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31st January 2017

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

ACTIVITIES REPORT FOR THE QUARTER ENDED

31 DECEMBER 2016

Highlights

- **Finalisation of the purchase of 15% of the Bowdens Silver Project to complete 100% ownership.**
- **Outstanding drilling results returned during the quarter confirming multiple high-grade zones at Bowdens Silver.**
- **Drill results surpassing expectations in the high-grade core of the deposit.**
- **Deeper intercepts indicate potential for high-grade intercepts in basement rocks.**
- **20,000 kilometre airborne geophysical program completed.**
- **A 1300 metre by 800 metre intrusion identified at Gumarooka adjoining the Bowdens Silver deposit.**
- **Close to surface intrusive interpreted to be an andesitic porphyry and a possible source to Bowdens Silver mineralisation.**
- **Gumarooka is a substantial new exploration target with drill planning underway.**
- **Feasibility Study and Environmental Impact Statement programs advanced.**
- **Expansion of acreage position adjoining Bowdens Silver.**
- **Capital raising complete with A$5 million raised at a price of A$0.165 per share.**

Bowdens Silver Project

During the quarter Silver Mines Limited ("Silver Mines" or "the Company") completed the acquisition of the 15% of the Bowdens Silver Project ("Bowdens Silver") that it did not already own. Silver Mines now owns 100% of Bowdens Silver. The project is located in central New South Wales, approximately 26 kilometres east of Mudgee. (See Figure 3). The recently consolidated project area comprises 1,654 km^2 (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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Drilling

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 Company advised during the quarter that it has received the first drill results from the current diamond drilling program at the Bowdens Silver project. The first diamond core holes (BD16001 and BD16002) were designed to test and confirm silver-rich mineralisation at the northern end of the current known resource. The holes recorded several high-grade silver intersections within a broad zone of silver mineralisation.

Table 1: Drill hole intersections from BD16001 and BD16002 at the Bowdens Silver Project using a minimum 30g/t silver cut-off over 5 metre width and up to 10 metres internal dilution factor with higher- grade zones using a minimum 60g/t silver cut-off over 5 metre interval and up to 5 metres internal dilution.

Hole ID	From (metres)	To (metres)	Interval (metres)	Silver (g/t)	Zinc (%)	Lead (%)	Ag Eq (g/t)[1]
BD16001	90.3	186	95.7	109	0.27	0.40	126
including	**90.3**	**99**	**8.7**	**540**	**0.34**	**0.73**	**568**
	107	*112*	*5.0*	*143*	*0.39*	*1.01*	*179*
	162.8	*172*	*9.2*	*134*	*0.88*	*0.71*	*173*
	181	*186*	*5.0*	*294*	*0.34*	*0.87*	*326*
BD16001	217	247	30.0	34	0.05	0.07	37
BD16001	313.7	318.25	4.55	70	0.13	0.16	77
BD16002	118	242	124	85	0.19	0.20	95
including	**136**	**156**	**20**	**200**	**0.26**	**0.39**	**217**
	167	174	7	114	0.55	0.18	132
	223	**240**	**17**	**229**	**0.01**	**0.26**	**236**
BD16002	291	297	6	139	0.23	0.31	153

1. *Bowdens silver equivalent calculated using metal prices of US$20 per ounce* silver, *US$1.00 per* pound zinc and, US*$1.00 per* pound lead *and recoveries of 81% for silver,* 82% for zinc and *81% for lead.*

Please refer to Appendix 1 further details including location plan and sections of BD16001 and BD16002.

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These initial results have surpassed the Company's expectations in this area of the deposit and will improve the existing resource model. The results from the zones intersected support the justification of further delineation of the extent of the high-grade core of silver mineralisation. These zones have the potential to considerably enhance the project economics currently being assessed in mine planning.

Furthermore, both BD16001 and BD16002 intersected mineralisation within the Ordovician basement sediments beneath the volcanic rocks at depths of 295 metres and 291 metres respectively. These deeper intersections indicate the potential for a feeder zone beneath the Rylstone Volcanics. Work is on-going to assess the significance of this deeper mineralisation.

The current drill program involves infill drilling to convert inferred resources to measured and indicated resource categories as well as testing for potential extensions of the known mineralisation. Drilling is on-going with a further fourteen holes completed with samples pending completion of assays. The current program forms part of a larger diamond core and reverse circulation drilling program consisting of 178 holes for 38,000 metres.

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.

Gumarooka Intrusion Discovery

During the quarter the Company advised that it had completed a high resolution airborne geophysical survey covering over 20,000 line kilometres encompassing the entirety of the Bowdens Silver tenement area of 1,654 km^2.

Preliminary interpretations of the new high resolution airborne magnetic and radiometric data has identified an elliptical body approximately 1,300 metres by 800 metres located immediately to the north-west of the Bowdens Silver epithermal deposit (Figure 1).

Apart from one drill hole of the northern margin, the magnetic body has not been previously drilled and is entirely covered by Shoalhaven Group sediments. Intrusions, such as the Gumarooka Intrusion, formed from hot-molten rock, are often the heat and metal sources for epithermal mineralisation such as that seen at Bowdens Silver.

In 2013, a drill hole (BD13147) on the northern margin of this magnetic body intersected an 89 metres zone (from 39.6 metres down hole) of a rock type interpreted, in hand-specimen, to be an andesite or trachy-andesite porphyry. Further analysis is underway to confirm the rock characteristics.

Based on modelling and observation from the drill core in BD13147, this rock is older than the overlying mid-Permian Shoalhaven Group sediments and younger than the early Permian Rylstone Volcanics making it approximately the same age as mineralisation at Bowdens Silver.

Geophysical modelling places the depth to the top of the main part of the intrusion at between 60 metres and 150 metres depth.

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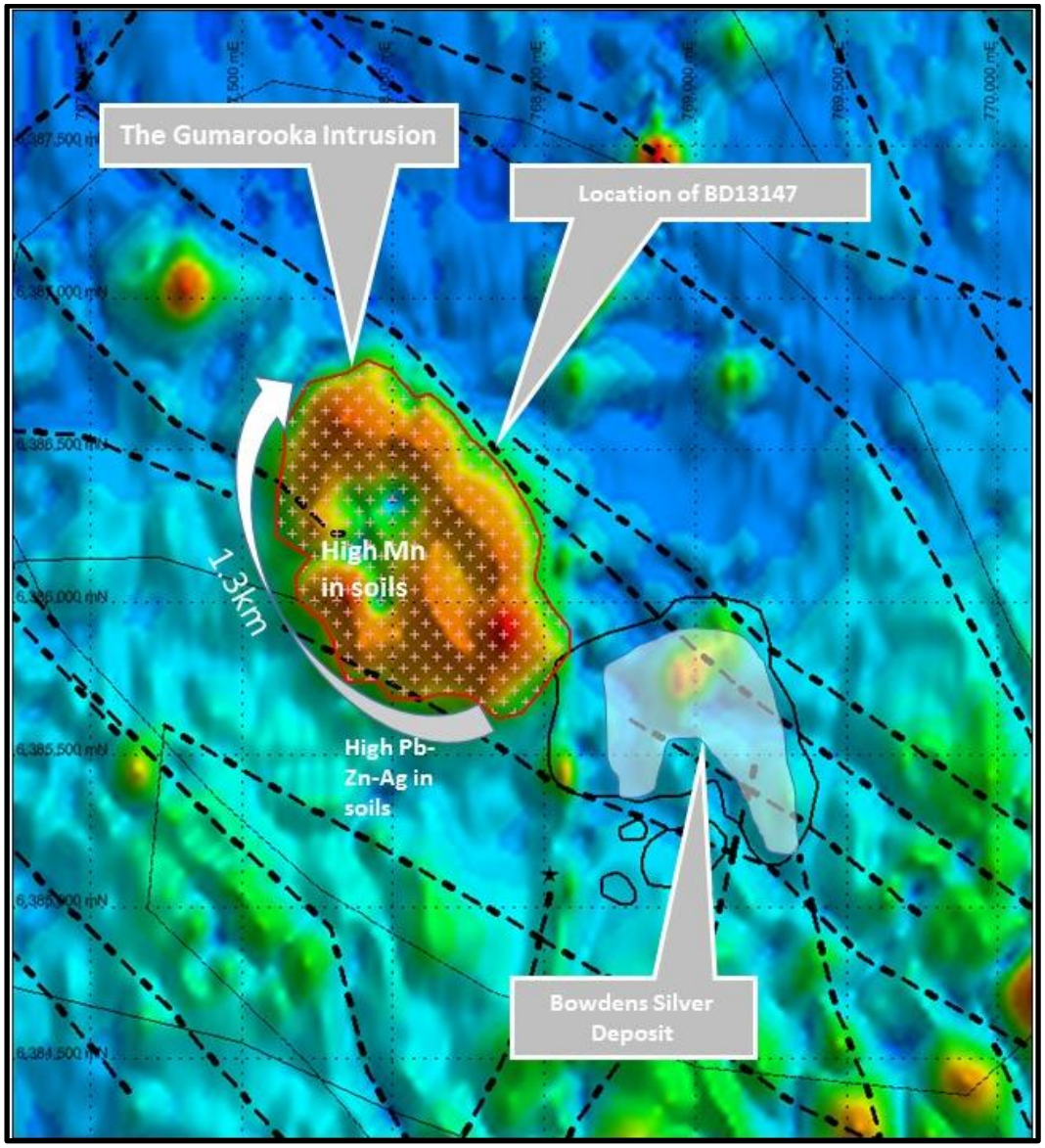

Figure 1 Magnetics image (analytical signal) of Bowdens area showing the Gumarooka intrusion. Black dashed lines are interpreted, from magnetics data to be faults. Grid = 500m

Given that this body is entirely covered by Shoalhaven sediments there is not any base metal or silver geochemistry soil anomaly associated with this body. However, previous soil geochemistry indicates that above the intrusion there is elevated manganese (>1000ppm Mn with up to 5000ppm Mn identified) which is often an indicator of mineralisation beneath. Furthermore, immediately south of Gumarooka is an undrilled silver-lead soil anomaly (>50ppm Pb) which may be the result of metal bleeding out from under the Shoalhaven Group sediments and the Gumarooka Intrusion to the north.

The entire Gumarooka Intrusion lies 100% within tenements held by Bowdens Silver (Exploration License EL5920 along with all surface rights).

Detailed exploration is currently being scheduled for Gumarooka with drilling being planned to commence during the March quarter 2017.

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Outside of Gumarooka, several areas currently being assessed include;

Gulgowra - Located approximately four kilometres north-west and along strike from Bowdens Silver interpreted with alteration within Rylstone Volcanics coinciding with anomalous surface geochemistry.

Bara Mine - Historic mineral occurrences of sediment hosted copper-lead-silver-zinc deposits located approximately 10 kilometres north-west of Bowdens Silver. Interpretation highlights geological structures associated with a granitoid intrusion.

Havilah - Magnetic interpretation in this Joint Venture area located to the west of Bowdens Silver indicates historical mineral occurrences and substantial anomalous surface geochemistry coinciding with granitic dykes. There are several undrilled targets in this area.

Further details of these high order target areas will be provided as interpretation is completed. In addition, the Company is continuing to interpret the remainder of the magnetics data, with the intention of mapping key geological units and generating new mineral deposit targets.

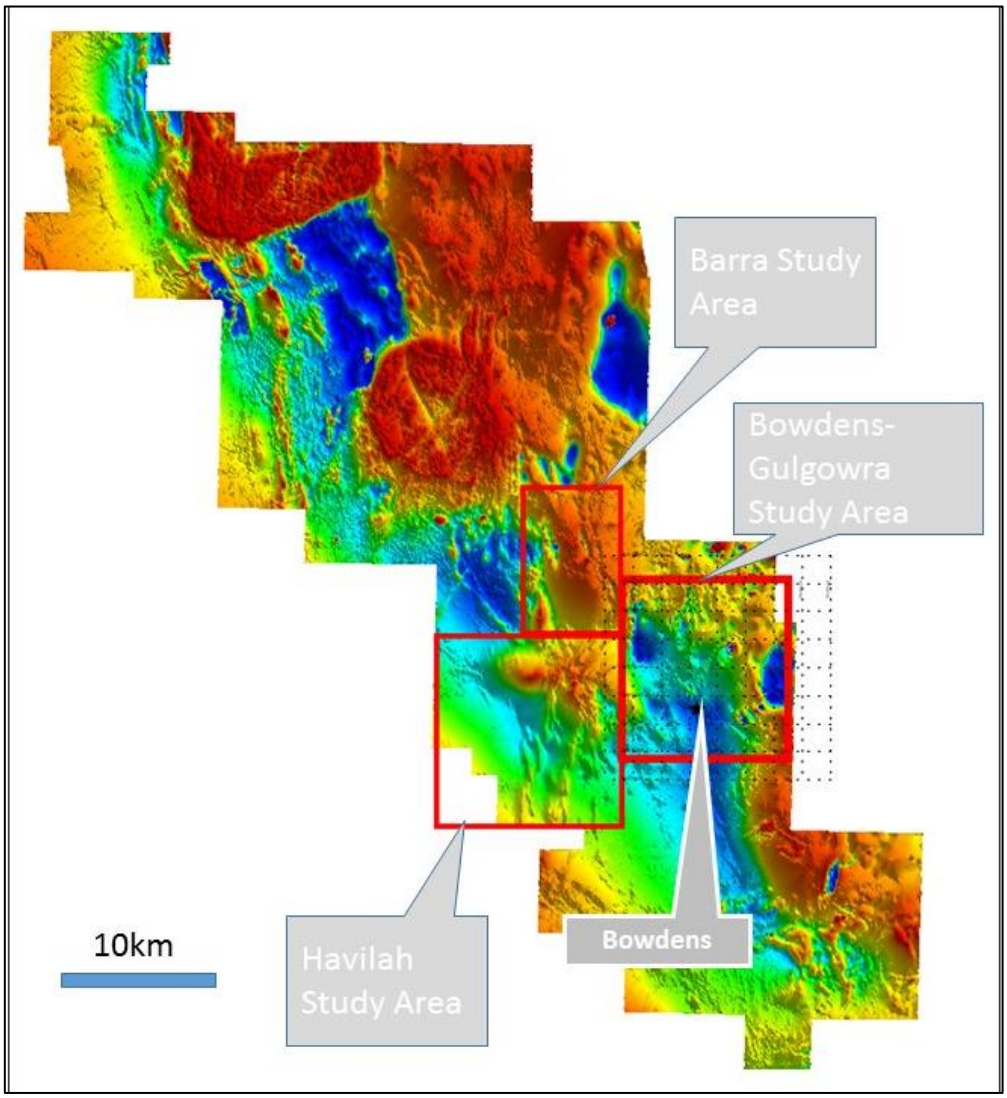

Figure 2. Full extent of new magnetics data over Silver Mines Exploration License Portfolio in the Mudgee region

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Feasibility Study and Environmental Impact Study

It is the Company's priority to fast-track the Bowdens Silver Project to mine development. Part of the reassessment of the project and the Feasibility Study works is to examine a more capital cost-effective development with enhanced project economics.

The project has had a very substantial body of work completed covering all aspects of mine development. The components of the Feasibility Study are currently being evaluated and modified in conjunction with the Company's consultants including AMC Consultants and ATC Williams and other specialist consultants.

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 been mostly 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 the second half of calendar 2017.

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, the hosting of a well-attended on-site Open Day event as well as local sponsorship activities. The Company has completed a substantial upgrade to its local Bowdens Silver website. See www.bowdenssilver.com.au. The Company continues its policy of direct meetings with stakeholders and interest groups.

Bowdens Silver Acreage Consolidation

During the quarter, the Company advised the completion of final documentation for the Farm-in and Joint Venture with Thomson Resources Limited (ASX:TMZ) ("Thomson Resources") with regards to EL7391 which covers ~50 km^2 and is contiguous with the Bowdens Silver Project.

Under the Farm-in and Joint Venture Agreement, Silver Mines will acquire an 80% interest in EL7391 through a $300,000 expenditure program in addition to completing 1000 metres of drilling prior to December 2018. Silver Mines is the Manager and Thomson Resources' interests will be free-carried until the completion of a Feasibility Study.

Silver Mines is currently reviewing all past works and interpreting the recently completed aerial magnetics and radiometric data and planning further exploration programs.

Other Projects

No work was undertaken during the quarter on the Webbs and Conrad projects. A technical review program is planned to be undertaken as the Company assesses exploration options and other options for these projects.

Deed of Variation 100% Ownership of Bowdens Silver

On 30th June 2016, the Company announced that it had entered into a Deed of Variation with Kingsgate Consolidated Limited ("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 payment of A$1 million was paid 30th September 2016 with the residual amount (plus 10% interest from 30th September 2016) paid prior to 31st December 2016.

Placement

During the quarter, the Company advised that it had successfully completed a capital raising of approximately A$5 million at a price of 16.5 cents per share to institutional, professional and sophisticated investors.

The financing was primarily used to complete the acquisition of the remaining 15% of the Bowdens Silver Project from Kingsgate Consolidated.

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About the Bowdens Silver Project

The Bowdens Silver Project is located in central New South Wales, approximately 26 kilometres east of Mudgee (Figure 3). The recently consolidated project area comprises 1,654 km^2 (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, high-grade silver-lead-zinc epithermal and volcanogenic massive sulphide (VMS) systems and copper-gold targets.

Bowdens Silver is the largest undeveloped silver deposit in Australia with substantial resources and a considerable body of high quality technical work already completed. The projects boast outstanding logistics for future mine development.

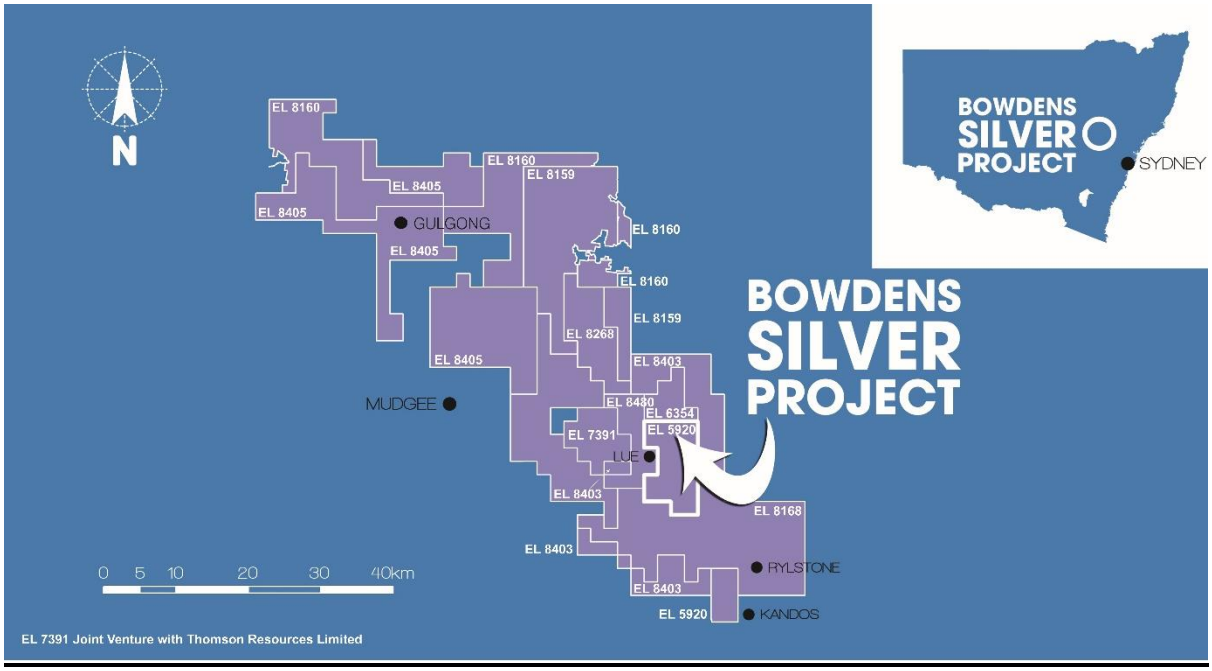

Figure 3. Bowdens Silver tenement holdings in the Mudgee district.

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 by maximising leverage to an accretive silver price.

Competent Persons Statement

The information in this report that relates to mineral exploration results is based on information compiled or reviewed by Mr Scott Munro who is a full-time employee of the company. Mr Munro is a member of the Australian Institute of Geoscientists (AIG) and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the activity being undertaken, to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC code). Mr Munro consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

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Tenement Information as at 31st December 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%	-
EL 8480	Bowdens Silver	NSW	100%	100%
ELA 5257	Tuena	NSW	application	-
EL 5674	Webbs	NSW	100%	-
EPL1050	Conrad	NSW	100%	-
EL 5977	Conrad	NSW	100%	-
ML 6040	Conrad	NSW	100%	-
ML 6041	Conrad	NSW	100%	-
ML 5992	Conrad	NSW	100%	-

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

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Appendix 1 Drill Hole Details

Hole ID	East	North	RL	Dip	Azimuth (mag)	EOH (m)	Comment
BD16001	769092	6385810	640	-75	200	342.9	assays received
BD16002	769084	6385876	631	-75	200	300.9	assays received
BD16003	768640	6385787	629	-70	180	456.7	assays pending
BD16004	768647	6385763	626	-70	180	348.9	assays pending
BD16005	769045	6385916	643	-75	200	351	assays pending
BD16006	768655	6385740	621	-70	180	315	assays pending
BD16007	768965	6385795	660	-80	60.5	342.8	assays pending
BD16008	768874	6385712	621	-65	40.5	252.6	assays pending
BD16009	768895	6385633	614	-65	45.5	162.7	assays pending
BD16010	769053	6385578	637	-65	60.5	279.6	assays pending
BD16011	768838	6385837	620	-53	53.5	354.7	assays pending
BD16012	768838	6385837	620	-61	65.5	279.8	assays pending
BD16013	768948	6385677	636	-70	40.5	249.8	assays pending
BD16014	768948	6385677	636	-55	70	267.6	assays pending
BD16015	769046	6385626	650	-75	60.5	267.7	assays pending
BD16016	769079	6385901	635	-65	60.5	192.4	assays pending

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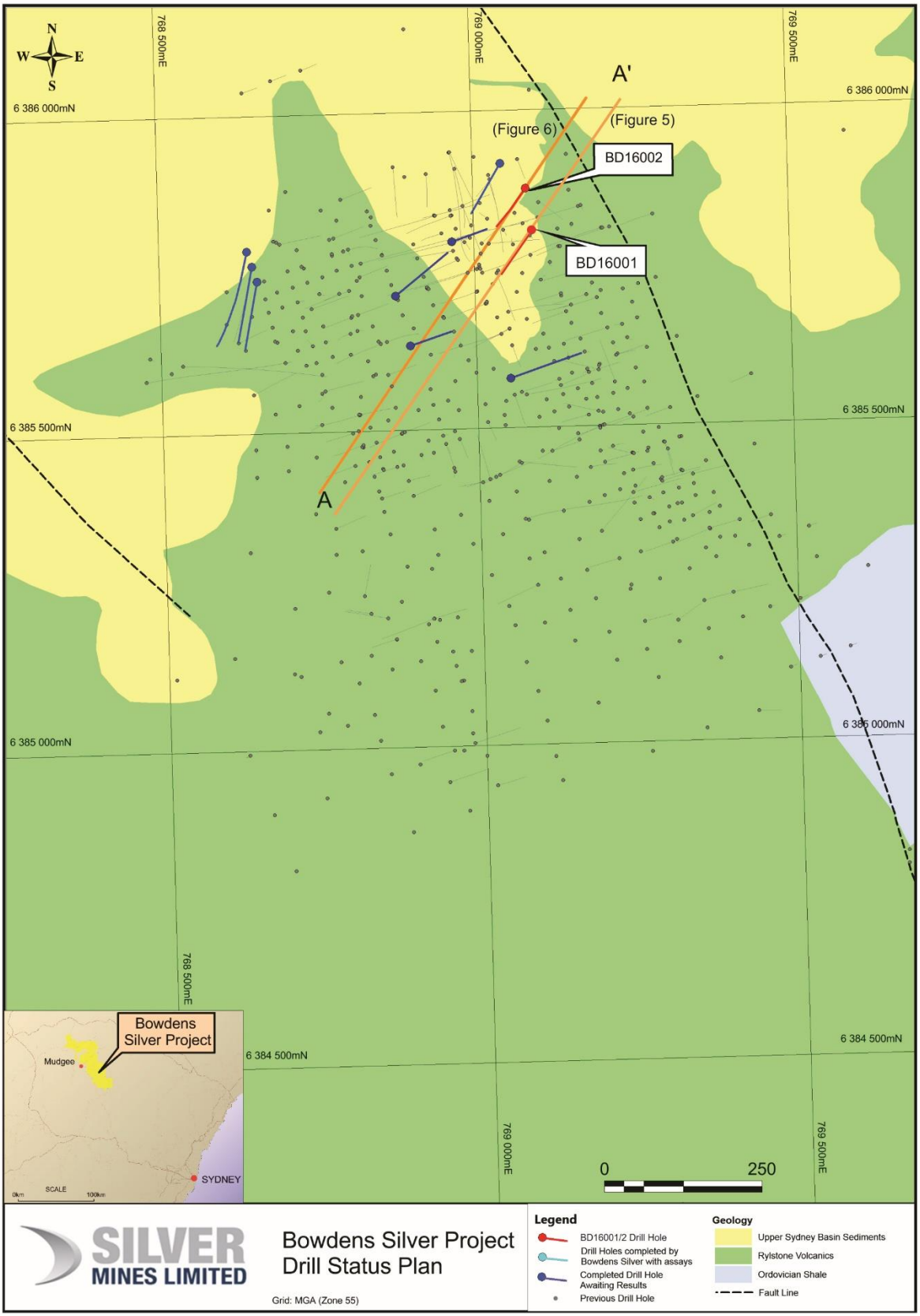

Figure 4. Bowdens Silver Drill Hole Location Plan

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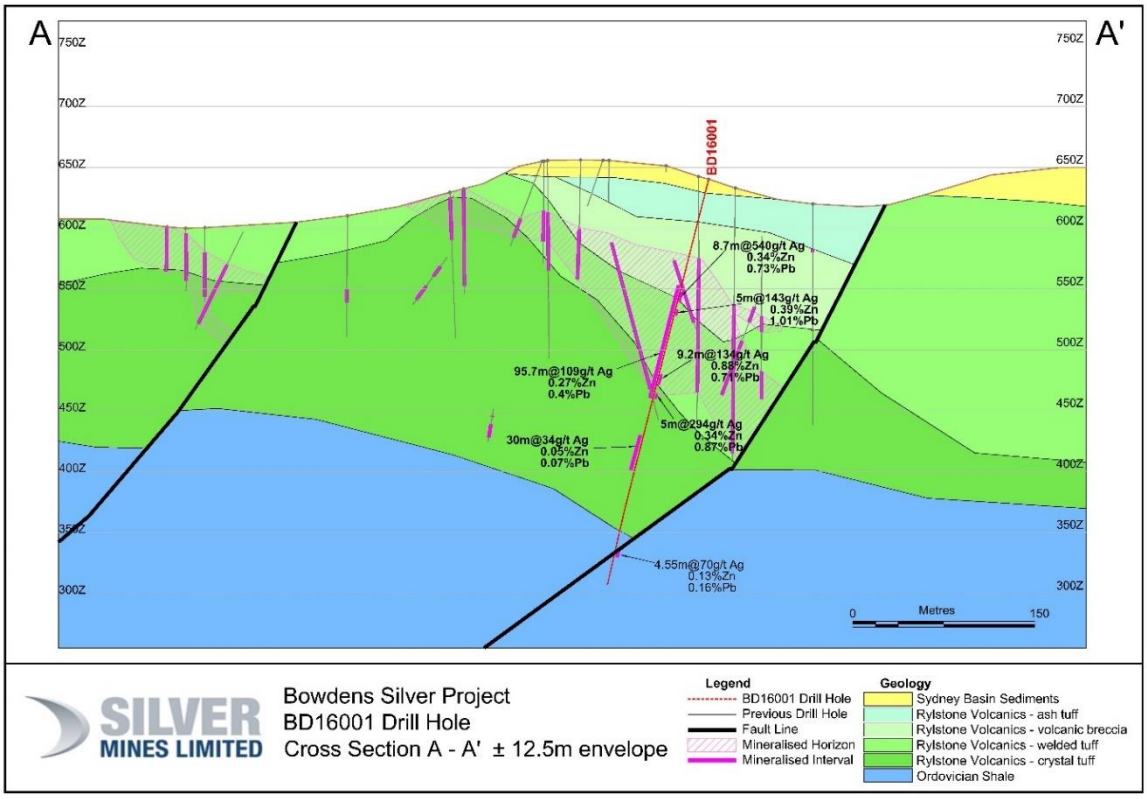

Figure 5. Bowdens Silver cross section of drill hole BD16001.

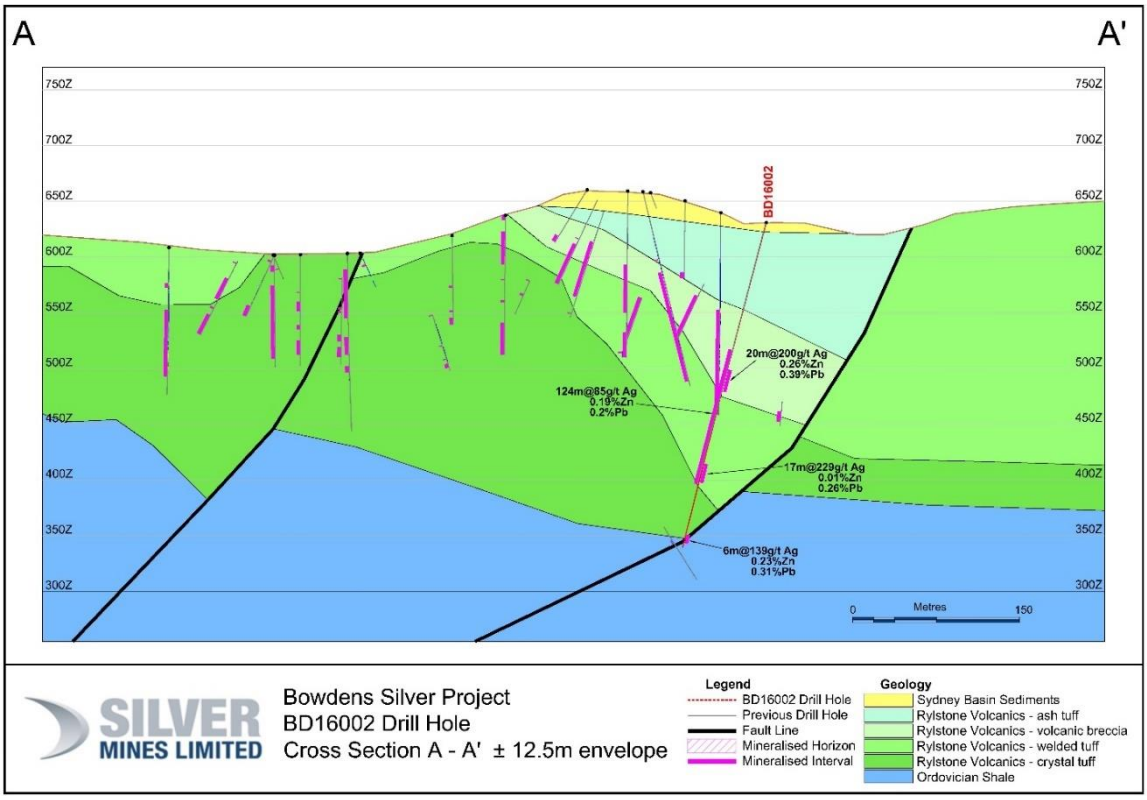

Figure 6. Bowdens Silver cross section of drill hole BD16002.

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JORC Code, 2012 Edition – ANNEXURE 1

Section 1 Sampling Techniques and Data

(Criteria in this section apply to all succeeding sections.)

Criteria	JORC Code explanation	Commentary
Sampling techniques	• *Nature and quality of sampling (e.g. cut channels, random chips, or specific specialised industry standard measurement tools appropriate to the minerals under investigation, such as down hole gamma sondes, or handheld XRF instruments, etc). These examples should not be taken as limiting the broad meaning of sampling.* • *Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used.* • *Aspects of the determination of mineralisation that are Material to the Public Report.* • *In cases where 'industry standard' work has been done this would be relatively simple (e.g. 'reverse circulation drilling was used to obtain 1m samples from which 3kg was pulverised to produce a 30g charge for fire assay.') In other cases, more explanation may be required such as where there is coarse gold that has inherent sampling problems. Unusual commodities or mineralisation types (e.g. submarine nodules) may warrant disclosure of detailed information.*	• All samples taken as nominal 1 metre intervals from half-cut core and from the same side of the core. • Each sample represents approximately 2 kilograms of material • Each sample was sent for multi-element assay using ICP techniques with the entire sample pulverized and homogenized with a 50g extract taken for assay. • Assays are considered representative of the sample collected.
Drilling techniques	• *Drill type (e.g. core, reverse circulation, open-hole hammer, rotary air blast, auger, Bangka, sonic, etc) and details (e.g. core diameter, triple or standard tube, depth of diamond tails, face-sampling bit or other type, whether core is oriented and if so, by what method, etc).*	• Drilling undertaken using NQ diamond core rig with standard tube. • All core, where unbroken ground allows, is oriented by drilling team and an orientation line along the base of the hole.
Drill sample recovery	• *Method of recording and assessing core and chip sample recoveries and results assessed.* • *Measures taken to maximise sample recovery and ensure representative nature of the samples.* • *Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material.*	• Core recovery is estimated at greater than 95%. • Some zones (less than 10%) were broken core with occasional clay zones where some sample loss may have occurred. However this is not considered to have materially affected the results.

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Criteria	JORC Code explanation	Commentary
Logging	• *Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies.* • *Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc) photography.* • *The total length and percentage of the relevant intersections logged.*	• All holes are logged using lithology, alteration, veining, mineralization and structure including geotechnical structure. • All core is photographed using both wet and dry photography. • The entire hole is logged.
Sub-sampling techniques and sample preparation	• *If core, whether cut or sawn and whether quarter, half or all core were taken.* • *If non-core, whether riffled, tube sampled, rotary split, etc and whether sampled wet or dry.* • *For all sample types, the nature, quality and appropriateness of the sample preparation technique.* • *Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples.* • *Measures taken to ensure that the sampling is representative of the in situ material collected, including for instance, results for field duplicate/second-half sampling.* • *Whether sample sizes are appropriate to the grain size of the material being sampled.*	• Minor selective sub-sampling based on geology to a maximum size of 1.3m and a minimum of 0.3m. • All core is cut using a Corewise core saw with core rotated 10 degrees to the orientation line to preserve the orientation for future reference. • The half of the core without the orientation line is removed, bagged and sent to the laboratory for assay. • Sample sizes are considered appropriate for the rock type, style of mineralisation, the thickness and consistency of the intersections and assay ranges expected at Bowdens.
Quality of assay data and laboratory tests	• *The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total.* • *For geophysical tools, spectrometers, handheld XRF instruments, etc, the parameters used in determining the analysis including instrument make and model, reading times, calibration factors applied and their derivation, etc.* • *Nature of quality control procedures adopted (e.g. standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (i.e. lack of bias) and precision have been established.*	• Samples dispatched to ALS Global laboratories in Orange NSW for sample preparation and gold analysis Au-AA25. 33 multi-element analysis completed at ALS Brisbane using method ME-ICP61. • Site Standards are inserted every 50 samples to check quality control and laboratory standards and blanks every 25 samples to further check results.
Verification of sampling and assaying	• *The verification of significant intersections by either independent or alternative company personnel.* • *The use of twinned holes.* • *Documentation of primary data, data entry procedures, data*	• Significant intersections calculated by site-geologists and verified by an independent geological consultant. • All geological logging is entered manually onto a log sheet before

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Criteria	JORC Code explanation	Commentary
	verification, data storage (physical and electronic) protocols. • *Discuss any adjustment to assay data.*	inputting into a Maxwell Geoservices database schema. • All assays matched with the logging sheets and loaded directly from the output provided by the laboratory with no manual entry of assays undertaken.
Location of data points	• *Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation.* • *Specification of the grid system used.* • *Quality and adequacy of topographic control.*	• The collar position is surveyed using hand-held GPS with accuracy of +- 5 metres • Down hole surveys collected every 30 metres using an electronic downhole reflex survey camera. • The terrain includes steep hills and ridges and with a topographical model on 2 metre accuracy. • All collars recorded in MGA94 zone 55 and also re-projected to a locally defined mine-grid system.
Data spacing and distribution	• *Data spacing for reporting of Exploration Results.* • *Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied.* • *Whether sample compositing has been applied.*	• This drilling is designed as both infill and extensional to the overall mineral resource envelope. The nominal drill hole spacing is 25m (northing) by 50m (easting) in the core of the deposit. • The current drill program includes extensional and infill drilling and will enable the mineral resource estimate to be updated including conversion of inferred resources to indicated resources and new zones to be included in inferred resource.
Orientation of data in relation to geological structure	• *Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type.* • *If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material.*	• Drill orientation was designed to intersect the projection of breccia zones and zones of veins within an overall mineralized envelope and based on previous works. • Some narrow veins (0.1 to 4cm) were logged running sub-parallel to the core axes producing an overall skewed result to the assay. However, whilst this is the orientation of individual veins, the orientation of the zones is yet to be fully established with further drill holes pending completion in order to assess the full 3D orientation of the mineralized zones.
Sample security	• *The measures taken to ensure sample security.*	• All samples bagged on site under the supervision of two senior geologists with sample bags tied with cable ties before being driven by site personnel to the laboratory in Orange, NSW (~200km from the

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Criteria	JORC Code explanation	Commentary
		site)
Audits or reviews	• *The results of any audits or reviews of sampling techniques and data.*	• The drilling campaign and drill work includes on-going internal auditing with advice taken on process from external advisors - OmniGeox Ltd, GeoSpy Pty Ltd and AMC Consultants.

Section 2 Reporting of Exploration Results

(Criteria listed in the preceding section also apply to this section.)

Criteria	JORC Code explanation	Commentary
Mineral tenement and land tenure status	• *Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings.* • *The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area.*	• The Bowdens Resource is located wholly within Exploration Licence No EL5920, held wholly by Silver Mines Limited and is located approximately 26km east of Mudgee, New South Wales. • The tenement is in good standing. • The project has a 2.0% Net Smelter Royalty which reduces to 1.0% after the payment of US$5 million over 100% of the EL5920. • The project has a 1.85% Gross Royalty over 100% of EL5920.
Exploration done by other parties	• *Acknowledgment and appraisal of exploration by other parties.*	• The Bowdens project was previously managed by Kingsgate Consolidated and Silver Standard Ltd, however the new drilling reported under this table is based on work conducted solely by Silver Mines/Bowdens Silver.
Geology	• *Deposit type, geological setting and style of mineralisation.*	• The Bowdens Deposit is a low sulphidation epithermal base-metal and silver system hosted in Permian Volcanic rocks. • Mineralisation includes veins, shear veins and breccia zones within tuff and ignimbrite rocks. • Mineralisation is overall shallowly dipping (~15 degrees to the north) with high-grade zones preferentially following a volcanic dome. There are several vein orientations within the broader mineralized zones including some areas of stock-work veins.
Drill hole Information	• *A summary of all information material to the understanding of the exploration results including a tabulation of the following information for all Material drill holes:*	• All information is included in Appendix 1 of this report.

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Criteria	JORC Code explanation	Commentary
	○ *easting and northing of the drill hole collar;* ○ *elevation or RL (Reduced Leve elevation above sea level in metres) of the drill hole collar;* ○ *dip and azimuth of the hole;* ○ *down hole length and interception depth; and* ○ *hole length.* • *If the exclusion of this information is justified on the basis that the information is not Material and this exclusion does not detract from the understanding of the report, the Competent Person should clearly explain why this is the case.*	
Data aggregation methods	• *In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (e.g. cutting of high grades) and cut-off grades are usually Material and should be stated.* • *Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail.* • *The assumptions used for any reporting of metal equivalent values should be clearly stated.*	• Intersection calculations based on previous cut-offs used in mineral resource estimation and include at minimum of 30 g/t silver with maximum 10 metres internal dilution for low-grade results with a minimum 60 g/t silver with maximum 5 metres internal dilution for high-grade results.
Relationship between mineralisation widths and intercept lengths	• *These relationships are particularly important in the reporting of Exploration Results.* • *If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported.* • *If it is not known and only the down hole lengths are reported, there should be a clear statement to this effect (e.g. 'down hole length, true width not known').*	• Mineralisation is both stratabound and vein hosted. The stratigraphy dips moderately to the north while the majority of mineralised veins dip west. Some individual veins intersected were sub-parallel (~10 degrees to core axes). The drilling width is estimated to be 120% of true-width for stratabound mineralisation.
Diagrams	• *Appropriate maps and sections (with scales) and tabulations of intercepts should be included for any significant discovery being reported These should include, but not be limited to, a plan view of drill hole collar locations and appropriate sectional views.*	• Maps and cross-sections provided in the body of this report.
Balanced reporting	• *Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/or widths should be practiced to avoid misleading reporting of Exploration Results.*	• All results received and compiled to date are reported in this release. Drilling is ongoing with further results expected to provide a more detailed assessment of the mineralised zones.

Criteria	JORC Code explanation	Commentary
Other substantive exploration data	• *Other exploration data, if meaningful and material, should be reported including but not limited to: geological observations; geophysical survey results; geochemical survey results; bulk samples – size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics and potential deleterious or contaminating substances.*	• This report relates to drill data reported from this program.
Further work	• *The nature and scale of planned further work (e.g. tests for lateral extensions or depth extensions or large-scale step-out drilling).* • *Diagrams clearly highlighting the areas of possible extensions, including the main geological interpretations and future drilling areas, provided this information is not commercially sensitive.*	• This report relates to a drill program that totals 38,000 metres of drilling with drilling on-going and further results pending.

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+Rule 5.5

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	**Quarter ended ("current quarter")**
45 107 452 942	31th December 2016

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date July-Dec $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers		
1.2	Payments for		
	(a) exploration & evaluation	(1,473)	(1,841)
	(b) development		
	(c) production		
	(d) staff costs	(336)	(453)
	(e) administration and corporate costs	(533)	(1,651)
1.3	Dividends received (see note 3)		
1.4	Interest received	17	42
1.5	Interest and other costs of finance paid	(92)	(92)
1.6	Income taxes paid		
1.7	Research and development refunds		
1.8	Other (provide details if material)	20	20
1.9	**Net cash from / (used in) operating activities**	**(2,397)**	**(3,975)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(238)	(950)
	(b) tenements (see item 10)	(4,000)	(5,000)
	(c) investments		
	(d) other non-current assets		

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Consolidated statement of cash flows		Current quarter $A'000	Year to date July-Dec $A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment		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**	**(4,238)**	**(5,941)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	5,167	5,167
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	(351)	(1,506)
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
3.10	**Net cash from / (used in) financing activities**	**4,816**	**5,635**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	9,095	11,557
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,397)	(3,975)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(4,238)	(5,941)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,816	5,635
4.5	Effect of movement in exchange rates on cash held		
4.6	**Cash and cash equivalents at end of period**	**7,276**	**7,276**

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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	7,276	9,095
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)**	**7,276**	**9,095**

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	235
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

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8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**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.

9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Exploration and evaluation	2,150
9.2	Development	
9.3	Production	
9.4	Staff costs	400
9.5	Administration and corporate costs	270
9.6	Other (provide details if material)	300
9.7	**Total estimated cash outflows**	**3,120**

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	EL8480 Mudgee NSW	Tenement granting	100%	100%

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Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Sign here: ..... Date: 31 January 2016
(Company secretary)

Print name: Trent Franklin

Notes

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