver for the Webbs Silver project. This target has the potential to contain between 26 and 57Moz of silver.

Further to this, SVL considers the Webbs Silver project's upside potential can be defined in the following key areas;

- the delineation of additional resources inside current pit shells;
- the delineation of additional near surface resources adjacent to and along strike from existing pit shells;
- improvements in metallurgical recovery and smelter terms;
- decreases in capital and operating costs and
- outlining of additional resources at depth, potentially amenable to underground mining and in parallel structures east and west of the main identified lode system which contains the existing resource and exploration target.

The scoping study was intended to be a high level technical and financial review of the potential of the Webbs Silver project to be developed into a mining operation. The Company is very pleased with the outcomes and recommendations delivered. The project will continue to be aggressively evaluated as per our Company strategy.

2012 PLAN

The Company anticipates that evaluation of the Webb's project will remain the key focus for 2012. Additional drilling is planned and will be used to produce a new resource estimate for the project. It is expected the resource will continue increase with regard to tonnage and that JORC category will be upgraded.

Diamond drilling will also provide added confidence to the resource with improved geological and structural understanding. Diamond core will also be used for metallurgical testwork and in the acquisition of geotechnical data. Metallurgical testwork to pre-feasibility level is expected to be completed in early 2012 and will lead into a pre-feasibility study for the project.

The Company is also planning additional drilling at Webbs which will focus on testing depth extensions to zones which offer potential to substantially increase tonnages of high grade material possibly amenable to underground mining.

Additional drilling is also planned at several targets within EL5674.

OTHER PROJECTS

Webbs West (EL7602)

This project is located immediately west and north of EL5674 and has potential for Webbs style deposits to occur in north-south structures in metasediments adjacent to the Mole Granite.

Exploration during the year has been limited to desktop studies reviewing existing data such as stream sediment sampling and aeromagnetics. Planned follow up work will include investigation of old workings, ridge and spur mapping and sampling in anomalous catchments identified in stream sediment sampling.

Mole River (ELs 6114 and 6771)

Exploration Licenses 6114 and 6771 are centered approximately 35km north east of the Webbs Silver project and is part of a contiguous group of tenements 100% owned by SVL, known as the Mole Project. The project area hosts over 100 documented metalliferous occurrences which occur along a broad northwest trend approximately 25km long and 3km wide. The geology of the Mole Project area is dominated by Permian aged sediments which are intruded by the Early Triassic Mole Granite.

The Mole Granite is considered to be the source for the silver rich mineralisation at the Webbs Silver project as well as the multitude of other metalliferous deposits in the local region. Silver Mines considers the Mole Project area to have the potential to host Webbs style silver rich polymetallic deposits.

NEW RESULTS

Recent exploration conducted on EL6771 and EL6114 has included Induced Polarisation (IP) and rock chip sampling. These programs were generally conducted over areas of old workings and possible extensions to know mineralisation. Approximately 10.6 line km of IP along 10 grid lines spaced 200m apart was undertaken in EL6771. Numerous zones of high chargeability at or near surface were identified and are indicative of sulphide mineralisation. These zones are commonly coincident or along trend from areas of old workings and associated elevated geochemistry in rock chip samples. Many of the IP targets remain to be closed off along strike and to the west.

Rock chip sampling was undertaken at a reconnaissance level and focused on old workings, associated dumps, mineralized outcrops and possible strike and parallel trends. A total of 165 samples were collected and analysed for a suite of metals. The bulk of these samples returned anomalous to highly elevated levels of Ag, Pb, Zn, and Cu in common association with As, Bi and locally elevated Sb, Sn and W. The higher grades of silver commonly occurs with 5% to plus 10% combined lead-zinc and copper up to 1.7%.

Mineralised samples are commonly massive-semi massive sulphides from lodes generally less than 1.5m wide (where visible). However, well mineralized samples are also associated with altered wallrock that is often 'bleached' with veins and disseminations of sulphides – similar visually to Webbs. Many of these zones are up to several metres wide with one zone possibly up to 20m wide. These 'wide' zones have been observed at the Burra, Creek 1, Ecuador, Mt Morgan and Pearmans prospect areas. The mineralised structures observed generally strike northwest and have sub-vertical dips. A linear zone over 1.4km long has been defined by anomalous geochemistry and coincident IP chargeability extending in a northwest direction from the Ecuador prospect to Mt Morgans SE. This broad mineralised corridor remains open to the north and south along strike.

Silver Mines believe the style of mineralisation identified during this program is similar to that which occurs at the Webbs Silver deposit, based on a number of similarities, including;

- Metal association - bonanza Ag associated with high Cu, Sb, Bi, Pb and Zn, plus;
- The style of mineralisation is also similar – defined as narrow zones of 'bonanza lode' enveloped in lower grade altered and mineralized country rock.

The Company is highly encouraged by the new results and considers the area to be a high priority target. The possibility of delineating additional high grade silver rich polymetallic mineralisation within possible trucking distance to the Webbs project also provides impetus to aggressively explore the area.

Webbs Consols (ELS 6772 and 6239)

These two tenements contain two groups of known deposits – the westerly Webbs Consols group, and the eastern Tangoa- Wellingrove group. The Webbs Consols group, embracing (south to north) the Castlereagh, Mount Galena, Webbs Consols and Lucky Lucy workings, is considered to comprise discrete, pipe-like shoots whose plunge is probably controlled by easterly or north-easterly cross-cutting features. Exploration to date suggests that high-grade silver mineralisation may extend along strike of the known historical workings with results from recent geochemical programs. The Company is reviewing the projects at present with a view to drilling in 2012.

Walla Walla (EL 6269 – Australia Oriental Minerals NL Joint Venture)

The Walla Walla prospect is located on EL6269 approximately 100km north of Canberra.

EL6269 hosts a number of historic workings and prospects that targeted lead, silver, zinc, copper, tin and tungsten. Mineralisation at Walla Walla is classified as epigenetic shear or vein type which is hosted in deformed Ordovician sediments. The ore forming fluids and metals are likely to be derived from the nearby Wyangala Batholith. Walla Walla is part of a wider, but sporadically developed, magmatic-hydrothermal mineralising system, not previously recognised in this area.

Under a Farm-In Agreement, Silver Mines Ltd (SVL) has earned a 75% interest in EL 6269, held by Australia Oriental Minerals NL (AOM). The Company is in the process of finalising a Joint Venture Agreement with AOM.

Exploration during the year has concentrated on drilling at the old Walla Walla Pb-Ag-Zn mine and a review of exiting data with a focus on geochemical data.

During the year Silver Mines completed 942m of RC drilling in 9 holes, targeting IP anomalies in the old Walla Walla mine area. The drilling intersected narrow, relatively near surface1-3m wide zones of silver rich mineralisation containing Cu, Pb, Zn and Sn. Better intersection are shown in Table 3.

Additional potential to develop mineralisation at greater widths may exist along strike and/or at depth.

Walla Walla (EL 6269 – Australia Oriental Minerals NL Joint Venture) continued

Hole ID	From (m)	To (m)	Int (m)	Ag g/t	Au g/t	Cu %	Pb %	Zn %	Sn %
WWRC001	68	70	2	223	0.05	0.26	4.98	2.77	0.47
WWRC002	97	98	1	208	0.09	0.32	2.27	4.00	0.29
WWRC003	74	76	2	109	0.13	0.13	4.68	2.57	0.18
WWRC004	109	112	3	118	0.01	0.05	2.90	2.46	0.09
WWRC009	97	98	1	103	0.01	0.01	1.86	0.45	0.18

Table 3: Selected drilling results from the Walla Walla Project

Target generation was undertaken by reviewing existing geochemical, geophysical and geological data. This work revealed several targets with strong Ag, Cu, Pb, Zn, Sn, As associations. These and other targets require additional follow up which may include mapping, sampling leading to geophysics and drilling.

Boro (EL7640)

The Boro project is located approximately 60km northeast of Canberra. The project represents an area with significant historical silver and associated base metal production. The exploration model for the area is targeting silver rich deposits with significant base metal credits. The deposit styles include VHMS and skarn mineralisation.

The objectives for Silver Mines are to identify the potential for significant silver-base metal resources and test identified targets by drilling.

A thorough review and collation of all relevant previous exploration data into digital datasets has been completed. Recommend follow up work is focused on drilling to target wide near surface zones of silver and base metals intersected in scant drilling by previous explorers. One such hole drilled in 1995 intersected 28m @ 0.2% Cu, 1.5% Pb, 0.1% Zn and 53g/t Ag from 22m. This zone is totally open along strike and at depth.

Leadville (ELA4240)

The Leadville project area is located on the northern margin of the Lachlan Orogen approximately 15km east of Dunedoo in central-eastern NSW.

The Leadville project has demonstrated potential to host several deposit styles and commodities. The primary target model for Silver Mines are skarn type and volcanic hosted sulphide polymetallic deposits rich in silver, +/- base metals +/-gold. Deposits in the area are hosted by Siluro-Devonian felsic metavolcanic and locally calcareous metasedimentary rocks which have been intruded by the Gulgong Granite. Mineralisation generally occurs as steeply dipping pipe like shoots of massive sulphide and smaller veins. The existence of large low grade deposits cannot be discounted.

Numerous metallic occurrences and deposits are recorded in the area including significant historic workings. From 1887 to 1893 total recorded production is approximately 17,500t @ recovered grades of around 600g/t Ag and 10% Pb. From 1912-1927 and 1932-1937 approximately 31,000t of pyrite was also produced along with minor amounts of silver-lead and copper-zinc ore. Mineralisation is likely to be litho-structurally controlled with identified prospects trending mostly north to northwest.

Drilling completed by previous explorers in 1990's returned encouraging intersections (Table 4) which warrant follow up. A detailed review of existing data will guide further exploration at the project.

Hole	From (m)	To (m)	Int (m)	Cu %	Pb %	Zn %	Ag g/t	Au g/t
DH34	88.85	97	8.15	0.22	1.03	6.29	447	0.41
DH35	143	144	1	2.38	1.41	5.88	690	2.70
DH42	81	88	7	0.07	4.00	8.48	68	0.35

Table 4: Selected drilling results from the Leadville Project


SAFETY

TENEMENT SUMMARY

Title No.	Title Name	Company	Grant Date	Last renewal	Expiry Date	Units	Status
EL 6239	Webb's Consols	SVL	17-May-04	22-Feb-11	16-May-12	4	
EL 6772	Webb's Consols	SVL	8-May-07	23-Mar-10	8-May-11	35	Renewal Pending
EL 6771	Clive Project, Mole River	SVL	9-May-07	23-Mar-10	9-May-11	25	Renewal Pending
EL 6114	Pyes Creek, Mole River	SVL	14-Aug-03	23-Mar-10	13-Aug-11	6	Renewal Pending
EL 5674	Webb's Silver	SVL	13-Jan-00	1-Nov-10	12-Jan-12	4	
EL 7602	Webb's Silver	SVL	17-Aug-10		17-Aug-12	13	
EL 7640	Boro	SVL	02-Dec-10		02-Dec-12	15	
ELA4240	Leadville	SVL				93	Awaiting Grant

Competent Persons' Statements

1 The information in this Document that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Robin Rankin, who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM) and registered as a Chartered Professional Geologist (CPGeo). Robin Rankin is Principal Consulting Geologist and operator of the independent geological consultancy GeoRes. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (the JORC Code). He consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

2 The information in this Document that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr David Hobby, consulting geologist to SVL, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Hobby 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 2004 Edition of the 'Australasian Code for Reporting of Exploration' for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Hobby consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Results

The Company incurred a pre-tax operating loss of $2,081,624 (2010: loss $491,500).

Dividends

No dividend has been paid since the end of the previous financial year and no dividend is recommended for the current year (2010: nil).

Significant changes in the state of affairs

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

Events subsequent to reporting date

Since 30 June 2011, the Company announced on 6 September 2011 a non-renounceable pro-rata offer for the issue of up to 13,610,561 new options on the basis of one (1) new option for every ten (10) shares held by eligible shareholders on the record date of 14 September 2011 at an issue price of 1 cent per new option, to raise up to $136,016.

Other than the raising of additional capital, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Likely developments

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

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

Environmental issues

The Company's Project Areas are located on exploration licences issued by the Department of Mineral Resources and operate under an environmental licence issued by the Environmental Protection Authority.

These licences require the preparation of an annual Environmental Management Report and a Mining Operations Plan.

The Company had statutory obligations to protect the environment in which it was exploring. During the reporting period the Company did not fail to meet its obligations pursuant to any environmental legislation.

INFORMATION ON DIRECTORS

David Henty Sutton Non-Executive Chairman

David has many years experience in stock broking and investment banking. He is currently the Principal of Dayton Way Financial Pty Ltd, a boutique financial services company, based in Sydney, which focuses on the natural resources sector.

Prior to his current position he was Executive Chairman of Martin Place Securities from 2002 to 2010, where his responsibilities included management of corporate finance and sharebroking activities within the firm.

David has previously been a Partner and Director of several stock exchange member firms, including Clarke & Co and McNab Clarke. He became a member of the Stock Exchange of Melbourne and subsequently the Australian Stock Exchange.

His past experience in directorships of public companies includes the Hudson Group of Companies and Reef Mining Ltd.

He is currently Chairman of Sinovus Mining Ltd and a director of Empire Energy Group Ltd, a producer of oil and natural gas in USA.

Other listed company directorships held during past 3 years:
Earth Heat Ltd
Sinovus Mining Ltd
Empire Energy Group Ltd

Charles Straw Managing Director

Charles is an economic geologist with over 15 years in the mining industry. His experience is multi-faceted ranging from environmental management and planning through to mineral exploration, project development, valuation, finance and corporate management. He holds an honours degree in applied geology from UNSW in Sydney and is a member of the CIM and AUSIMM. He has lead the exploration and evaluation of precious and base metals projects in Australia, South America and China. He is currently a Director and CEO of TSX.V listed Artha Resources Corporation.

Other listed company directorships held during past 3 years: Nil

Malcolm Harvey Bird Non-Executive Director

Malcolm has over 35 years experience in the stock broking industry with an emphasis on mining investments. He was a founder and director of Morning Star Gold NL and Central West Gold NL for 23 years and has an extensive knowledge of mineral exploration in NSW.

Other listed company directorships held during past 3 years:
Morning Star Gold NL
Central West Gold NL

David John Straw Non-Executive Director

Retired 2 August 2010

Kevin Lynn B.Bus, CA, FAIDC, FFin
Company Secretary

Mr Lynn is a Chartered Accountant with over 20 years corporate and finance experience and is also Company Secretary and or Director of several listed companies.

REMUNERATION REPORT

Remuneration policy

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

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

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

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

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

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

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

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

Performance based remuneration

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

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

The remuneration policy has been tailored to increase goal congruence between shareholders and Directors and executives. Currently, this is facilitated through the issue of options to the majority of Directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced. For details of Directors' and executives' interests in options at year end, refer note 15 of the financial statements.

The Directors have set the base fees payable as follows –

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

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

Service agreements

There are no other service agreements.

REMUNERATION REPORT continued

Director remuneration for the year ended 30 June 2011:

	Salary and Fees	Non-monetary	Super annuation	Retirement benefits	Non-cash share based payments	Other	Total
D Sutton							
2011	**48,000**	**–**	**–**	**–**	**402,556**	**–**	**450,556**
2010	36,000	–	–	–	–	–	36,000
D Straw (retired 2 August 2010)							
2011	**10,000**	**–**	**–**	**–**	**–**	**–**	**10,000**
2010	30,000	–	–	–	–	–	30,000
K Slater (resigned 9 December 2010)							
2011	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2010	11,000	–	–	–	–	–	11,000
M Bird							
2011	**30,000**	**–**	**–**	**–**	**402,556**	**–**	**432,556**
2010	30,000	–	–	–	–	–	30,000
C Straw (appointed 2 August 2010)							
2011	**224,750**	**–**	**–**	**–**	**402,556**	**–**	**627,306**
2010	106,200	–	–	–	–	–	106,220

Remuneration of the 5 named executives who receive the highest remuneration for the year ended 30 June 2011:

	Salary and Fees	Non-monetary	Super annuation	Retirement benefits	Non-cash share based payments	Other	Total
K Lynn							
2011	**44,000**	**–**	**–**	**–**	**88,778**	**–**	**132,778**
2010	60,000	–	–	–	–	–	60,000

Options and rights granted as part of remuneration

Pursuant to resolutions passed at the Company's Annual General Meeting held on 30 November 2010 the following options and rights were issued:

Options:

D Sutton	2,000,000
M Bird	2,000,000
C Straw	2,000,000

Rights:

D Sutton	1,000,000
M Bird	1,000,000
C Straw	2,000,000

REMUNERATION REPORT continued

The options were issued at an exercise price of $0.50 each with an expiry date being 5 years after the date of issue as approved at the Company's Annual General Meeting on 30 November 2010. The rights were granted at no cost, however, will only vest upon the satisfaction of relevant performance conditions pursuant to the Company's Performance Rights Plan also as approved at the Company's Annual General Meeting on 30 November 2010.

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

Performance Income as a proportion of total remuneration

No performance based bonuses have been paid to Directors during the financial year. It is the intent of the Board to include performance bonuses as part of remuneration packages when mine production commences.

Meetings of directors

The following table sets out the number of meetings of the Company's Directors during the year ended 30 June 2011 and the number of meetings attended by each Director.

Name		Board meetings
	Eligible	Attended
D Sutton	7	7
M Bird	7	7
C Straw	7	7
D Straw (retired 2 August 2010)	–	–

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

Shares and options

During the year the Company issued:

- 20,000,000 shares at 9 cents per share to professional and sophisticated investors, 6 July 2010;
- 6,000,000 unlisted options at 50 cents to Directors pursuant to resolutions passed at Company Annual General Meeting, 30 November 2010;
- 2,500,000 unlisted options at 50 cents to employees pursuant to resolutions passed at Company Annual General Meeting, 30 November 2010;
- 3,000,000 rights issued to Directors pursuant to resolutions passed at Company Annual General Meeting, 30 November 2010;
- 10,000,000 shares at 24 cents per share to professional and sophisticated investors, 7 December 2010;
- 1,000,000 unlisted options at 7 cents to professional and sophisticated investors, 7 December 2010;
- 1,300,000 unlisted options at 17 to professional and sophisticated investors, 7 December 2010;
- 2,000,000 unlisted options at 24 to professional and sophisticated investors, 7 December 2010;
- 2,000,000 unlisted options at 40 to professional and sophisticated investors, 7 December 2010;
- 1,000,000 shares at 7 cents upon the conversion of unlisted options, 5 April 2011;
- 300,000 shares at 17 cents upon the conversion of unlisted options, 5 April 2011; and
- 29,624,002 shares at 12 cents upon the conversion of listed options, at various times during the financial year up to 1 May 2011.

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors support and have adhered to the principles of corporate governance. The Company's corporate governance statement follows the financial report.

Directors and officers indemnification

During the financial year Silver Mines Limited paid premiums to insure and indemnify the Directors and Officers of the Group.

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

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

The indemnity does not extend to any liability:

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is set out on page 19 and forms part of the Director's Report.

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

David Sutton

DIRECTOR
30 September 2011

AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SILVER MINES LIMITED

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

As lead audit principal for the audit of the financial statements of Silver Mines Limited for the financial period ended 30 June 2011, I declare that to the best of my knowledge and belief, that there have been no contraventions of:

(i) the auditor's independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Moyes Yong & Co Partnership

William M Moyes – Partner

Chartered Accountants

30 September 2011
Level 7, Norwich House
6 O'Connell Street
Sydney NSW 2000

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 $	2010 $
Revenues from ordinary activities	2	79,737	14,305
Expenses from ordinary activities			
Accounting/ company secretarial		(70,792)	(60,220)
Wages		(22,020)	(33,330)
Share registry		(49,472)	(14,379)
Securities exchange fees		(45,494)	(14,983)
Bank fees		(6,193)	(1,874)
Auditors		(16,650)	(20,167)
Directors emoluments		(1,394,258)	(107,000)
Office expenses		(44,885)	(24,672)
IT & communications		(51,555)	(12,396)
Rent		(7,020)	(28,467)
Management fees		(140,000)	–
Depreciation		(31,924)	(43,201)
Insurance		(13,296)	(26,092)
Marketing		(86,801)	(21,655)
Professional advisors		(14,771)	(5,080)
Plus market listing fees		(42,369)	(35,704)
Other expenses from ordinary activities		(123,861)	(56,585)
Total expenses	**3**	**(2,161,361)**	**(505,805)**
Loss before income tax expense		**(2,081,624)**	**(491,500)**
Income tax expense	4	–	–
Loss for the year		**(2,081,624)**	**(491,500)**
Other comprehensive income		–	–
Total comprehensive loss for the year net of tax		**(2,081,624)**	**(491,500)**
		Cents	**Cents**
Basic earnings per share	23	(0.02)	(0.01)
Diluted earnings per share	23	(0.01)	(0.01)

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Notes	2011 $	2010 $
Current assets			
Cash and cash equivalents	5	3,371,757	388,302
Receivables	6	1,201,356	119,354
Total current assets		**4,573,113**	**507,656**
Non-current assets			
Other financial assets	7	120,550	60,550
Intangible assets			
Deferred exploration & development	8	7,675,327	5,076,059
Property plant & equipment	9	47,880	64,855
Investments	11	100,000	–
Total non-current assets		**7,943,757**	**5,201,464**
Total assets		**12,516,870**	**5,709,120**
Current liabilities			
Payables	11	142,120	470,773
Provisions	12	32,598	5,410
Total current liabilities		**174,718**	**476,183**
Non-current liabilities			
Payables	11	57,903	77,224
Total non-current liabilities		**57,903**	**77,224**
Total liabilities		**232,621**	**553,407**
Net assets		**12,284,249**	**5,155,713**
Equity			
Contributed equity	13	14,861,829	7,174,526
Reserves	14	1,522,857	–
Accumulated losses	15	(4,100,437)	(2,018,813)
Total equity		**12,284,249**	**5,155,713**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Notes $	Ordinary shares $	Share-based payment reserve $	Share option reserve $	Accumulated losses $	Total $
Balance at 30 June 2008		**5,571,400**	**–**	**–**	**(854,222)**	**4,717,178**
Share-based payments during the year		–	–	–	–	–
Costs of funds raised		(41,581)	–	–	–	(41,581)
Loss attributable to members of the Company		–	–	–	(546,480)	(546,480)
Balance at 30 June 2008		**5,571,400**	**–**	**–**	**(854,222)**	**4,717,178**
Share-based payments during the year		185,675	–	–	–	185,675
Costs of funds raised		(9,283)	–	–	–	(9,283)
Loss attributable to members of the Company		–	–	–	(673,091)	(673,091)
Balance at 30 June 2009		**5,747,792**	**–**	**–**	**(1,527,313)**	**4,220,479**
Share-based payments during the year		1,499,325	–	–	–	1,499,325
Costs of funds raised		(72,591)	–	–	–	(72,591)
Loss attributable to members of the Company		–	–	–	(491,500)	(491,500)
Balance at 30 June 2010		**7,174,526**	**–**	**–**	**(2,018,813)**	**5,155,713**
Share-based payments during the year		4,200,000	–	1,522,857	–	5,722,857
Conversion of options		3,826,391	–	–	–	3,826,391
Costs of funds raised		(339,088)	–	–	–	(339,088)
Loss attributable to members of the Company		–	–	–	(2,081,624)	(2,081,624)
Balance at 30 June 2011		**14,861,829**	**–**	**1,522,857**	**(4,100,437)**	**12,284,249**

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 $	2010 $
Cash flows from operating activities			
Interest received		79,737	14,574
Interest paid		(4,824)	(4,818)
Payments to suppliers and employees		(1,051,428)	(308,949)
Net cash outflows from operating activities	20	(976,515)	(299,193)
Cash flows from investing activities			
Payments for (proceeds from) exploration bonds		(60,000)	15,000
Payments for property plant & equipment		(14,948)	–
Payments for exploration expenditure		(3,593,387)	(1,110,749)
Payments for investments		(100,000)	–
Proceeds from sale of property plant & equipment		–	2,437
Net cash outflows from investing activities		(3,768,335)	(1,093,312)
Cash flows from financing activities			
Proceeds from the issue of shares		8,086,714	1,499,325
Payments for fund raising costs		(339,088)	(72,591)
Payments for borrowings – finance leases		(19,321)	(19,322)
Net cash inflows from financing activities		7,728,305	1,407,412
Net Increase in cash held		**2,983,455**	**14,907**
Cash at the beginning of the financial year		388,302	373,395
Cash at the end of the financial year	5	**3,371,757**	**388,302**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting entity

Silver Mines Limited (the "Company") is a public company domiciled in Australia. The financial report covers Silver Mines Limited as an individual entity. The financial report was authorised for issue on 30 September 2011 by the Board of Directors.

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

(b) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Compliance with Australian Accounting Standards ensures the financial statements and notes also comply with International Financial Reporting Standards.

The financial report is presented in Australian dollars which is also the functional currency. The financial report is prepared on an accruals basis and is based on historical costs modified where applicable, by the measurement of fair value of selected non-current assets, financial assets and financial liabilities.

The preparation of a financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Reporting basis and conventions

The financial report is presented in Australian dollars.

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

- Critical accounting estimates and judgments
- The estimates and judgments incorporated into the financial report are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the Company. The estimates and judgments made assume a reasonable expectation of future events but actual results may differ from these estimates.
- Key estimates — Impairment

  The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Rehabilitation

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

Exploration and evaluation costs

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

(c) Exploration and evaluation expenditure

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

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

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

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

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

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

(d) Trade creditors

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

(e) Cash

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

(f) Net fair value

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

(g) Revenue

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

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(h) Income tax

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

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

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

(i) Goods and services tax (GST)

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

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

(j) Acquisitions of assets

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

(k) Property, plant and equipment

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

(i) The depreciation rates used are as follows:

Plant and equipment	$33^1/_3$% straight line
Office furniture and equipment	$33^1/_3$% straight line
Motor vehicles	20% straight line

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

(ii) Impairment

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

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

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

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

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(l) Employee entitlements

Wages, salaries and annual leave

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within 12 months have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Long service leave

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

Equity-settled compensation

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

Employee option plan

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

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

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

(m) Impairment

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

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

(n) Intangible assets

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

(o) Issued capital

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

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(p) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

(q) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

Classification and subsequent measurement

Loans and receivables

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

Financial liabilities

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

(r) Lease payments

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

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

(s) Comparative figures

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(t) New accounting standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial Instruments (applicable for annual reporting periods commencing on or after 1 January 2013).

  These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

  The changes made to accounting requirements include:

  - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;
  - removing the tainting rules associated with held-to-maturity assets;
  - removing the requirements to separate and fair vale embedded derivatives for financial assets carried at amortised cost;
  - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
  - reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:

  a. the objective of the entity's business model for managing the financial assets; and

  b. the characteristics of the contractual cash flows.

  - AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

    AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

  i. Tier 1: Australian Accounting Standards; and

  ii. Tier 2: Australian Accounting Standards — Reduced Disclosure Requirements.

  This Standard deems the Group to be a Tier 1 entity and hence there is no accounting impact to be considered going forward.

  - AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

    These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

- AASB 2010–3: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139] (applicable for annual reporting periods commencing on or after 1 July 2010).
  - requiring that recognition and/or adjustment of contingent consideration for acquisitions preceding 1 July 2009 be recognised against the cost of acquisition;
  - clarifying the accounting for replacement share-based payments awarded to the acquiree's employees as part of the cost of the combination service, or in the case of non-replaced and unvested share-based payments of the acquiree that do not form part of the exchange, an allocation to both the cost of acquisition and post-combination services on the basis of a market-based measure; and
  - making sundry transitional amendments to various Standards.

  This Standard is not expected to impact the Group.
- AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:
  - clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
  - adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
  - amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
  - adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
  - making sundry editorial amendments to various Standards and Interpretations.

  This Standard is not expected to impact the Group.
- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

  This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

  The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

2. REVENUE

	2011 $	2010 $
Revenue from operating activities		
Interest received	79,737	14,305

3. OPERATING EXPENSES

	2011 $	2010 $
Expenses from operating activities:		
Accounting / company secretarial	(70,792)	(60,220)
Wages	(22,020)	(33,330)
Share registry	(49,472)	(14,379)
Securities exchange fees	(45,494)	(14,983)
Bank fees	(6,193)	(1,874)
Auditors	(16,650)	(20,167)
Directors emoluments	(1,394,258)	(107,000)
Office expenses	(44,885)	(24,672)
IT & communications	(51,555)	(12,396)
Rent	(7,020)	(28,467)
Management fees	(140,000)	–
Depreciation	(31,924)	(43,201)
Insurance	(13,296)	(26,092)
Marketing	(86,801)	(21,655)
Professional advisors	(14,771)	(5,080)
Plus market listing fees	(42,369)	(35,704)
Other expenses from ordinary activities	(123,861)	(56,585)
Total	**(2,161,361)**	**(505,805)**

4. INCOME TAX

(a) Temporary differences

	2011 $	2010 $
Current tax	–	–
Deferred tax	–	–
Total	**–**	**–**

(b) Reconciliation of income tax expense to prima facie tax payable

	2011 $	2010 $
Operating loss before income tax	**(2,081,624)**	**(491,500)**
Prima facie income tax benefit at 30% on operating loss	624,487	147,450
Add tax effect of:		
Tax losses and temporary differences not recognised	(624,487)	(147,450)
Non temporary differences	–	–
Income tax attributable to operating loss	**–**	**–**

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

4. INCOME TAX continued

	2011 $	2010 $
(c) There is no amount of tax benefit recognised in equity as the tax effect of temporary differences has not been booked.		
(d) Tax losses		
Unused tax losses for which no tax loss has been booked as a deferred tax asset adjusted for non temporary differences	4,100,437	2,018,813
Potential tax benefit at 30%	**1,230,131**	**605,644**
(e) Unrecognised temporary differences		
Non deductible amounts as temporary differences	–	–
Accelerated deductions for book compared to tax	–	–
Total	1,230,131	605,644
Potential effect on future tax expense	**1,230,131**	**605,644**

5. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	**3,371,757**	**388,302**
Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the statement of financial position as follows:		
Cash assets	**3,371,757**	**388,302**
The effective interest rates on term deposits were 4.8% (2010: 4.0%).		

6. RECEIVABLES

Other debtors	207,237	119,354
Provision for doubtful debts	–	–
Prepayments	994,119	–
	1,201,356	**119,354**

7. OTHER FINANCIAL ASSETS

Non-current		
Performance guarantee bonds	**120,550**	**60,550**

8. INTANGIBLE ASSETS

Non-current		
Exploration expenditure		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phase		
Opening balance	5,076,059	3,965,310
Expenditure in the period	2,599,268	1,110,749
Expenditure written off	–	–
	7,675,327	**5,076,059**

9. PROPERTY, PLANT AND EQUIPMENT

	2011 $	2010 $
Plant and equipment – at cost	88,022	88,022
Financial lease assets	96,607	147,843
Assets acquired	14,948	–
Assets sold	–	(16,366)
Less: Accumulated depreciation	(151,697)	(154,644)
	47,880	**64,855**

Reconciliation

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

	Plant & Equipment $	Motor Vehicles $	Total $
Carrying value at start of year	10,109	54,746	64,855
Additions	14,948	–	14,948
Disposals	–	–	–
Depreciation	(12,600)	(19,324)	(31,924)
Carrying value at end of year	**12,457**	**35,422**	**47,880**

10. INVESTMENTS

Investment in Precious Metals Investments Ltd	**100,000**	**–**

11. PAYABLES

Current		
Trade creditors and accruals	**142,120**	**470,773**
Non Current		
Hire purchase creditors	**57,903**	**77,224**

12. PROVISIONS

Employee entitlements	**32,598**	**5,410**
Number of employees at year end	1	3

13. CONTRIBUTED EQUITY

	2011 $	2010 $
(a) **Issued and paid up capital**		
Balance at the beginning of the financial year	7,174,526	5,747,792
Issue of shares to raise capital	4,200,000	1,499,325
Conversion of options	3,826,391	–
Share issue costs	(339,088)	(72,591)
Balance at the end of the financial year	**14,861,829**	**7,174,526**

Consisting of 135,105,664 ordinary shares (2010: 74,181,662 ordinary shares)

13. CONTRIBUTED EQUITY continued

(b) Movements in ordinary share capital

Date	Details	Number of Shares	Issue Price	$
25 September 2006	Seed capital	13,820,005	$0.080	1,142,005
19 January 2007	Tenement acquisition shares	5,375,000	$0.060	375,000
19 January 2007	IPO Shares	20,652,500	$0.200	4,130,500
21 February 2008	Placement	3,600,000	$0.210	756,000
	Transaction costs	–		(782,105)
28 May 2008	Bonus issue	50,000		–
30 June 2008	**Balance**	**43,497,505**		**5,571,400**
29 June 2009	Placement	5,305,000	$0.035	185,675
Transaction costs			(9,283)	
30 June 2009	**Balance**	**48,802,505**		**5,747,792**
28 August 2009	Placement	695,000	$0.035	24,325
16 September 2009	Placement	3,200,000	$0.035	112,000
2 October 2009	Placement	7,900,000	$0.040	316,000
9 December 2009	Placement	1,957,687	$0.046	90,000
11 December 2009	Placement	6,250,000	$0.080	500,000
7 June 2010	Placement	5,376,470	$0.085	457,000
	Transaction Costs			(72,591)
30 June 2010	**Balance**	**74,181,662**		**7,174,526**
6 July 2010	Placement	20,000,000	$0.09	1,800,000
7 December 2010	Placement	10,000,000	$0.24	2,400,000
Various up to 1 May 2011	Options exercised	29,624,002	$0.12	3,554,880
5 April 2011	Options exercised	1,000,000	$0.07	70,000
5 April 2011	Options exercised	300,000	$0.17	51,000
Option placement			$0.01	150,511
Transaction costs				(339,088)
30 June 2011	**Balance**	**135,105,664**		**14,861,829**

(a) Issued and paid up capital

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

13. CONTRIBUTED EQUITY continued

(b) Share options

At 30 June 2011 details of Unlisted Options are as follows:

Details	Number	Exercise price	Expiry date
Unlisted options	1,000,000	17 cents	27/08/2011
Unlisted options	5,000,000	35 cents	01/05/2012
Unlisted options	3,500,000	20 cents	06/07/2012
Unlisted options	2,000,000	24 cents	27/08/2012
Unlisted options	2,000,000	40 cents	27/08/2013
Unlisted options	8,500,000	50 cents	23/12/2015
Performance rights	3,000,000		
Total	**25,000,000**		

(c) Capital management

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

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

	2011 Number	2010 Number
Movements in options		
Balance at the beginning of the financial year	4,517,503	19,620,000
Performance rights issued	3,000,000	–
Options lapsed	(950,483)	(19,620,000)
Options exercised	(29,618,152)	–
Options issued	44,551,132	4,517,503
Balance at the end of the financial year	**21,500,000**	**4,517,503**

	2011 $	2010 $
14. RESERVES		
Share option reserve	847,857	–
Performance rights reserve	675,000	–
	1,522,857	**–**
15. ACCUMULATED LOSSES		
Opening balance	2,018,813	1,527,313
Net loss for year	2,081,624	491,500
Closing balance	**4,100,437**	**2,018,813**

16. AUDITOR'S REMUNERATION

	2011 $	2010 $
Remuneration for audit or review of the financial reports of the Company:		
Current auditors of the Company: Audit and review of the financial statements		
Moyes Yong & Co	16,650	4,800
Graham Abbott & Associates	–	15,367
Other services	–	–
	16,650	**20,167**

17. REMUNERATION OF DIRECTORS AND EXECUTIVES

(a) Names of Directors and specified executives and positions held at any time during the year:

Directors	
D Sutton	Chairman – Non-Executive
M Bird	Director – Non-Executive
D Straw	Director – Non-Executive – retired 2 August 2010
C Straw	Managing Director – appointed 2 August 2010
Specified executives	
K Lynn	Company Secretary

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

Shares

Ordinary shares	Balance 1 July 2010	Net change other	Net change of associated entities	Balance 30 June 2011
Directors				
D Sutton	1,951,627	316,487	–	2,268,114
M Bird	579,525	52,325	–	631,850
C Straw	150,000	578,532	–	728,532
D Straw	512,301	(512,301)	–	–

Options and Performance Rights

Employee options and performance rights	Balance 1 July 2010	Granted as remuneration	Options and performance rights lapsed	Net change other	Balance 30 June 2011
Directors					
D Sutton	500,000	3,000,000	–	–	3,500,000
M Bird	500,000	3,000,000	–	–	3,500,000
C Straw	500,000	3,000,000	–	–	3,500,000
D Straw	500,000	–	–	(500,000)	–
Specified executives					
K Lynn	500,000	1,000,000	–	–	1,500,000

17. REMUNERATION OF DIRECTORS AND EXECUTIVES continued

(c) Directors' and senior officers' emoluments

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

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

Director remuneration for the year ended 30 June 2011:

	Salary & Fees	Non-monetary	Super annuation	Retirement benefits	Non-cash share based payments	Other	Total
D Sutton							
2011	**48,000**	**–**	**–**	**–**	**402,556**	**–**	**450,556**
2010	36,000	–	–	–	–	–	36,000
D Straw (retired 2 August 2010)							
2011	**10,000**	**–**	**–**	**–**	**–**	**–**	**10,000**
2010	30,000	–	–	–	–	–	30,000
K Slater (resigned 9 December 2010)							
2011	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2010	11,000	–	–	–	–	–	11,000
M Bird							
2011	**30,000**	**–**	**–**	**–**	**402,556**	**–**	**432,556**
2010	30,000	–	–	–	–	–	30,000
C Straw (appointed 2 August 2010)							
2011	**224,750**	**–**	**–**	**–**	**402,556**	**–**	**627,306**
2010	106,200	–	–	–	–	–	106,220

Remuneration of the 5 named executives who receive the highest remuneration for the year ended 30 June 2011:

	Salary & Fees	Non-monetary	Super annuation	Retirement benefits	Non-cash share based payments	Other	Total
K Lynn							
2011	**44,000**	**–**	**–**	**–**	**88,778**	**–**	**132,778**
2010	60,000	–	–	–	–	–	60,000

(d) Individual directors' and executives compensation disclosures

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

The fair value of options at grant date is determined using the Black-Scholes formula. The model inputs were a share price of \$0.26, an exercise price of \$0.50, expected volatility of 52%, a term of 5 years and a risk-free interest rate of 6%.

17. REMUNERATION OF DIRECTORS AND EXECUTIVES continued

Performance rights granted as part of remuneration have been valued using probability criteria attaching to each of the performance conditions applying under the Company's Performance Rights Plan approved by shareholders at the Company's Annual General Meeting on 30 November 2010.

Performance criteria:

(i) That the share price of the Company has increased by more than 50% for a period of 5 days since inception of the plan (probability 100%);

(ii) That a JORC resource of 15 million ounces of silver is achieved by the Company by 31 December 2011 (probability 50%);

(iii) That Directors remain as directors until 30 September 2012 (probability 100%).

(iv) Overall probability calculated at 75% of the above three criteria occurring.

18. RELATED PARTY TRANSACTIONS

Related parties of the Company fall into the following categories:

18.1 Trading transactions

During the year, the Company entered into the following trading transactions with related parties:

(i) Centric Minerals Management Pty Ltd (CMM) was paid $209,089 (2010: nil) to provide management, administrative services (including provision of office space and facilities) and geological consulting services to the Company from 1 December 2010. As at balance date the company owed $24,253 (2010: nil) to CMM. Messrs Sutton and Straw are directors of CMM.

(ii) Dayton Way Financial Pty Ltd, an entity controlled by Mr Sutton, received $125,394 (2010: $8,500) from the Company in relation to fees associated with raising equity for the Company.

(iii) Davcha Resources Pty Ltd, an entity controlled by Mr Straw, received $39,405 (2010: nil) from the Company in relation to geological consulting services for the Company.

(iv) Strategy-Matters International Pty Ltd, an entity controlled by Mr Lynn, received $123,475 from the Company in relation to accounting and secretarial services for the Company.

(v) During the financial year the Company paid $1,191,594 (2010: nil) for drilling services to New Competitive Drilling Pty Ltd (NCD), an entity involved in drilling services to the exploration sector. This amount represented a prepayment for the drilling of 17,023 metres at $70 per metre. During the financial year the Company utilised 3,358 meters at $70 per metre of this prepayment. Therefore as at 30 June 2011 the Company has 13,665 metres at $70 per metre representing $956,534 available for future drilling. Messrs Sutton and Straw are directors and Mr Lynn is company secretary of NCD.

18.2 Other related party transactions

18.2.1 Equity interests in related parties

(i) The Company holds 250,000 fully paid ordinary shares at 40 cents each in Precious Metals Investments Ltd (PMI), an entity involved in exploration for precious metals. Messrs Sutton, Straw and Lynn are directors of PMI.

19. SEGMENT INFORMATION

Business segments

The Company operates in the mining industry in Australia only. Operations comprise mineral exploration.

20. RECONCILIATION OF OPERATING LOSS AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2011 $	2010 $
Operating loss after income tax	(2,081,624)	(491,500)
Depreciation	31,924	43,201
Profit on sale of property, plant & equipment	–	(21,464)
	(2,049,700)	(469,763)
Movements in working capital:		
(Increase) in receivables	(87,883)	(68,838)
Increase/(decrease) in payables	(328,654)	241,932
Increase/(decrease) in provisions	27,188	(2,524)
Increase in reserves	1,462,534	–
Net cash outflows from operating activities	**(976,515)**	**(299,193)**

21. COMMITMENTS FOR EXPENDITURE

Operating leases

Non-cancellable operating lease rentals are payable as follows:		
Due within one year	57,903	77,224
Due beyond one year and within five years	–	–
	57,903	**77,224**

The Company leases vehicles under non-cancellable operating leases expiring within three years. The Company also has leases which generally provide the Company with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental.

22. FINANCIAL INSTRUMENT DISCLOSURES

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

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

(a) Market risk

(i) Foreign exchange risk

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

(ii) Price risk

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

22. FINANCIAL INSTRUMENT DISCLOSURES continued

(iii) Cash flow and fair value interest rate risk

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

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

The interest rate risk is detailed in the table below:

	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturing Within 1 year	Over 1 year	Non-interest bearing	Total
	$	$	$	$	$	$
2011						
Financial Assets						
Cash assets	4.8	–	3,281,561	–	90,196	3,371,757
Performance guarantee bonds	6.0	–	50,000	–	70,550	120,550
Other financial assets		–	–	–	1,301,356	1,301,356
		–	**3,331,561**	**–**	**1,462,102**	**4,793,663**
Financial Liabilities						
Payables (Current)		–	–	–	(174,718)	(174,718)
Payables (Non-current)		–	–	(57,903)	–	(57,903)
Net Financial Assets/ (Liabilities)		**–**	**3,331,561**	**(57,903)**	**1,287,384**	**4,561,042**
2010						
Financial Assets						
Cash assets	4.0	–	388,302	–	–	388,302
Performance guarantee bonds		–	–	60,550	–	60,550
Other financial assets		–	–	–	119,354	119,354
			388,302	**60,550**	**119,354**	**568,206**
Financial Liabilities						
Payables (Current)		–	(476,183)	–	–	(476,183)
Payables (Non-current)		–	–	(77,224)	–	(77,224)
Net Financial Assets/ (Liabilities)		**–**	**(87,881)**	**(16,674)**	**119,354**	**14,799**

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

	2011 $	2010 $
Net financial assets per above	4,561,042	14,799
Property plant & equipment	47,880	64,855
Deferred exploration & development	7,675,327	5,076,059
Net assets per statement of financial position	**12,284,249**	**5,155,713**

22. 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 Company manages liquidity risk by continuously monitoring forecast and actual cash flows matching maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets.

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

(e) Net fair values

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

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

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

(f) Sensitivity analysis

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

23. EARNINGS PER SHARE

	2011 Cents	2010 Cents
Basic earnings per share	(0.02)	(0.01)
Diluted earnings per share	(0.01)	(0.01)
	Number	**Number**
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basis earnings per share and alternative basis earnings per share	**106,124,631**	**67,220,332**
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share and alternative diluted earnings per share	**142,007,466**	**73,865,153**
	$	**$**
Reconciliation of earnings used in calculating earnings per share		
Earnings used in calculating basic and diluted earnings per share	**(2,081,624)**	**(491,500)**

24. LEASED ASSETS

The Company leases vehicles under non-cancellable operating leases. The leases provide the Company with the option to purchase equipment at a beneficial price. At 30 June 2011, the net carrying amount of leased vehicles was $57,903 (2010: $77,224).

25. EVENTS SUBSEQUENT TO REPORTING DATE

Since 30 June 2011, the Company announced on 6 September 2011 a non-renounceable pro-rata offer for the issue of up to 13,610,561 new options on the basis of one (1) new option for every ten (10) shares held by eligible shareholders on the record date of 14 September 2011 at an issue price of 1 cent per new option, to raise up to $136,016.

Other than the raising of additional capital, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

26. COMPANY DETAILS

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

Silver Mines Limited
Level 5, 17-19 Bridge Street
Sydney NSW 2000 Australia
Telephone: +61 2 9253 0900
Fax: +61 2 9253 0901

DIRECTORS' DECLARATION

The directors declare that:

1 the financial statements and notes, as set out on pages 21 to 43 are in accordance with the Corporations Act 2001 and:
  (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  (b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Company and economic entity;

2 the Chief Executive Officer and Chief Finance Officer have each declared that:
  (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  (c) the financial statements and notes for the financial year give a true and fair view;

3 in the director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

David Sutton

DIRECTOR
30 September 2011

INDEPENDENT AUDIT REPORT

To the members of Silver Mines Limited:

Report on the financial report

We have audited the accompanying financial report of Silver Mines Limited (the Company), which comprises the Statement of Financial Position as at 30 June 2011 and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Silver Mines Limited on 30 September 2011, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's opinion

In our opinion the financial report of Silver Mines Limited is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

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

The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included on pages 14 to 17 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion:

In our opinion the Remuneration Report of Silver Mines Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.

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

William M Moyes - Partner
30 September, 2011

CORPORATE GOVERNANCE STATEMENT

Approach to Corporate Governance

Silver Mines Limited (Company) has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd edition (Principles & Recommendations), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and an explanation for the adoption of its own practice.

Further information about the Company's corporate governance practices may be found on the Company's website at www.silverminesltd.com.au, under the section marked "Corporate Governance".

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2010/2011 financial year (Reporting Period). The Principles & Recommendations were amended in 2010, and these amendments apply to the Company's first financial year commencing on or after 1 January 2011. However, as encouraged by the ASX Corporate Governance Council, the Company has made an early transition to the amended Principles & Recommendations. Accordingly, the report below is made against the Principles & Recommendations as amended in 2010.

Board

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

The Company has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Board Charter.

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

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

The Company's Board Charter is available on the Company's website.

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

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report in the Annual Report June 2011.

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

The Board has an independent Chairman and a majority of directors who are independent. The Board considers that the current size and composition of the Board is appropriate for the effective execution of the Board's responsibilities and the size and operations of the Company. The Board periodically monitors the need to appoint additional independent directors.

The independent directors of the Company are David Sutton and Malcolm Bird. These directors are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

The Board considers the independence of directors having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds.

The Board has agreed on the following guidelines, as set out in the Company's Board Charter for assessing the materiality of matters:

- Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, could affect the Company's rights to its assets, if accumulated would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.

- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The non-independent director of the Company is Charles Straw.

The Chair of the Board is David Sutton who is non-executive and therefore independent.

The Managing Director is Charles Straw who is not Chair of the Board.

Independent professional advice (Recommendation: 2.6)

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

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

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

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Each director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the director's appointment or three years following that director's last election or appointment (whichever is the longer). However, a director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company.

At each annual general meeting a minimum of one director or one third of the total number of directors must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of directors is not automatic.

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

Board committees

Nomination Committee (Recommendations: 2.4, 2.6)

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

The full Board did not officially convene as a Nomination Committee during the Reporting Period, however nomination-related discussions occurred from time to time during the year as required.

To assist the Board to fulfil its function as the Nomination Committee, it has adopted a Nomination Committee Charter which describes the role, composition, functions and responsibilities of the Nomination Committee. A copy of the Nomination Committee Charter is available on the Company's website.

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

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

The full Board, in its capacity as the Audit Committee, held two (2) meetings during the Reporting Period. Details of the directors' attendance at Audit Committee meetings are set out in the Directors' Report. When the Board meets as the Audit Committee, Malcolm Bird Chairs' the meeting. To assist the Board to fulfil its function as the Audit Committee, the Company has adopted an Audit Committee Charter which describes its role, composition, functions and responsibilities of the Audit Committee.

Details of each of the director's qualifications are set out in the Directors' Report. All members of the Board consider themselves to be financially literate and have industry knowledge.

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

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

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

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

The Board did not officially convene as a Remuneration Committee during the Reporting Period, however remuneration-related discussions occurred from time to time during the year as required.

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

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

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

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

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

Performance evaluation
Senior executives (Recommendations: 1.2, 1.3)

The Managing Director is responsible for evaluating the performance of senior executives. The evaluations are performed by conducting interviews with the senior executives, as required.

The Board acting in its capacity as Remuneration Committee did not officially conduct a senior executive evaluation during the Reporting Period. Senior executive evaluation related discussions occurred from time to time during the year as required.

Board, its committees and individual directors
(Recommendations: 2.5, 2.6)

The Chair is responsible for evaluation of the Board and when appropriate Board committees and individual directors deemed. The Board, in its capacity as the Nomination Committee, is responsible for evaluating the Managing Director.

The Board acting in its capacity as Nomination Committee did not officially conduct an evaluation of the Board, its committees, and individual directors during the Reporting Period. Evaluation of the Board, its committees, and individual directors' related discussions occurred from time to time during the year as required.

Ethical and responsible decision making
Code of Conduct (Recommendations: 3.1, 3.5)

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

A summary of the Company's Code of Conduct is available on the Company's website.

Policy for Trading in Company Securities (Recommendations: 3.2, 3.3)

The Company has established a Policy for Trading in Company Securities by directors, officers and employees and their "connected persons".

A summary of the Company's Policy for Trading in Company's Securities is available on the Company's website.

Continuous Disclosure (Recommendations: 5.1, 5.2)

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

A summary of the Company's Policy on Continuous Disclosure is available on the Company's website.

Shareholder Communication (Recommendations: 6.1, 6.2)

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

A summary of the Company's Shareholder Communication Policy is available on the Company's website.

Risk Management
Recommendations: 7.1, 7.2, 7.3, 7.4)

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

Under the policy, the Board delegates day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board. As part of the Company's risk management system, the Managing Director is required to report to the Board on the process of, and on all matters associated with, risk management on a regular basis.

The Managing Director is to report to the Board as to the effectiveness of the Company's management of its material business risks at least annually.

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

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

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

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

Determined areas of risk which are regularly considered include: protection of assets; financial reporting; and operational risks.

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

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

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

SHAREHOLDER INFORMATION

ASX Additional Information

Additional information is required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is current as at 18 October 2011.

1(a). Distribution of Shareholders - Analysis of number of shareholders by size of holding:

Holdings Ranges	Holders	Total Units	%
1-1,000	90	14,160	0.01
1,001-5,000	369	1,184,989	0.87
5,001-10,000	366	3,141,000	2.31
10,001-100,000	963	35,423,299	26.03
100,001-99,999,999,999	209	96,342,720	70.78
Totals	**1,997**	**136,106,168**	**100.000**

(b) There are 228 shareholders with less than a marketable parcel of ordinary shares.

(c) There are no substantial shareholders in the Company's Register of Substantial Shareholders.

2. Twenty Largest Shareholders

The names of the twenty largest holders of ordinary shares are listed below:

Rank	Holder Name	Number	%
1	HSBC Custody Nominees (Australia) Limited	4,150,603	3.05
2	Morning Star Gold NL	3,300,000	2.42
3	Sell Power Pty Ltd	2,761,000	2.03
4	Leftone Nominees Pty Ltd	2,750,000	2.02
5	Geared Investments Pty Ltd	2,533,332	1.86
6	JP Morgan Nominees Australia Limited	2,233,383	1.64
7	I E Properties Pty Ltd	2,137,325	1.57
8	P R Perry Nominees Pty Ltd	2,048,000	1.50
9	Walpett Engineering Pty Ltd	2,033,333	1.49
10	Mr Michael Lim	2,000,000	1.47
11	Custodial Services Limited	1,927,444	1.42
12	Lujeta Pty Ltd	1,737,456	1.28
13	Mr Stacey Radford	1,700,000	1.25
14	Bigson Pty Ltd	1,638,889	1.20
15	The House Of Dare Pty Ltd	1,500,000	1.10
16	Catholic Church Insurances Limited	1,500,000	1.10
17	ABN Amro Clearing Sydney Nominees Pty Ltd	1,473,090	1.08
18	Forsyth Barr Custodians Ltd	1,472,900	1.08
19	Optex Exchange Pty Limited	1,264,160	0.93
20	Central West Gold NL	1,100,000	0.81
	Total Top 20	**41,260,915**	**30.32**
	Total	**136,106,168**	**100.00**

3. Listed Option holders

(a) Distribution of Optionholders - Analysis of number of option holders by size of holding:

Holdings Ranges	Holders	Total Units	%
1-1,000	212	118,7400	1.760
1,001-5,000	259	710,810	10.565
5,001-10,000	80	639,322	9.503
10,001-100,000	81	2,614,054	38.855
100,001-99,999,999,999	14	2,645,089	39.317
Totals	**646**	**6,727,975**	**100.000**

There are currently 564 holders with less than a marketable parcel.

(b) The names of the twenty largest holders of Listed Options are listed below:

Rank	Holder Name	Number	%
1	Morning Star Gold NL	330,000	4.90
2	HSBC Custody Nominees (Australia) Limited	272,533	4.05
3	I E Properties Pty Ltd	244,733	3.64
4	Custodial Services Limited	210,689	3.13
5	Walpett Engineering Pty Ltd	203,334	3.02
6	JP Morgan Nominees Australia Limited	200,833	2.99
7	Fruitopia Farming Co Pty Ltd	181,349	2.70
8	Lujeta Pty Ltd	173,746	2.58
9	Mr Stacey Radford	170,000	2.53
10	Bigson Pty Ltd	163,889	2.44
11	Forsyth Barr Custodians Ltd	155,290	2.31
12	Optex Exchange Pty Limited	126,416	1.88
13	Central West Gold NL	110,000	1.63
14	Ms Katherine Sutton	102,277	1.52
15	Mr John Darroch & Mrs Gloria Darroch	100,000	1.49
16	Calama Holdings Pty Ltd	95,000	1.41
17	Dinwoodie Investments Pty Ltd	90,000	1.34
18	Mr Kevin Michael Finn & Mrs Sandra Marrion Finn	89,136	1.32
19	Insync Equity Services Pty Ltd	80,000	1.19
20	Mr Denys Pasitschnyk	76,434	1.14
	Total Top 20	**3,175,659**	**47.20**
	Total	**6,727,975**	**100.00**

4. Voting rights

Ordinary shares carry one vote per share. There are no voting rights attached to the Options in the Company.

5. Business objectives

This annual report of the Company and pursuant to the ASX listing rules the Company confirms that it has used its cash and assets that it had at the time of its admission consistent with its business objectives.

6. Stock Exchange

The Company is listed on the ASX Limited. The "Home Exchange" is Sydney.

7. Other information

Silver Mines Limited, is incorporated and domiciled in Australia, and is a publicly listed company limited by shares.

8. On-market buy-back

There is no current on-market buy-back.

CORPORATE DIRECTORY

DIRECTORS

David Sutton
NON-EXECUTIVE CHAIRMAN

Charles Straw
MANAGING DIRECTOR

Malcolm Bird
NON-EXECUTIVE DIRECTOR

COMPANY SECRETARY

Kevin Martin Lynn

REGISTERED OFFICE

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Australian Company Number
107 452 942

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COMPANY'S SOLICITOR

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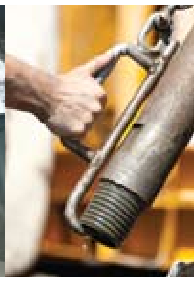
NOTES

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