

31st October 2016Company Announcement Officer
ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000**ACTIVITIES REPORT FOR THE QUARTER ENDED
30 SEPTEMBER 2016****Highlights**

- **Ownership and management takeover of the Bowdens Silver Project.**
- **Path to development defined with Feasibility Study and Environmental Impact Statement programs recommissioned.**
- **Drilling commenced, initial 15,000 metre drilling program with a focus on resource expansion and upgrade.**
- **Expanded program of up to a further 20,000 metres permitted with an exploration focus.**
- **Expansion of acreage position to the west of Bowdens Silver.**
- **20,000 kilometre airborne geophysical program.**

Bowdens Silver Project

At the end of the previous quarter, Silver Mines Limited (“Silver Mines” or “the Company”) completed the acquisition of the Bowdens Silver Project (“Bowdens Silver” or “Project”). Bowdens Silver is located in central New South Wales, approximately 26 kilometres east of Mudgee. See Figure 1. The recently consolidated Project area comprises 1,654 km² (408,000 acres) of titles covering approximately 80 kilometres of strike of the highly mineralised Rylstone Volcanics. Multiple target styles and mineral occurrences have potential throughout the district including analogues to Bowdens Silver, silver-lead-zinc epithermal and volcanogenic massive sulphide (VMS) systems and copper-gold targets.

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Initial pit optimisation and cost estimation work has been completed to pre-feasibility levels with initial work demonstrating robust project economics at current commodity prices.

Other works commenced include updated mineral resource modelling, mine planning and scheduling, and water and tailings management. Flowsheet development and process and plant design aspects of the Feasibility Study are scheduled to commence in the coming months.

Environmental Impact Statement work to date by RW Corkery & Co has been comprehensive. Many elements requiring significant lead time have mostly been completed or are well advanced allowing the Company to expedite lodgement.

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

The Company is targeting Feasibility Study completion and Environmental Impact Statement lodgement in mid-2017.

Drilling Commencement at Bowdens Silver

A total of 15,000 metres of drilling has commenced with two diamond drill rigs operating on site. Initially, the program is planned to:

- increase silver resources both within, and in the immediate vicinity of, the current resource area;
- convert silver resources to higher levels of confidence as part of the Feasibility Study program; and
- further test high grade polymetallic mineralisation at depth below the current resource area.

The drill program follows approximately 63,000 metres of drilling that has been previously completed at Bowdens Silver with the current program providing tighter drill spacing along with testing of extensional targets. Included in the program is oriented diamond core drilling to provide structural geology information for targeting extensions of high-grade zones.

Furthermore, an expanded program of up to 20,000 additional metres of drilling has been permitted and is planned to test exploration targets including targets where substantial silver mineralisation has been discovered but is yet to be fully evaluated.

Geophysical Program

A high resolution airborne geophysical survey covering over 20,000 line kilometres encompassing the entirety of the Bowdens Silver tenement area of 1,654 km² will shortly commence after delays due to weather.

Government and Community Engagement

Silver Mines continues an expansive program of consultation with relevant Government departments, local communities and other interested stakeholders. The program examines the potential impacts and benefits of exploration and development across the substantial Bowdens Silver tenement portfolio. Consultation processes focus on the current potential mine development area and also the wider area where the Company is commencing exploration programs. During the quarter, the Company's activities included the commissioning of the Community Consultative Committee, planning for the Company's Open Day event as well as local sponsorship activities. The Company continues its policy of direct meetings with stakeholders and interest groups.

Bowdens Silver Acreage Consolidation

During the September 2016 quarter the Company advised that it had completed Farm-in and Joint Venture documentation with Thomson Resources Limited (ASX:TMZ) ("Thomson Resources") with regards to EL7391 that is contiguous with the Bowdens Silver Project.

Silver Mines shall acquire an 80% interest in EL7391 through A\$300,000 of expenditure including 1,000 metres of drilling prior to December 2018. Silver Mines is the Manager and the Thomson Resources interests will be free carried until the completion of a Feasibility Study.

Silver Mines is currently reviewing all past works and planning further exploration programs including initial drilling.

Deed of Variation

On 30th September 2016, the Company announced that it had entered into a Deed of Variation with Kingsgate Consolidated Limited (ASX:KCN) ("Kingsgate Consolidated") for the purchase of 100% of Bowdens Silver. A further amendment with regards to the final A\$5 million payment to Kingsgate Consolidated for the remaining 15% interest in Bowdens Silver has been completed. A non-refundable payment of A\$1 million was paid 30th September 2016 with the residual amount (plus 10% interest from 30th September 2016) to be paid on or prior to 30th December 2016.

Other Projects

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

Chairman

During the September 2016 quarter, the Company advised the appointment of Mr Keith Perrett as Non-Executive Chairman of Silver Mines. Mr Perrett had been a Non-Executive Director of the Company since 21st June 2016.

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

Yours faithfully

Silver Mines Limited



Trent Franklin
Company Secretary

About Silver Mines Limited

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

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

Competent Persons Statements

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

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Tenement Information as at 30 September 2016:

Tenement	Project Name	Location	Silver Mines Ownership	Change in Quarter
EL 5920	Bowdens Silver	NSW	100%	-
EL 6354	Bowdens Silver	NSW	100%	-
EL 8159	Bowdens Silver	NSW	100%	-
EL 8160	Bowdens Silver	NSW	100%	-
EL 8168	Bowdens Silver	NSW	100%	-
EL 8268	Bowdens Silver	NSW	100%	-
EL 7391 ¹	Bowdens Silver	NSW	0%	-
EL 8403	Bowdens Silver	NSW	100%	-
EL 8405	Bowdens Silver	NSW	100%	-
ELA 5235	Bowdens Silver	NSW	application	-
ELA 5257	Tuena	NSW	application	-
EL 5674	Webbs	NSW	100%	-
EPL1050	Conrad	NSW	100%	100%
EL 5977	Conrad	NSW	100%	100%
ML 6040	Conrad	NSW	100%	100%
ML 6041	Conrad	NSW	100%	100%
ML 5992	Conrad	NSW	100%	100%

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

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Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Silver Mines Limited

ABN

45 107 452 942

Quarter ended ("current quarter")

30th September 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date July-June \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(1,368)	(1,368)
(b) development		
(c) production		
(d) staff costs	(117)	(117)
(e) administration and corporate costs	(1,118)	(1,118)
1.3 Dividends received (see note 3)		
1.4 Interest received	25	25
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Research and development refunds		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(2,578)	(2,578)

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Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date July-June \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(712)	(712)
	(b) tenements (see item 10)		
	(c) investments		
	(d) other non-current assets		
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	9	9
	(b) tenements (see item 10)		
	(c) investments		
	(d) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(703)	(703)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options	(1,155)	(1,155)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (transfer for June capital raising)	1,974	1,974
3.10	Net cash from / (used in) financing activities	819	819

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date July-June \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	11,557	11,557
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,578)	(2,578)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(703)	(703)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	819	819
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	9,095	9,095

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	9,095	11,557
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	9,095	11,557

Mining exploration entity and oil and gas exploration entity quarterly report

6. Payments to directors of the entity and their associates		Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	10
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

7. Payments to related entities of the entity and their associates		Current quarter \$A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>		Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1	Loan facilities		
8.2	Credit standby arrangements		
8.3	Other (please specify)		
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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Mining exploration entity and oil and gas exploration entity quarterly report

9.	Estimated cash outflows for next quarter	\$A'000
9.1	Exploration and evaluation	2,096
9.2	Development	
9.3	Production	
9.4	Staff costs	394
9.5	Administration and corporate costs	389
9.6	Other (provide details if material)	12
9.7	Total estimated cash outflows	2,891

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2	Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Sign here:

 (Company secretary)

Date: 31st October 2016

Print name: Trent Franklin

Notes

- The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to

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disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.

2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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