SILVER CITY MINING LIMITED

ABN 68 130 933 309

2009 ANNUAL REPORT

Silver City Mining - Exploring the Past for the Future

CONTENTS

CHAIRMAN'S REPORT

Dear Shareholder

Welcome to the first annual report of Silver City Mining Limited. It is with great pleasure that we present to you an update on the key activities that your Company has undertaken since the Company was incorporated in May 2008.

As you are aware, Silver City is engaged in a major programme of exploration in a world class mineralised district containing the largest lead-zinc-silver deposit of its kind, Broken Hill. Mining of this deposit has been undertaken continuously for over 120 years and has spawned major mining companies such as BHP and CRA.

We consider that this mineralised province is seriously under-explored, particularly in the light of new, innovative exploration technologies such as the portable Niton XRF geochemical instrument, recent advances in the understanding of how Broken Hill type deposits formed and new major deposit types believed to be present in the region.

Silver City is now in the very fortunate position of having a portfolio of highly prospective exploration properties, a strong and experienced technical team and good cash funding. These key factors not only maximise the chances of achieving our stated goal of discovering significant base and precious metal deposits, but also provide a strong framework for our planned Initial Public Offering (IPO) onto the Australian Securities Exchange (ASX), forecast for mid 2010.

The Company has assembled one of the largest exploration tenement holdings in the region which was strengthened by the joint venture of Silver City into a number of high quality tenements. Following statutory reductions, Silver City now controls 1,586 km^2 of very prospective ground in which numerous targets have been identified from both previous exploration programmes and also in Silver City's own work.

Highlights of the year including the results from the Company's exploration are covered in more detail in Dr Michael Leggo's Operations Report. We consider that progress has been very good with the majority of the Company's tenements assessed in considerable detail for their mineral potential with priorities established, targets identified and a programme of exploration work commenced over key areas.

Of note the Company expects to finalise a pre-IPO fund raising in late October or early November 2009 of up to $2.0 million, which follows on from the initial capital raising of $1.34 million completed in 2008. This leaves the Company in a strong financial position and with the capacity to expedite its exploration work and to prepare for the IPO.

The funds raised will be applied to enhancing the value of Silver City's superior tenement portfolio and bringing many of the key targets to "drill-ready" status and maximum investor appeal through systematic geological, geochemical and geophysical work as the Company moves towards its ASX listing.

We are very pleased with the advancement that the Company has made over the last year and thank you for your continued support in our endeavours.

Greg Jones

Chairman

REVIEW OF OPERATIONS

Highlights

- The original tenement portfolio of 11 Exploration Licences has been strongly upgraded with the addition of a further nine Exploration Licences covering 765 km2 and with good to excellent prospectivity, seven of these ELs being in joint venture with CBH Resources Limited.
- The initial data compilation for these tenements has been completed with substantial field investigations (including some drilling) undertaken. Infill portable XRF multi-element analyser (Niton) measurements are well underway on favoured areas and prioritisation of targets has occurred across the entire package.
- Two pre-IPO fund raisings are expected to raise up to $3.34M (before costs of issue), providing adequate funds for bringing approximately 10 high priority targets to a major drilling stage leading up to an IPO, planned for mid 2010.

Activities

Silver City Mining Limited (SCI) is publicly acknowledged as one of, if not the, most active mineral explorers in the Broken Hill region. This year the Company has expanded its high quality tenement position within one of Australia's pre-eminent base metal provinces and through its recent raisings has secured sufficient funds to progress exploration through to the planned IPO.

With the assistance of the two most experienced geologists (Barney Stevens and Wolf Leyh) in Broken Hill, tenements and prospects have been reviewed, investigated and prioritised. This has lead to more detailed work on a number of prospects and also has enabled SCI to relinquish less prospective tenements (e.g. Corona EL 6489 and Gyro EL 6865) and to confidently reduce the size of other tenements in line with statutory requirements (e.g. Woowoolahra EL 6468, Humungus EL 6864, Interceptor EL 6863, Ziggys EL 6036 and Apollyon Valley EL 6475). The present tenement status together with the location of the current most active prospects is shown in Figure 1.

Field investigations, rock chip sampling, historical data review and compilation (including some re-establishing and geo-referencing of past drilling grids and hole locations) has formed the basis for proposed drilling programmes at the Razorback West prospect (Ironbar EL 7203) and at Wolseley (Mt Robe EL 5646) prior to the proposed IPO.

Drilling programmes were undertaken on two tenements during the period. At the Yalcowinna Creek prospect (Euriowie EL 6188), 1,427m of RAB drilling in 128 holes was completed. This extended the known strike length (to >1km) and width (350m in part) of the previously known Cu, Co, Zn mineralisation and although the grades remain sub-economic, the results are sufficiently encouraging to warrant further drilling.

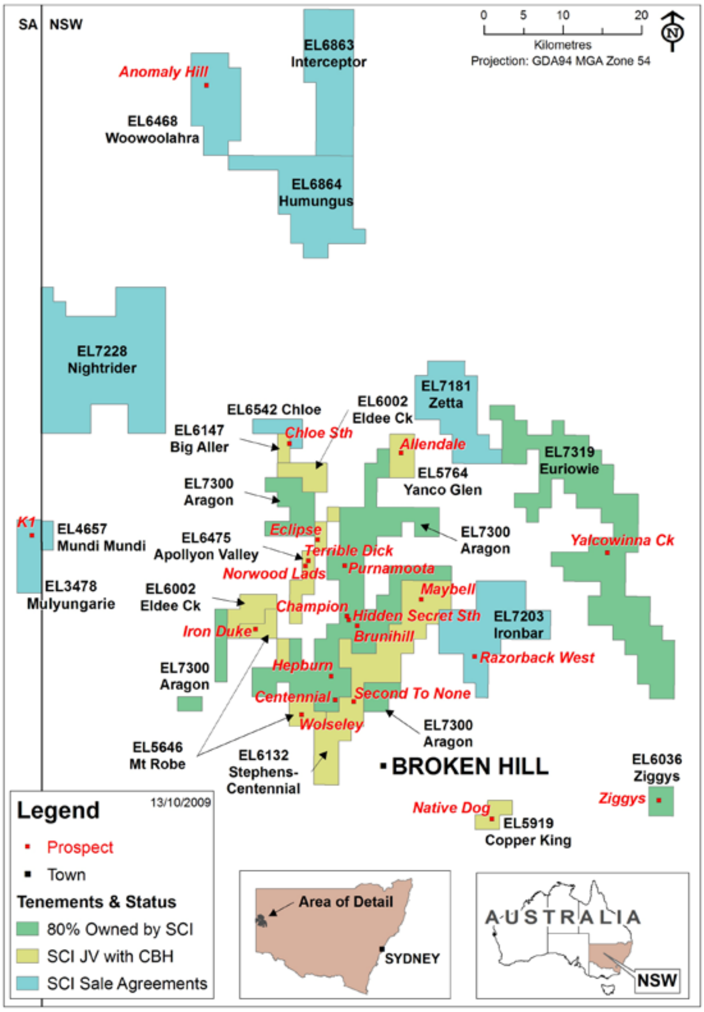

Figure1: Current SCI tenements and active prospects

At the K1 prospect (Mulyungarie ELs 3478 and 4657), a trial programme of shallow drilling and analysis of calcrete in sub-surface soils which attempts to “look through” the thick cover rocks using geochemistry produced inconclusive results. It is SCI’s intention pre-IPO to drill six holes through the cover rocks and recover short intersections of the highly prospective basement ironstone to assist in the location of subsequent deeper diamond drill holes.

A helicopter supported gravity survey was undertaken on the southern half of the Nightrider tenement (EL 7228), north of Teck Cominco/PlatSearch’s Dome 5 (MVT mineralisation). This has been integrated with new NSW Department of Industry and Investment data, the latter also covering our Humungus and Interceptor tenements. Interpretations of this data have yet to be completed, but the risk:reward ratio is high given the presence of thick cover rocks and the deep drilling requirement for these tenements probably lies outside SCI’s capacity.

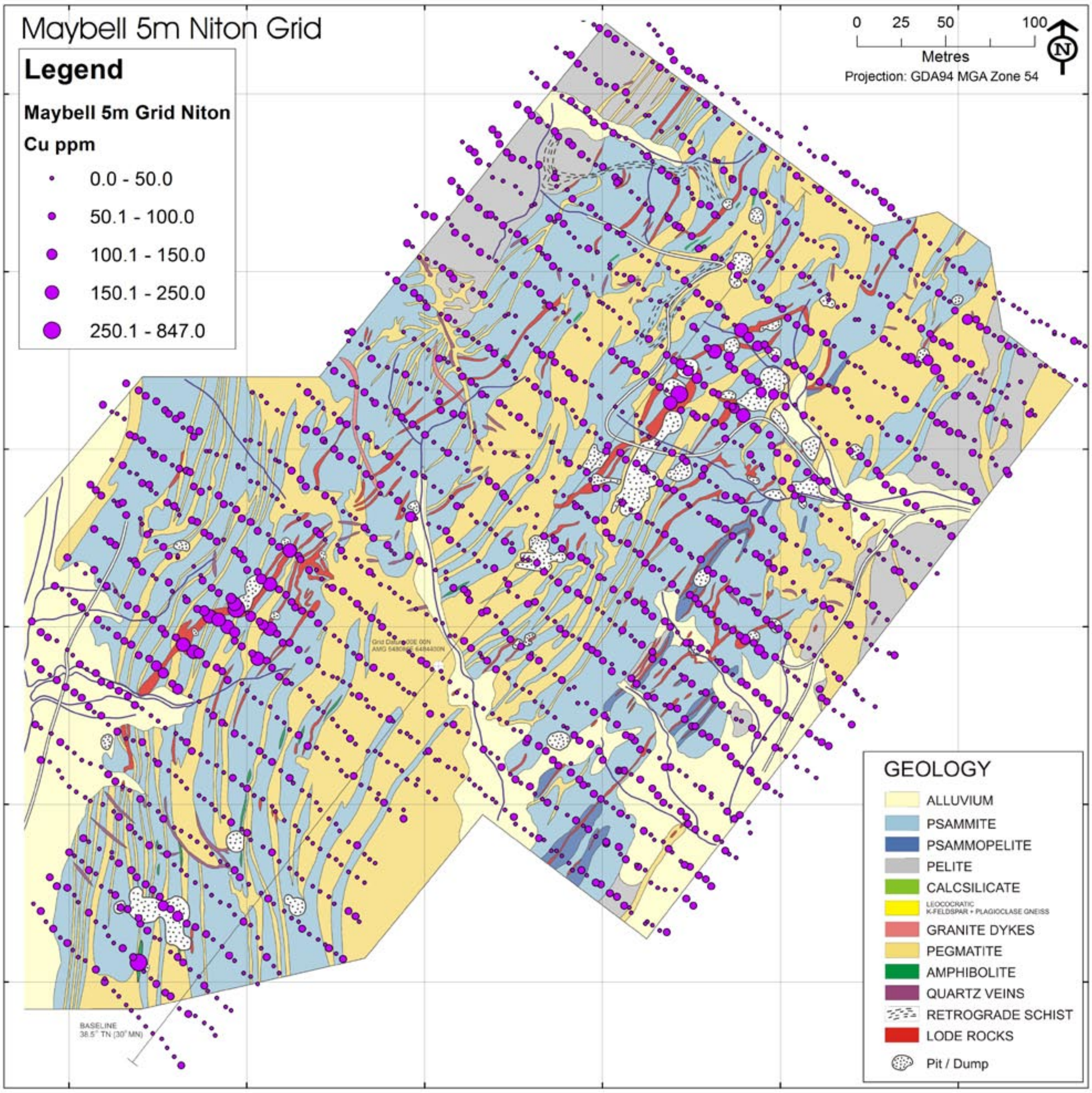

Figure 2: Detailed geology and close spaced Niton copper results on the Maybell prospect area

REVIEW OF OPERATIONS

At the unusual Iron Duke prospect (Mt Robe EL 5646), extensive but sporadic occurrences of magnetite, lesser hematite and pyrite have been rock chip sampled and found to have anomalous geochemistry of an apparent granitic affinity. It is proposed to refine the known associated aeromagnetic anomaly with detailed ground magnetics and a limited gravity survey and then decide whether drilling is warranted.

The very extensive, regional, portable XRF multi-element analysis (Niton) survey undertaken by CBH Resources and provided to SCI as part of our joint venture has been extended with detailed infill Niton sampling on selected target areas. The initial orientation exercise was undertaken to very positive advantage on the Maybell prospect (Figure 2, 2413 sampling stations on a 20x5m grid; Stephens-Centennial, EL 6132) and surrounds (3709 stations on a 100x10m grid). This combined with detailed geological mapping has defined a number of previously untested mineralised horizons and an exploratory programme of shallow percussion holes is planned before the end of this calendar year.

Following the benefits clearly observed by undertaking the infill Niton sampling at Maybell, detailed programmes have also been carried out on the Aragon tenement (EL 7300) at the Champion and Hidden Secret South prospects (1418 stations), at Brunihill (536 stations) and along the Purnamoota conductor (3580 stations). These are being combined with geological mapping and rock chip sampling to determine if and where drilling should be undertaken. By mid October, 11,656 Niton multi-element determinations had been made by SCI. Further close spaced Niton programmes are scheduled for Chloe South (Chloe EL 6542) and Wolseley West (Mt Robe EL 5646).

Detailed geological mapping has been completed (ahead of further testing) at the south end of the Allendale grid (Yanco Glen EL 5764) where extensions to previously known mineralisation have been observed, and also at Anomaly Hill and its surrounds (Woowoolahra EL 6468). A substantial RAB drilling programme is planned for the latter greenfields area on the basis of encouraging geology and rock chip results.

In addition, SCI has been approached and, is in discussions with, other parties in the region with respect to joint venture opportunities on their properties. These are being considered judiciously with the aim being to keep the prospect pipeline invigorated by relinquishing tenements shown to have low prospectivity, adding new promising tenements and retaining those which demonstrate the most encouragement, whilst maintaining a continuing diveristy in target types.

Michael Leggo

Managing Director

SCHEDULE OF TENEMENTS

Tenement	Tenement Number	Joint Venture Details
Apollyon Valley	EL 6475	SCI JV with CBH
Aragon	EL 7300	80% Owned by SCI
Big Aller	EL 6147	SCI JV with CBH
Chloe	EL 6542	SCI Sale Agreement
Copper King	EL 5919	SCI JV with CBH
Eldee Creek	EL 6002	SCI JV with CBH
Euriowie	EL 7319	SCI Sale Agreement
Humungus	EL 6864	SCI Sale Agreement
Interceptor	EL 6863	SCI Sale Agreement
Ironbar	EL 7203	SCI Sale Agreement
Mt Robe	EL 5646	SCI JV with CBH
Mulyungarie	EL 3478	SCI Sale Agreement
Mundi Mundi	EL 4657	SCI Sale Agreement
Nightrider	EL 7228	SCI Sale Agreement
Stephens-Centennial	EL 6132	SCI JV with CBH
Woowoolahra	EL 6468	SCI Sale Agreement
Yanco Glen	EL 5764	SCI JV with CBH
Zetta	EL 7181	SCI Sale Agreement
Ziggys	EL 6036	80% Owned by SCI

DIRECTORS' REPORT

Your Directors present the financial report of the Company for the period ended 30 June 2009.

The names and particulars of the Directors of the Company during or since the end of the financial period are:

Gregory F P Jones, BSc (Hons 1) (UTS), MAusIMM

Chairman

Director since 30 April 2009

Greg Jones is a geologist with 30 years of exploration and operational experience gained in a broad range of metalliferous commodities both within Australia and overseas. Greg has held senior positions in a number of resource companies including Western Mining Corporation and Sino Gold and his experience spans the spectrum of exploration activity from grass-roots exploration through to resource definition and new project generation, as well as mine geology, ore resource/reserve generation and new mine development.

Greg was awarded the Institute Medal for academic excellence whilst at university and is credited with several economic discoveries including the Blair nickel and the Orion gold deposits in Western Australia. He is a Director of Eastern Iron Limited and PlatSearch NL and its associated company Thomson Resources Ltd.

Michael D Leggo, BSc (Chemistry, Geology), MSc (Geology), PhD (Geology-Pure Geochemistry), Diploma of Imperial College (Applied Geochemistry)

Managing Director

Director since 11 September 2008

Michael has extensive domestic and international experience in both minerals exploration and sustainable development with proven management skills across a spectrum from small project teams to multi-disciplinary corporate groups. He has a thorough knowledge of the metalliferous mining industry across a wide range of commodities. His mineral exploration experience includes both front line and senior management roles with Amax Exploration Ltd 1970-1982 and CSR Limited 1982-88. With CSR he developed a successful team of interdisciplinary exploration professionals including 55 geoscientists, engineers, metallurgists and commercial and legal personnel over a five-year period. During that time the group discovered three major mineral deposits in Australia and Indonesia (Granny Smith Au, Osborne Cu-Au, Lerokis-Kali Kuning Cu-Au), all placed in production by the purchasers of CSR's mineral interests.

Michael is the President of the Australian Geoscience Council. He is also a Fellow of the Australian Institute of Geoscientists (President 1991-1993), Fellow of the Australasian Institute of Mining and Metallurgy, Fellow of the Association of Applied Geochemists and Member of the Environmental Institute of Australia and New Zealand.

Robert L Richardson, BSc (Physics/ Maths), BE (Civil) (Hons), MAusIMM, MASEG

Non-Executive Director

Director since 5 May 2008

Bob has over 40 years experience in mineral exploration management, geophysics and exploration technology. During 15 years with the Peko-Wallsend Group as Chief Geophysicist and later Exploration Manager, he supervised all geophysical work carried out by the exploration subsidiary Geopeko Limited in the Alligator Rivers Uranium Field during the Ranger discovery and resource development period. He has provided essential input into 10 significant precious metals, base metals and uranium discoveries in Australia. He was a co-founder and Managing Director of an international airborne geophysical contractor, Austirex Aerial Surveys Pty Ltd that developed and operated two airborne radiometric systems that were considered to be the most advanced in the world at that time (1976-1980). He co-founded Lachlan Resources NL in 1983, was Managing Director of PlatSearch NL from its foundation in 1987 until his retirement in December 2008 and is currently a non-executive Director of PlatSearch NL, Western Plains Resources Ltd and Crossland Uranium Mines Limited.

Robert J Waring, BEc (Sydney), CA, FCIS, FFin, MAusIMM, FAICD

Non-Executive Director

Director since 30 April 2009

Robert's experience has been gained over 37 years in financial and corporate roles including 19 years in company secretarial roles for ASX listed companies and 15 years as a Director of PlatSearch. Robert has had 28 years experience in the mining industry and prior to that nine years with an international firm of chartered accountants. He is a director of PlatSearch NL's associated company Thomson Resources Ltd and a director of Spencer Hamilton Limited, a group which provides secretarial and corporate advisory services to a range of listed and unlisted companies.

Patrick J D Elliott, BCom, MBA, CPA

Non-Executive Director

Director since 5 May 2008, Resigned 30 April 2009

Pat Elliott was a Non-Executive Director until his resignation as a Director on 30 April 2009.

DIRECTORS' REPORT

Directorships in Other Listed Companies

Name	Company	Period of Directorship
G Jones	PlatSearch NL	Since 2009
R Richardson	Western Plains Resources Ltd	Since 2004
	PlatSearch NL	Since 1987
	Crossland Uranium Mines Limited	Since 2006
R Waring	PlatSearch NL	Since 1995

Directors' Interests in Shares and Options

Directors' interests in shares and options as at the date of this report are set out in the table below.

Director	Shares Directly and Indirectly Held	Options
G Jones	-	-
M Leggo	200,000	1,000,000
R Richardson	250,000	250,000
R Waring	100,000	-

Remuneration of Directors and Senior Management

Information about the remuneration of directors and senior management is set out in the remuneration report of this Directors' Report on pages 7 to 10.

Share Options Granted to Directors and Senior Management

During and since the end of the financial year an aggregate of 1,450,000 share options were directly or indirectly granted to the following directors and to the highest remunerated officers of the Company as part of their remuneration.

Director and Senior Management	Number of Options Granted
M Leggo	1,000,000
R Richardson	250,000
J Clyne	200,000

Company Secretary

Justin Clyne was appointed as a Director of the Company on 5 May 2008 and resigned as a Director on 11 September 2008. He remains the Company Secretary of Silver City where he was appointed on 5 May 2008.

Justin Clyne was admitted as a Solicitor of the Supreme Court of New South Wales and the High Court of Australia in 1996 before gaining admission as a Barrister in 1998. He has a total of 15 years experience in the legal profession acting for a number of the country's largest corporations, initially in the areas of corporate and construction law before developing an interest in mining investment and research. Since 2006 Justin has dedicated himself full-time to the mining and resources sector. Justin is a director and/or secretary of a number of public listed and unlisted companies. He has significant experience and knowledge of the Corporations Act and the ASX listing rules. Justin is also undertaking his final subject to complete a Graduate Diploma in Applied Corporate Governance qualifying him as a Chartered Company Secretary. Justin also holds a Master of Laws in International Law from the University of New South Wales.

Principal Activities

The principal activity of the Company is exploration for the discovery and delineation of high grade base and precious metal deposits specifically within the Broken Hill block of NSW and the development of those resources into economic, cash flow generating businesses.

Results

The net result of operations of the consolidated entity after applicable income tax expense was a loss of $422,242.

Dividends

No dividends were paid or proposed during the period.

Review of Operations

A review of the operations of the Company during the financial period and the results of those operations are contained in pages 2 to 4 in this report.

Corporate Structure

Silver City Mining Limited is a public company limited by shares that was incorporated on 5 May 2008 and domiciled in Australia. Mining Exploration Pty Ltd is a

DIRECTORS' REPORT

wholly owned subsidiary of the Company acquired in February 2009 and incorporated in NSW on 23 March 2005.

Employees

The Company had no employees as at 30 June 2009. The Company uses contract geologists and other consultants as required.

Significant Changes

The Directors are not aware of any significant changes in the state of affairs of the Company occurring during the financial period, other than as disclosed in this report.

Matters Subsequent to the End of the Financial Period

There were, at the date of this report, no matters or circumstances which have arisen since 30 June 2009 that have significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company, other than the finalisation in late October or early November 2009 of a pre-IPO fundraising of up to $2.0 million.

Likely Developments and Expected Results

As the Company's areas of interest are at an early stage of exploration, it is not possible to postulate likely developments and any expected results. The Company is hoping to establish resources from some of its current prospects and to identify further base and precious metal targets.

Shares Under Option or Issued on Exercise of Options

Details of unissued shares or interests under option for Silver City Mining Limited as at the date of this report are:

Number of Shares Under Option	Class of Share	Exercise Price of Option	Expiry Date of Options
1,450,000	Ordinary	$0.25	30 June 2011
4,100,000	Ordinary	$0.35	1 July 2013

The holders of these options do not have the right, by virtue of the option, to participate in any share issue of the Company or of any other body corporate or registered scheme.

There were no shares issued during or since the end of the financial year as a result of exercise of the above options.

Remuneration Report (Audited)

This remuneration report, which forms part of the Directors' Report, sets out information about the remuneration of Silver City Mining Limited's Directors and its senior management for the period since incorporation to the year ended 30 June 2009. The prescribed details for each person covered by this report are detailed below.

Director and Senior Management Details

The following persons acted as Directors of the company during or since the end of the financial year:

Mr Greg Jones

Dr Michael Leggo

Mr Bob Richardson

Mr Robert Waring

Mr Pat Elliott

Mr Justin Clyne

The term "senior management" is used in this remuneration report to refer to the following person:

Mr Justin Clyne (Company Secretary)

Policy and Principles Used to Determine the Nature and Amount of Remuneration

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The Board believes that executive remuneration satisfies the following key criteria:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency
- capital management

These criteria result in a framework which can be used to provide a mix of fixed and variable remuneration, and a blend of short and long-term incentives in line with the Company's limited financial resources.

Board and Senior Management

Fees and payments to the Company's Non-Executive Directors and Senior Executives reflect the demands which are made on, and the responsibilities of, the Directors and the senior management. Such fees and payments are reviewed annually by the Board. The Company intends to adopt an Employee Share Option Plan prior to listing on the Stock Exchange whereby the Company's Executive and Non-Executive Directors, Senior Executives, Officers and key consultants will be entitled to receive options.

Remuneration of Directors and Senior Management

Directors are entitled to remuneration out of the funds of the Company but the remuneration of the Non-Executive Directors may not exceed in any year the amount fixed by the Company in general meeting for that purpose. The aggregate remuneration of the Non-Executive Directors has been fixed at a maximum of $200,000 per annum to be apportioned among the Non-Executive Directors in such a manner as the Board determines and these are only payable upon the Company achieving a successful listing on the Stock Exchange. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at Board meetings and otherwise in the execution of their duties as Directors.

Directors have been paid options in lieu of fees and it is intended that fees will not be paid in cash until the date the Company's shares are quoted on the Stock Exchange.

Details of the nature and amount of each element of remuneration for each of the Directors of Silver City Mining Limited and Senior Management of the Company who received the highest emoluments during the period ended 30 June 2009 are set out in the following table.

Director and Senior Management remuneration 2009

2009	Cash salary and fees $	Super-annuation $	Options $	Total $	% value of remuneration that consists of options %
Directors					
G Jones (a)	640	-	-	640	-
M Leggo	198,337	-	14,840	213,177	7.0
B Richardson (b)	41,965	-	3,710	45,675	8.1
R Waring (c)	26,610	-	-	26,610	-
	267,552	-	18,550	286,102	
Other key management personnel					
J Clyne (c)	27,682	-	2,968	30,650	9.7
	27,682	-	2,968	30,650	

(a) Appointed 30 April 2009. The Company engaged PlatSearch NL (PlatSearch) to provide the services of Greg Jones as a consultant. Fees totalling $640 were paid to PlatSearch. PlatSearch is a 24.2% shareholder in Silver City.

(b) The Company engaged PlatSearch for the period of 1 July 2008 to 31 December 2008 to provide the technical services of Bob Richardson. Fees paid to 31 December 2008 totalling $41,132 were paid to PlatSearch with the remaining $833 paid to GeoTangent Pty Ltd a company of which Bob is a director. PlatSearch is a 24.2% shareholder in Silver City.

(c) Fees for Robert Waring $26,610 and Justin Clyne $27,682 for the period were paid to Spencer Hamilton Limited or its associated company Oakhill Hamilton Pty Ltd.

Share-based Compensation

Employee Share Option Plan

The Company intends to adopt an Employee Share Option Plan prior to listing on the Stock Exchange in order to assist in the attraction, retention and motivation of employees and key consultants to the Company and its related bodies corporate ("Group").

DIRECTORS' REPORT

Share-based Payment Granted as Compensation for the Current Financial Year

The following grants of share-based payment compensation, exercise of options and value of options to directors and senior management relate to the current financial period.

Share-based payments as compensation to Directors and Senior Management 2009

	Number Granted	Number Vested	Value of Options Granted at the Grant Date (Note 15)	Number of Options Exercised	Value of Options Exercised at the Exercise Date	Value of Options Lapsed at the Date of Lapse
2009			$		$	$
M Leggo	1,000,000	500,000	14,840	-	-	-
R Richardson	250,000	125,000	3,710	-	-	-
J Clyne	200,000	100,000	2,968	-	-	-

The value of options granted during the period is recognised as compensation over the vesting period of the grant, in accordance with Australian Accounting Standards.

For details on the valuation of the options, including models and assumptions used, please refer to Note 15.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures during the period.

Service Agreements

Remuneration and other terms of employment for the directors and executives are formalised in Service/Appointment agreements.

Greg Jones

The Company engaged PlatSearch NL to provide the services of Mr Greg Jones as Chairman and Non-Executive Director of Silver City and to provide general geological and management services including exploration advice, resource estimation and scoping/mine studies. The Agreement term is one year.

Michael Leggo

Michael Leggo is paid consulting fees through Madron Resources Pty Ltd (a company of which Mr Leggo is a director). The Company and the consultant may terminate the Agreement on the provision of three month's written notice.

Bob Richardson

The Company engaged PlatSearch NL commencing 1 July 2008 to 31 December 2008 to provide the services of Mr Bob Richardson as a technical consultant.

Commencing 1 January 2009 Bob Richardson's consulting services were payable through GeoTangent Pty Ltd (a company of which Mr Richardson is a director) at normal commercial rates.

Robert Waring

Robert Waring is paid consulting fees for corporate advisory services through Spencer Hamilton Limited (a company of which Mr Waring is a director). One month's notice is required by either party to terminate the Agreement.

Justin Clyne

Justin Clyne is paid consulting fees for company secretarial services through Spencer Hamilton Limited (a company of which Mr Clyne is a consultant). One month's notice is required by either party to terminate the Agreement.

Meetings of Directors

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each director:

	Board of Directors	
Director	Held	Attended
G Jones	1	1
M Leggo	5	5
R Richardson	8	7
R Waring	1	1
P Elliott	7	4
J Clyne	3	3

DIRECTORS' REPORT

Indemnification and Insurance of Directors and Officers

Indemnification

The Company has not, during or since the end of the financial period, in respect of any person who is or has been an officer of the Company or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Insurance Premiums

During the financial period the Company has paid premiums to insure each of the directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The premiums paid are not disclosed as such disclosure is prohibited under the terms of the contract.

Proceedings

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the company for all or part of the proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Environmental Performance

Silver City Mining holds exploration licences issued by New South Wales Department of Primary Industries – Mineral Resources, which specify guidelines for environmental impacts in relation to exploration activities. The licence conditions provide for the full rehabilitation of the areas of exploration in accordance with the Department's guidelines and standards. There have been no significant known breaches of the licence conditions.

Auditor's Independence and Non-Audit Services

The Company's auditor, Barnes Dowell James did not provide non-audit services for Silver City Mining during the period ended 30 June 2009. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. The Directors received a declaration of independence from the auditors of Silver City Mining Limited. It is located on page 42 and forms part of this report.

Signed at Sydney this 27th day of October 2009 in accordance with a resolution of the Directors.

Michael Leggo

Managing Director

CORPORATE GOVERNANCE

The Board of Directors of Silver City Mining Limited is responsible for corporate governance and strives for high standards in this regard. The Board monitors the business and affairs of Silver City Mining Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board draws on relevant best practice principles particularly those issued by the ASX Corporate Governance Council in August 2007. At a number of its meetings the Board examines the Silver City Mining Limited corporate governance practices and the progress towards a review of its procedures compared to the best practice principles proposed by the ASX Corporate Governance Council. While Silver City Mining Limited is attempting to adhere to the principles proposed by the ASX, it is mindful that there may be some instances where compliance is not practicable for a company of Silver City Mining Limited's size.

The August 2007 Australian Securities Exchange Corporate Governance Council publication, "Corporate Governance Principles and Recommendations" second edition, is referred to for guidance purposes. All listed companies are required: to disclose the extent to which they have followed the recommendations; to identify any recommendations that have not been followed; and reasons for not doing so. Although the Company is not yet listed, its Board of Directors has reviewed the recommendations. In many cases the Company was already achieving the standard required. In other cases the Company will have to consider new arrangements to enable compliance. In a limited number of instances, the Company has determined not to meet the standard set out in the recommendations, largely due to the recommendation being considered by the Board to be unduly onerous for a company of this size.

GOVERNANCE PRINCIPLES

The following paragraphs set out the Company's position relative to each of the eight principles contained in the ASX Corporate Governance Council's report.

Principle 1: Lay solid foundations for management and oversight

The Company has not yet formalised and disclosed the functions reserved to the Board and those delegated to management or formally written processes for evaluating the performance of senior executives. However, the Company has a small Board of four Directors (three Non-Executive Directors plus the Managing Director) and a small team of people, so roles and functions have to be flexible to meet specific requirements.

Principle 2: Structure the Board to add value

The Company complies with most of the recommendations within this area as the Chairman is independent; separate from the Managing Director. The Company does not comply with the recommendation that a majority of Directors are independent, because two Non-Executive Directors are Executive Directors of a substantial shareholder. The Company does not have a Board nomination committee. An informal performance evaluation of the Board was carried out during the year.

Three of the Company's four Directors are non-executives, and none of the Non-Executives have undertaken "material" consultancy work for the Company within the past three years. Each Director of the Company has the right to seek independent professional advice at the expense of the Company. Prior approval of the Chairman is required, but this will not be unreasonably withheld.

Principle 3: Promote ethical and responsible decision-making

The Company has a policy concerning trading in its securities by Directors, management, staff and significant consultants which is set out below. The Company does not have a formal code of conduct, again reflecting the Company's size and the close interaction of individuals throughout the organisation.

Due to the Company's size and relative level of operational activity, which makes legal compliance a less onerous task than with larger companies, the Company does not have a formal code of conduct to guide compliance with legal and other obligations. The Board of Directors continues to review the situation to determine the most appropriate and effective operational procedures.

Principle 4: Safeguard integrity in financial reporting

The Company periodically reviews its procedures to ensure compliance with the recommendations set out under this principle.

Senior management confirms that the financial reports represent a true and fair view, and are in accordance with relevant accounting standards. The Managing Director and the chief financial officer state in writing to the Board that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and state that operational results of the Company are in accordance with relevant accounting standards.

CORPORATE GOVERNANCE

The Company has an Audit Committee and is reviewing its formal charter, and the written charter will be approved by the Board. The Audit Committee consists of the Non-Executive Chairman of Directors, Mr Jones and Non-Executive Director, Mr Waring (the Committee Chairman), who are suitably experienced, although not independent. These Directors have applicable expertise and skills for the Audit Committee. This structure does not meet the ASX's guidance regarding independence, in that it should have a majority of independent Directors and have at least three members. The Audit Committee reports to the Board after each Committee meeting. In conjunction with the full Board, the Committee reviews the performance of the external auditors (including scope and quality of the audit).

Principle 5: Make timely and balanced disclosure

The Company, its Directors and staff are very aware of the ASX's continuous disclosure requirements and operate in an environment where strong emphasis is placed on full and appropriate disclosure to the market. Whilst the Company does not have formal written policies regarding disclosure, it uses strong informal systems underpinned by experienced individuals.

Principle 6: Respect the rights of shareholders

All significant information is posted on the Company's website. When analysts are briefed on aspects of the Company's operations, the material used in the presentation is posted on the Company's website. Procedures have also been established for reviewing whether any price-sensitive information has been inadvertently disclosed, and if so, this information is also immediately released on the website.

Whilst the Company does not have a communications policy for promoting effective communication with shareholders, as it believes this is excessive for small companies, the Company does communicate regularly with shareholders. The Company has requested the external auditor to attend general meetings and this has been supported by the Company's audit partner at Barnes Dowell James.

Principle 7: Recognise and manage risk

The Company is a small exploration company and does not believe that there is significant need for formal policies on risk oversight and management of material business risks. Risk management arrangements are the responsibility of the Board of Directors and senior management collectively. Risk matters are included as an agenda item at each Board meeting, and senior management periodically report to the Board in writing on risk management and internal controls.

Principle 8: Remunerate fairly and responsibly

The Company has a Remuneration Committee of Messrs Jones and Waring which meets as and when required, to review performance matters and remuneration. There has been no formal performance evaluation of the Board during the past financial year, although its composition will be reviewed at a Board meeting at least annually. The Directors work closely with management and have full access to all the Company's files and records.

Directors believe that the size of the Company makes individual salary and contractor negotiation more appropriate than formal remuneration policies. The Remuneration Committee will seek independent external advice and market comparisons as necessary. In accordance with Corporations Act requirements, the Company discloses the fees or salaries paid to all Directors, plus the five highest paid officers. The Company intends to have an Employee Share Option Plan to be introduced in 2010. Non-Executive Directors will in the future be remunerated by way of fees following stock exchange listing, but until that time have agreed to be remunerated through share options.

Ethical Standards

The Board's policy is for the Directors and management to conduct themselves with the highest ethical standards. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Securities Trading and Trading Windows

Directors, employees and key consultants must consult with the Chairman of the Board or the Managing Director before dealing in securities of the Company. Purchases or sales in the Company's shares or options by Directors, employees and key consultants may not be carried out other than in the "window", being the period commencing two days following the date that the Directors determine that all material share price information has been disclosed to the market, and leading in the opinion of the Board, to an informed market. However, Directors, employees and key consultants are prohibited from buying or selling Silver City Mining Limited securities at any time if they are aware of price-sensitive information that has not been made public.

INCOME STATEMENT

PERIOD FROM DATE OF INCORPORATION 5 MAY 2008 TO 30 JUNE 2009

	Note	Consolidated 2009 $	Parent 2009 $
REVENUE	3	33,021	33,021
Contract administration services		(237,282)	(225,294)
Exploration expenditure expensed		(135,198)	(135,198)
Rent		(20,572)	(20,572)
Share based payments		(21,518)	(21,518)
Other expenses from ordinary activities		(40,693)	(40,193)
		(455,263)	(442,775)
(LOSS) BEFORE INCOME TAX EXPENSE		(422,242)	(409,754)
INCOME TAX EXPENSE	4	-	-
(LOSS) AFTER INCOME TAX EXPENSE	14	(422,242)	(409,754)
NET (LOSS) ATTRIBUTABLE TO MEMBERS OF SILVER CITY MINING LIMITED		(422,242)	(409,754)

	Note	Consolidated 2009	Parent 2009
Basic loss per share (cents per share)	16	2.94	2.85
Diluted loss per share (cents per share)	16	2.94	2.85

BALANCE SHEET

AT 30 JUNE 2009

	Note	Consolidated 2009 $	Parent 2009 $
CURRENT ASSETS			
Cash assets	5	661,111	661,111
Receivables	6	23,164	22,229
TOTAL CURRENT ASSETS		684,275	683,340
NON-CURRENT ASSETS			
Tenement security deposits	7	50,000	30,000
Property, plant and equipment	8	538	538
Investment in subsidiary	9	-	77,000
Receivables	10	-	45,292
Deferred exploration and evaluation expenditure	11	494,943	405,574
TOTAL NON-CURRENT ASSETS		545,481	558,404
TOTAL ASSETS		1,229,756	1,241,744
CURRENT LIABILITIES			
Payables	12	73,880	73,380
TOTAL CURRENT LIABILITIES		73,880	73,380
TOTAL LIABILITIES		73,880	73,380
NET ASSETS		1,155,876	1,168,364
EQUITY			
Contributed equity	13	1,556,600	1,556,600
Accumulated losses	14	(422,242)	(409,754)
Reserves	15	21,518	21,518
TOTAL EQUITY		1,155,876	1,168,364

STATEMENT OF CASH FLOWS

PERIOD FROM DATE OF INCORPORATION 5 MAY 2008 TO 30 JUNE 2009

	Note	Consolidated 2009 $	Parent 2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payment to suppliers and employees		(288,151)	(288,151)
Interest received		29,820	29,820
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES	26	(258,331)	(258,331)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(526)	(526)
Expenditure on mining interests (exploration)		(380,532)	(380,532)
Tenement security deposits		(30,000)	(30,000)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(411,058)	(411,058)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,338,000	1,338,000
Equity raising expenses		(7,500)	(7,500)
NET CASH FLOWS FROM FINANCING ACTIVITIES		1,330,500	1,330,500
Net increase/(decrease) in cash held		661,111	661,111
Add opening cash brought forward		-	-
CLOSING CASH CARRIED FORWARD	26	661,111	661,111

STATEMENT OF CHANGES IN EQUITY

PERIOD FROM DATE OF INCORPORATION 5 MAY 2008 TO 30 JUNE 2009

	Attributable to the shareholders of Silver City Mining Limited			
	Issued Capital $	Accumulated Losses $	Reserves $	Total Equity $
CONSOLIDATED				
AT 5 May 2008	-	-	-	-
Loss for the period	-	(422,242)	-	(422,242)
Cost of share based payments taken directly to Equity	-	-	21,518	21,518
Issue of share capital, net of transaction costs	1,556,600	-	-	1,556,600
AT 30 JUNE 2009	1,556,600	(422,242)	21,518	1,155,876
PARENT				
AT 5 May 2008	-	-	-	-
Loss for the period	-	(409,754)	-	(409,754)
Cost of share based payments taken directly to Equity	-	-	21,518	21,518
Issue of share capital, net of transaction costs	1,556,600	-	-	1,556,600
AT 30 JUNE 2009	1,556,600	(409,754)	21,518	1,168,364

NOTES TO AND FORMING PART OF THE ACCOUNTS

1. CORPORATE INFORMATION

The financial report of Silver City Mining Limited (the Company) for the period from the date of incorporation 5 May 2008 to 30 June 2009 was authorised for issue in accordance with a resolution of the Directors on 27 October 2009.

Silver City Mining Limited is a company limited by shares, incorporated on 5 May 2008 and domiciled in Australia.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has been prepared on a historical cost basis. All amounts are presented in Australian dollars.

(b) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards (IFRS).

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Silver City Mining Limited (Silver City or the "Company") and its subsidiaries if applicable ("the Group") as at 30 June each year. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Subsidiaries are fully consolidated from date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(d) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Plant and equipment – 2 - 5 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An item of plant and equipment is derecognised upon disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(e) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(f) Interest in jointly controlled operations – joint ventures

The Company has an interest in exploration joint ventures that are jointly controlled. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Company recognises its interest in the jointly controlled operations by recognising the assets that it controls and the liabilities that it incurs. The Company also recognises the expenses that it incurs and its share of any income that it earns from the sale of goods or services by the jointly controlled operations.

NOTES TO AND FORMING PART OF THE ACCOUNTS

(g) Recoverable amount of assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use.

(h) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as held-for-trading and available-for-sale, are measured at fair value. Gains or losses on investments held-for-trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process. For investments that are actively traded in organised financial markets, fair value is determined by reference to Securities Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date, being the date that the Company commits to purchase he asset.

(i) Exploration, evaluation, development and restoration costs

Exploration and evaluation

Exploration and evaluation expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific connection with a particular area of interest.

Exploration and evaluation costs in relation to separate areas of interest for which rights of tenure are current are brought to account in the year in which they are incurred and carried forward provided that:

- such costs are expected to be recouped through successful development and exploitation of the area, or alternatively through its sale; or
- exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated within costs of development.

Exploration and evaluation – impairment

The Directors assess at each reporting date whether there is an indication that an asset has been impaired and for exploration and evaluation cost whether the above carry-forward criteria are met.

Accumulated costs in respect of areas of interest are written off or a provision made in the Income Statement when the above criteria do not apply or when the Directors assess that the carrying value may exceed the recoverable amount. The costs of productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis, provisions would be reviewed and if appropriate, written back.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Development

Development expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure having a specific connection with the development property.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of that property, is reasonably assured.

No amortisation is provided in respect of development properties until a decision has been made to commence mining. After this decision, the costs are amortised over the life of the area of interest to which such costs relate on a production output basis.

Restoration

Provisions for restoration costs are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Remaining mine life

In estimating the remaining life of the mine at each mine property for the purpose of amortisation and depreciation calculations, due regard is given not only to the volume of remaining economically recoverable reserves but also to limitations which could arise from the potential for changes in technology, demand, product substitution and other issues that are inherently difficult to estimate over a lengthy time frame.

(j) Mine property held for sale

Where the carrying amount of mine property and related assets will be recovered principally through a sale transaction rather than through continuing use, the assets are reclassified as Mine Property Held for Sale and carried at the lower of the assets' carrying amount and fair value less costs to sell – where such fair value can be reasonably determined, and otherwise at its carrying amount. Liabilities and provisions related to mine property held for sale are similarly reclassified as Liabilities – Mine Property Held for Sale and, Provisions – Mine Property Held for sale, as applicable, and carried at the value at which the liability or provisions expected to be settled.

(k) Trade and other receivables

Trade receivables, which generally have 7-30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(l) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of one year or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts, if any.

(m) Trade and other payables and provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(n) Employee entitlements

Liabilities for wages and salaries are recognised and are measured as an amount unpaid at the reporting date at current pay rates in respect of an employee's services up to that date. Current employee contracts do not entitle them to annual leave and long service leave. A liability in respect of superannuation at the current superannuation guarantee rate has been accrued at the reporting date.

(o) Share-based payments

In addition to salaries, the Company provides benefits to certain employees (including Directors and Key Management personnel) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). The Company intends to adopt an Employee Share Option Plan prior to listing on the Stock Exchange in order to assist in the attraction, retention and motivation of employees of the Company and its related bodies corporate ("Group").

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of the options is determined by using the Binomial option pricing model. In valuing transactions settled by way of issue of options, no account is taken of any vesting limits or hurdles, or the fact that the options are not transferable. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the vesting conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification. If an equity-settled award is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised is recognised immediately. However, if a new award is substituted for the cancelled award and designated a replacement award on the date it is granted, the cancelled and the new award are treated as if there was a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share except where such dilution would serve to reduce a loss per share.

(p) Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

NOTES TO AND FORMING PART OF THE ACCOUNTS

(q) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(r) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(s) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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 taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(t) Currency

Both the functional and presentation currency is Australian dollars (A$).

(u) Investment in controlled entities

The Company's investment in its controlled entities is accounted for under the equity method of accounting in the Company's financial statements.

(v) Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(w) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

NOTES TO AND FORMING PART OF THE ACCOUNTS

Share-based payment transactions

The Company measures the cost of cash-settled share-based payments at fair value at the grant date using the Binomial formula taking into account the terms and conditions upon which the instruments were granted, as detailed in Notes 15 and 17.

Capitalisation and write-off of capitalised exploration costs

The determination of when to capitalise and write-off exploration expenditure requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions.

(x) 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.

(y) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Company, adjusted to exclude any costs of servicing equity divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit attributable to members of the Company, adjusted for:

- costs of servicing equity;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(z) Comparatives

There are no comparative figures as this is the Group's first year of operation.

3. REVENUE FROM ORDINARY ACTIVITIES

	Consolidated 2009 $	Parent 2009 $
Interest received – other persons/corporation	33,021	33,021

4. INCOME TAX

	Consolidated 2009 $	Parent 2009 $
Prima facie income tax (credit) on operating (loss) at 30%	126,673	122,926
Future income tax benefit in respect of timing differences – not recognised	(126,673)	(122,926)
Income tax expense	-	-

No provision for income tax is considered necessary in respect of the Company for the period 30 June 2009.

The Group has a deferred income tax liability of $76,942 associated with exploration costs deferred for accounting purposes but expensed for tax purposes. This liability has been brought to account and offset by deferred tax assets attributed to available tax losses. No recognition has been given to any deferred income tax asset which may arise from available tax losses, except to the extent offset against deferred tax liabilities. The Company has estimated its losses at $919,237 as at 30 June 2009.

A benefit of 30% of approximately $275,771 associated with the tax losses carried forward will only be obtained if:

- the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the Company continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

5. CASH AND CASH EQUIVALENTS

	Consolidated 2009 $	Parent 2009 $
Cash at bank	329,592	329,592
Money market securities – bank deposits	331,519	331,519
	661,111	661,111

Bank negotiable certificates of deposit, which are normally invested between 7 and 365 days were used during the period and are used as part of the cash management function.

6. RECEIVABLES – CURRENT

	Consolidated 2009 $	Parent 2009 $
GST receivables	18,232	17,297
Interest receivable	3,200	3,200
Prepayments	1,732	1,732
	23,164	22,229

7. TENEMENT SECURITY DEPOSITS

	Consolidated 2009 $	Parent 2009 $
Cash at bank – bank deposits	20,000	20,000
Cash with government mines department	30,000	10,000
	50,000	30,000

These deposits are restricted so that they are available for any rehabilitation that may be required on exploration tenements (refer to Note 21). The bank deposits are interest bearing.

NOTES TO AND FORMING PART OF THE ACCOUNTS

8. PROPERTY, PLANT AND EQUIPMENT

Plant and Equipment	Consolidated 2009 $	Parent 2009 $
Year ended 30 June 2009		
Opening net book amount	-	-
Additions	662	662
Disposals	-	-
Depreciation expense	(124)	(124)
Closing net book amount	538	538
At 30 June 2009		
Cost	662	662
Accumulated depreciation	(124)	(124)
Net book amount	538	538

9. INVESTMENT IN SUBSIDIARY

	Consolidated 2009 $	Parent 2009 $
Investment in subsidiary	-	77,000

At 30 June 2009 the Company had one subsidiary, Mining Exploration Pty Ltd (incorporated on 23 March 2005). In February 2009 the Company acquired 10 shares in Mining Exploration Pty Ltd (MEPL) for $77,000. At 30 June 2009 Silver City's investment represented a 100% interest in MEPL. At 30 June 2009 the Company's interest in MEPL was consolidated in accordance with Note 2(c).

10. RECEIVABLES – NON-CURRENT

	Consolidated 2009 $	Parent 2009 $
Amount receivable from Mining Exploration Pty Ltd (subsidiary)	-	45,292

NOTES TO AND FORMING PART OF THE ACCOUNTS

11. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated 2009 $	Parent 2009 $
Costs brought forward	-	-
Costs incurred during the period	444,285	391,672
Mining tenements acquired **(i)**	185,856	149,100
Expenditure written off during period	(135,198)	(135,198)
Costs carried forward	494,943	405,574
Exploration expenditure costs carried forward are made up of:		
Expenditure on joint venture areas	75,673	75,673
Expenditure on non joint venture areas	419,270	329,901
Costs carried forward	494,943	405,574

The above amounts represent costs of areas of interest carried forward as an asset in accordance with the accounting policy set out in Note 2. The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

	Consolidated 2009 $	Parent 2009 $
(i) Mining tenements acquired	185,856	149,100

Exploration carried forward includes an amount of $185,856 (Group) and $149,100 (Parent) of exploration acquired on the purchase of mining tenements from PlatSearch NL, Mining Exploration Pty Ltd, Graynic Metals Limited, Western Plains Resources Ltd and Eaglehawk Geological Consulting Pty Ltd.

12. CURRENT LIABILITIES – PAYABLES

	Consolidated 2009 $	Parent 2009 $
Trade creditors	44,505	44,505
Accrued expenses	29,375	28,875
	73,880	73,380

NOTES TO AND FORMING PART OF THE ACCOUNTS

13. CONTRIBUTED EQUITY

		Consolidated 2009 $	Parent 2009 $
Share capital			
20,630,000 fully paid ordinary shares (2008: Nil)	(a)	1,555,500	1,555,500
Fully paid ordinary shares carry one vote per share and carry the right to dividends.			
Converting performance shares			
15,000,000 converting performance shares (2008: Nil)	(b)	4,500	4,500
Option Issue			
4,100,000 (2008: Nil)	(c)	4,100	4,100
Share issue costs		(7,500)	(7,500)
		1,556,600	1,556,600

		Number	$
(a) Movements in ordinary shares on issue			
At 5 May 2008	(i)	90,000	9,000
Shares issued	(i)	13,290,000	1,329,000
Shares issued for purchase of tenements	(ii)	4,750,000	142,500
Shares issued for purchase of subsidiary	(iii)	2,500,000	75,000
At 30 June 2009		20,630,000	1,555,500

(i) The Company issued 13,380,000 shares at $0.10 cents in May, June, September and October 2008 for cash.

(ii) The Company issued 4,750,000 shares at $0.03 cents as consideration for the purchase of tenements in December 2008.

(iii) The Company issued 2,500,000 shares at $0.03 cents as consideration for the acquisition of Mineral Exploration Pty Ltd (refer to Note 11) in December 2008.

		Number	$
(b) Movements in converting performance shares			
At 5 May 2008		-	-
Converting performance shares	(i)	15,000,000	4,500
At 30 June 2009		15,000,000	4,500

(i) The Company issued 15,000,000 converting performance shares (CPS) to various parties. The CPS will be converted to the parties as ordinary shares upon the share price of SCI exceeding $0.50 per share for a continuous period of 30 days within a 2 year period of listing on the Stock Exchange.

(ii) There is a second pool of 15,000,000 JORC converting performance shares (CPS) which are presently held by a trustee, AET Limited and will be issued and allotted to the first party whose tenement(s) yields a discovery of greater than $150,000,000 (being the perceived value determined by multiplying a JORC indicated mineral resource by relevant market metal prices) as ordinary shares.

NOTES TO AND FORMING PART OF THE ACCOUNTS

			Number	$
(c)	**Movements in options on issue**			
	At 5 May 2008		-	-
	Options issued for purchase of tenements	(i)	3,100,000	3,100
	Options issued for purchase of subsidiary	(ii)	1,000,000	1,000
	At 30 June 2009		4,100,000	4,100

(i) The Company issued 3,100,000 options at $0.001 cents as consideration for the purchase of tenements in December 2008. The options were issued with an exercise price of $0.35 cents and expiry date of 1 July 2013.

(ii) The Company issued 1,000,000 options at $0.001 cents as consideration for the acquisition of Mineral Exploration Pty Ltd (refer to Note 11) in December 2008. The options were issued with an exercise price of $0.35 cents and expiry date of 1 July 2013.

Terms and conditions of contributed equity

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Converting performance shares

Converting performance shares do not carrying voting rights or rights to dividend until they have been converted into ordinary shares.

Options

Options do not carrying voting rights or rights to dividend until options are exercised.

14. ACCUMULATED LOSSES

	Consolidated 2009 $	Parent 2009 $
Balance at the beginning of period	-	-
Operating loss after income tax expense	422,242	409,754
Balance at 30 June 2009	422,242	409,754

15. RESERVES

	Consolidated 2009 $	Parent 2009 $
Share-based compensation reserve	21,518	21,518

The share-based compensation reserve represents a valuation of options issued during the period ended 30 June 2009. The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted determined by using the Binomial options valuation methodology model with the below assumptions.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Issue Date	Number of Options Issued	Exercise Price	Expiry Date	Expected Volatility	Risk-free Rate	Expected Life	Estimated Fair Value	Total $ Vested	
Dec 08	1,450,000	0.25	30 Jun 11	103.76%	5.65%	2.5 years	$0.0212	21,518	(a)
	1,450,000							21,518	

(a) An amount of 250,000 options was issued to Bob Richardson in lieu of Directors fees. An amount of 1,000,000 options was issued to Michael Leggo and 200,000 options to Justin Clyne as a performance incentive with the value being expensed in the income statement. 50% of the options vested on 31 March 2009 with the remaining 50% vesting on 31 March 2010.

No options have been exercised during the financial year.

The Company intends to adopt an Employee Share Option Plan prior to listing on the Stock Exchange in order to assist in the attraction, retention and motivation of employees of the Company and its related bodies corporate ("Group").

16. EARNINGS PER SHARE

		Consolidated 2009	Parent 2009
Basic earnings (loss) per share	cents	(2.94)	(2.85)
Diluted earnings (loss) per share	cents	(2.94)	(2.85)
Weighted average number of ordinary shares outstanding during the period used in calculation of basic EPS	No	14,366,000	14,366,000
Earnings (loss) used in calculating basic and diluted EPS	$	(422,242)	(409,754)

17. RELATED PARTY DISCLOSURES

The names and positions held of entity key management personnel in office at any time during the financial year are:

Key management personnel	Position
Mr Greg Jones (appointed 30 April 2009)	Chairman, Non-Executive Director
Dr Michael Leggo (appointed 11 September 2008)	Managing Director
Mr Bob Richardson (appointed 5 May 2008)	Non-Executive Director
Mr Robert Waring (appointed 30 April 2009)	Non-Executive Director
Mr Pat Elliott (appointed 5 May 2008, resigned 30 April 2009)	Non-Executive Director
Mr Justin Clyne (appointed 5 May 2008, resigned 11 September 2009)	Non-Executive Director
Mr Justin Clyne (appointed 5 May 2008)	Company Secretary

Key management personnel compensation policy

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The Board believes that executive remuneration satisfies the following key criteria:

- competitiveness and reasonableness
- acceptability to shareholders

- performance linkage / alignment of executive compensation
- transparency
- capital management

These criteria result in a framework which can be used to provide a mix of fixed and variable remuneration, and a blend of short and long-term incentives in line with the Company's limited financial resources.

Board and Senior Management

Fees and payments to the Non-Executive Directors and Senior Executives reflect the demands which are made on, and the responsibilities of, the Directors and the Senior Management. Such fees and payments are reviewed annually by the Board. The Company intends to adopt an Employee Share Option Plan prior to listing on the Stock Exchange whereby the Executive and Non-Executive Directors, Senior Executives and Officers will be entitled to receive options.

Key management personnel compensation

The aggregate compensation made to key management personnel of the Company is set out below:

	Consolidated 2009
Short-term employee benefits	295,234
Post-employment benefits	-
Other long-term benefits	-
Termination benefits	-
Share-based payments	21,518
	316,752

The compensation of each member of the key management personnel of the Company for the current period is set out below:

Director and Senior Management remuneration 2009

2009	Cash salary and fees $	Super-annuation $	Options $	Total $	% value of remuneration that consists of options %
Directors					
G Jones (a)	640	-	-	640	-
M Leggo	198,337	-	14,840	213,177	7.0
B Richardson (b)	41,965	-	3,710	45,675	8.1
R Waring (c)	26,610	-	-	26,610	-
	267,552	-	18,550	286,102	
Other key management personnel					
J Clyne (c)	27,682	-	2,968	30,650	9.7
	27,682	-	2,968	30,650	

(a) Appointed 30 April 2009. The Company engaged PlatSearch NL (PlatSearch) to provide the services of Greg Jones as a consultant. Fees totalling $640 were paid to PlatSearch. PlatSearch is a 24.2% shareholder in Silver City.

(b) The Company engaged PlatSearch for the period of 1 July 2008 to 31 December 2008 to provide the technical services of Bob Richardson. Fees paid to 31 December 2008 totalling $41,132 were paid to PlatSearch with the remaining $833 paid to GeoTangent Pty Ltd a company that Bob is a director of. PlatSearch is a 24.2% shareholder in Silver City.

NOTES TO AND FORMING PART OF THE ACCOUNTS

(c) Fees for Robert Waring $26,610 and Justin Clyne $27,682 for the period were paid to Spencer Hamilton Limited or its associated company Oakhill Hamilton Pty Ltd

Key management personnel equity holdings

Fully paid ordinary shares of Silver City Mining Limited

Consolidated	Balance at 5 May 2008 Number	Granted as compensation Number	Received on exercise of options Number	Net other change Number	Balance at 30 June 2009 Number	Balance held nominally Number
2009						
G Jones	-	-	-	-	-	-
M Leggo	-	-	-	200,000	200,000	-
R Richardson	-	-	-	250,000	250,000	-
R Waring	-	-	-	100,000	100,000	-
P Elliott	-	-	-	2,625,000	2,625,000	-
J Clyne	-	-	-	30,000	30,000	-

Share options of Silver City Mining Limited

Consolidated	Balance at 5 May 2008 Number	Granted as compen-sation Number	Exercised Number	Net other change Number	Balance at 30 June 2009 Number	Balance vested at 30 June 2009 Number	Vested but not exercis-able Number	Vested and exercis-able Number	Options vested during year Number
2009									
M Leggo	-	1,000,000	-	-	1,000,000	500,000	-	500,000	500,000
R Richardson	-	250,000	-	-	250,000	125,000	-	125,000	125,000
J Clyne	-	200,000	-	-	200,000	100,000	-	100,000	100,000

Transactions with key management personnel

Michael Leggo

Michael Leggo is a Director of Madron Resources Pty Ltd, which was paid fees totalling $198,337 for services as Managing Director of the Company including geological services. The contract is based on normal commercial terms and conditions.

Bob Richardson

Bob Richardson is a Director of GeoTangent Pty Ltd, which was paid fees totalling $833 as a technical consultant since 1 January 2009. The contract is based on normal commercial terms and conditions.

Robert Waring

Fees totalling $26,610 were paid to Spencer Hamilton Limited or its associated company Oakhill Hamilton Pty Ltd for corporate advisory services provided by Robert Waring. Robert Waring is a Director of Spencer Hamilton Limited and Oakhill Hamilton Pty Ltd. The contract is based on normal commercial terms and conditions.

Justin Clyne

Fees totalling $27,682 were paid to Spencer Hamilton Limited or its associated company Oakhill Hamilton Pty Ltd for company secretarial services provided by Justin Clyne. Justin Clyne is a consultant of Spencer Hamilton Limited and Oakhill Hamilton Pty Ltd. The contract is based on normal commercial terms and conditions.

Transactions with other related parties

PlatSearch NL

PlatSearch NL (PlatSearch) is a 24.2% shareholder of Silver City. The Company engaged PlatSearch to provide the consulting services of Greg Jones, with payments as at 30 June 2009 totalling $640.

The Company engaged PlatSearch for the period until 31 December 2008 to provide the services of Mr Bob Richardson as a technical consultant, with payments as at 30 June 2009 totalling $41,132.

The Company has paid PlatSearch for rent and reimbursement of office costs totalling $20,572 for the period ended 30 June 2009. The contract with PlatSearch is based on normal commercial terms and conditions.

18. AUDITORS' REMUNERATION

	Consolidated 2009 $	Parent 2009 $
Total amounts receivable by the current auditors of the Company for:		
Audit of the Company's accounts	2,500	2,000
Other services	-	-
	2,500	2,000

19. JOINT VENTURES

Joint Venture Agreement with CBH Resources Ltd (CBH)

SCI has also entered into an agreement known as the SCI/CBH joint venture agreement in relation to seven tenements including those known as the Zinc Search tenements near Broken Hill. In aggregating the various interests held by other parties in these tenements, CBH now holds a 100% interest in the tenements and PlatSearch and Eaglehawk Geological Consulting have converted their interests to a net smelter return of variously 0.8 to 2.5% and up to 0.5% respectively. SCI has the opportunity under the agreement to earn a 30% interest in the tenements whereupon on reaching that milestone a joint venture arrangement would be created. To earn this 30% interest SCI must complete a first stage exploration programme within 18 months and expend $600,000.

Thereafter, SCI can elect to increase its interest in any particular tenement in the joint venture from 30% to 65% by undertaking additional expenditure of not less than $500,000 on that tenement within three years from the formation of the joint venture (Stage 2 expenditure). If SCI proceeds to sole fund the exploration after the joint venture is created then SCI will become the manager of the project.

CBH has the right to “claw back” to a 50% equity in the relevant tenement should SCI make a discovery with an estimated in situ metal value greater than $150 million within six years of electing to fund Stage 2, and to become the Manager as long as it is operating or in active physical development of a mining and processing facility within the City of Broken Hill.

SCI has the option of withdrawing from the agreement at any time prior to earning its 30% interest and to the formation of the joint venture by giving 60 day's written notice provided SCI has met the annual statutory expenditure obligations (on a pro rata basis) up to the date of withdrawal.

20. FINANCIAL REPORT BY SEGMENT

The Company operates predominantly in the one business and in one geographical area, namely Australian mineral exploration and evaluation.

NOTES TO AND FORMING PART OF THE ACCOUNTS

21. CONTINGENT LIABILITIES

The Group has provided guarantees totalling $50,000 in respect of exploration tenements. These guarantees in respect of mining tenements are secured against deposits with the relative State Department of Mines and with a bank. The Company does not expect to incur any material liability in respect of the guarantees.

22. EMPLOYEE ENTITLEMENTS

The Company intends to adopt an Employee Share Option Plan prior to listing on the Stock Exchange in order to assist in the attraction, retention and motivation of employees of the Company and its related bodies corporate.

23. FINANCIAL INSTRUMENTS

The Board as a whole is responsible for reviewing the Company's policies on risk oversight and management and satisfying itself that Senior Management have developed and implemented a sound system of risk management and internal control. The Company's risk management policy has been designed to identify, assess, monitor and manage material business risks to ensure effective management of risk. These policies are reviewed regularly to reflect material changes in market conditions and the Company's risk profile.

The main risks identified in the Company's financial instruments are capital risk, credit risk, liquidity risk, interest rate risk and commodity price risk. Summarised below is information about the Company's exposure to each of these risk, their objectives, policies and processes for measuring and managing risk, the management of capital and financial instruments.

(a) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Company. In order to achieve this objective, the Company seeks to maintain a sufficient funding base to enable the Company to meet its working capital and strategic investment needs.

The Board ensures costs are not incurred in excess of available funds and will seek to raise additional funding through the issue of shares for the continuation of the Company's operations when required.

The Company considers its capital to comprise of its ordinary share capital, option reserve and accumulated losses. There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

(b) Financial risk management objectives

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

During the period there have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Company's risk management policies and objectives are designed to minimise the potential impacts of these risks on the results of the Company where such impacts may be material. The Board receives regular reports from the Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. These risks include credit risk, liquidity risk, interest rate risk and commodity price risk. The Company does not use derivative financial instruments to hedge these risk exposures.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these risks are set out below.

NOTES TO AND FORMING PART OF THE ACCOUNTS

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company mitigates credit risk on cash and cash equivalents by dealing with banks that have high credit-ratings assigned by Standard and Poors. There are two counterparties for Cash and Cash equivalents which are Commonwealth Bank of Australia and Bank of Western Australia Limited. Credit risk of receivables is low as it consists predominantly of GST recoverable from the Australian Taxation Office and interest receivable from deposits held with regulated banks.

The maximum exposure to credit risk at balance date is as follows:

	Consolidated 2009 $	Parent 2009 $
Cash and cash equivalents	661,111	661,111
Receivables	23,164	67,521
Deposits with Government Departments and banks	50,000	30,000
	734,275	758,632

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligation as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

Ultimate responsibility for liquidity risk rests with the Board of Directors, who have built an appropriate risk management framework for the management of the Company's short, medium and long-term funding and liquidity requirements. The Company manages liquidity by maintaining adequate cash reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Company's contractual maturities of financial liabilities:

Financial Liabilities	Carrying amount $	< 12 months $	1-3 years $	>3 years $
Consolidated 2009				
Payables	73,880	73,880	-	-
	73,880	73,880	-	-
Parent 2009				
Payables	73,380	73,380	-	-
	73,380	73,380	-	-

NOTES TO AND FORMING PART OF THE ACCOUNTS

The following table details the Company's expected maturity for financial assets:

Financial Assets	Carrying amount $	< 12 months $	1-3 years $	>3 years $
Consolidated 2009				
Cash at bank and term deposits	661,111	661,111	-	-
Receivables	23,164	23,164	-	-
Deposits with banks and Government Departments	50,000	-	-	50,000
	734,275	684,275	-	50,000
Parent 2009				
Cash at bank and term deposits	661,111	661,111	-	-
Receivables	67,521	67,521	-	-
Deposits with Government Departments	30,000	-	-	30,000
	758,632	728,632	-	30,000

(e) Interest rate risk

The Company's exposure to the risks of changes in market interest rates relates primarily to the Company's cash holdings and short term deposits. These financial assets with variable rates expose the Company to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The Company does not engage in any hedging or derivative transactions to manage interest rate risk.

At balance date, the Company was exposed to floating weighted average interest rates as follows:

	Consolidated 2009	Parent 2009
Weighted average rate of cash balances	2.73%	2.73%
Cash balances	$329,592	$329,592
Weighted average rate of term deposits	3.80%	3.80%
Term deposits	$331,519	$331,519

The Company invests surplus cash in interest-bearing term deposits with financial institutions and in doing so it exposes itself to the fluctuations in interest rates that are inherent in such a market. Term deposits are normally invested between 7 to 90 days and other cash at bank balances are at call.

NOTES TO AND FORMING PART OF THE ACCOUNTS

The Company's exposure to interest rate risk is set out in the table below:

Sensitivity analysis	Carrying amount $	+1.0% of AUD IR Profit $	+1.0% of AUD IR Other equity $	-1.0% of AUD IR Profit $	-1.0% of AUD IR Other equity $
Consolidated 2009					
Cash and cash equivalents	661,111	6,611	-	(6,611)	-
Tax charge of 30%	-	(1,983)	-	1,983	-
After tax profit increase/(decrease)	661,111	4,628	-	(4,628)	-
Parent 2009					
Cash and cash equivalents	661,111	6,611	-	(6,611)	-
Tax charge of 30%	-	(1,983)	-	1,983	-
After tax profit increase/(decrease)	661,111	4,628	-	(4,628)	-

The above analysis assumes all other variables remain constant.

(f) Commodity price risk

The Company is exposed to commodity price risk. This risk arises from its activities directed at exploration and development of mineral commodities. If commodity prices fall, the market for companies exploring for these commodities is affected. The Company does not hedge its exposures.

(g) Net fair value of financial assets and liabilities

The carrying amount of financial assets and liabilities of the Company approximate their net fair values, given the short time frames to maturity and or variable interest rates.

24. COMMITMENTS

Exploration licence expenditure requirements

In order to maintain the Company's tenements in good standing with the various mines departments, the Company will be required to incur exploration expenditure under the terms of each licence. The Company has commitments to expend funds towards earning or retaining an interest under its joint venture agreement with CBH Resources Ltd.

	Consolidated 2009 $	Parent 2009 $
Payable not later than one year	508,132	473,132
Payable later than one year but not later than two years	309,000	309,000
	817,132	782,132

It is likely that the granting of new licences and changes in licence areas at renewal or expiry will change the expenditure commitment to the Company from time to time.

25. SUBSEQUENT EVENTS

There have been no material events subsequent to 30 June 2009.

26. STATEMENT OF CASH FLOWS

		Consolidated 2009 $	Parent 2009 $
Reconciliation of net cash outflow from operating activities to operating loss after income tax			
(a)	Operating (loss) after income tax	(422,242)	(409,754)
	Depreciation	124	124
	Share based payments	21,518	21,518
	Non cash exploration capitalised	91,553	123,922
	Change in assets and liabilities:		
	(Increase)/decrease in receivables	(23,164)	(67,521)
	(Decrease)/increase in trade and other creditors	73,880	73,380
	Net cash outflow from operating activities	(258,331)	(258,331)

(b) For the purpose of the Statement of Cash Flows, cash includes cash on hand, at bank, deposits and bank bills used as part of the cash management function. The Company does not have any unused credit facilities.

	Consolidated 2009 $	Parent 2009 $
The balance at 30 June 2009 comprised:		
Cash assets	329,592	329,592
Bank deposits (Note 5)	331,519	331,519
Cash on hand	661,111	661,111

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Silver City Mining Limited, I state that:

(1) In the opinion of the Directors:

(a) financial statements and notes of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2009 and of its performance for the period ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2009.

On behalf of the Board

Michael Leggo

Managing Director

Sydney, 27 October 2009

INDEPENDENT AUDITOR'S REPORT

BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

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A J Dowell CA
M W James CA
B Kolevski (Affiliate ICAA)
M Galouzis CA

Associate
M A Nakkan CA

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Independent Auditor's Report to the Members

Scope

We have audited the accompanying Financial Report of Silver City Mining Limited ("the Company"), including the Financial Statements of the Company and the Controlled Entities (the Consolidated Entity), comprising the Balance Sheet as at 30 June 2009, and the Income Statement, Statement of Changes in Equity and Cash Flow statement for the period then ended, 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), International Financial Reporting Standards, 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 of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Report to the Members of the Company 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.

Website: www.bdj.com.au

INDEPENDENT AUDITOR'S REPORT

BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm the independence declaration required by the Corporations Act 2001 previously provided to the Directors of the Company would be in the same terms if provided as at the date of this Auditor's report.

Auditor's Opinion

In our opinion, the Financial Report of the Company and the Consolidated Entity is in accordance with the Corporations Act 2001, including;

a. 1. Giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2009 and of their financial performance for the year then ended; and

2. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

b. The Financial Report complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors Report for the year. The Directors are responsible for the preparation and presentation of the Remuneration Report in accordance with the Australian Auditing Standards. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards as described above.

Auditor's Opinion

In our opinion the Remuneration Report of Silver City Mining Limited for the year ended 30 June 2009, complies with S300 A of the Corporations Act 2001.

BARNES DOWELL JAMES
Chartered Accountants

....
Anthony J Dowell
Partner
27 October 2009

AUDITOR'S INDEPENDENCE DECLARATION

BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

Partners
C H Barnes FCA
A J Dowell CA
M W James CA
B Kolevski (Affiliate ICAA)
M Galouzis CA

Associate
M A Nakkan CA

North Sydney
Level 13, 122 Arthur St
North Sydney NSW 2060

Manly
Level 5, 22 Central Ave
Manly National Building
Manly NSW 2095

Correspondence
PO Box 1664
North Sydney NSW 2059

Telephone
(02) 9956 8500
Facsimile
(02) 9929 7428
Email:
bdj@bdj.com.au

AJD:KG

12 October, 2009

The Directors
Silver City Mining Limited
Level 1
80 Chandos Street
ST LEONARDS NSW 2065

Dear Board of Directors,

We declare that to the best of our knowledge and belief, during the year ended 30 June, 2009 there have been:

i. No contraventions of auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and

ii. No contraventions of any applicable code of professional conduct in relation to the audit.

Yours faithfully,
BARNES DOWELL JAMES
Chartered Accountants

....
Anthony Dowell
Partner

SHAREHOLDER INFORMATION

Information relating to shareholders at 7 October 2009 (per ASX Listing Rule 4.10)

Ordinary fully paid shares
There were a total of 20,630,000 fully paid ordinary share on issue.

Converting performance shares
There were a total of 15,000,000 converting performance shares on issue and a total of 15,000,000 JORC converting performance shares held by a trustee, AET Limited.

Options
There were a total of 5,550,000 options on issue.

Substantial Shareholders	Shareholding
PlatSearch NL	5,000,000

Shareholders of Ordinary Shares as 7 October 2009	Number	%
PlatSearch NL	4,500,000	21.81
Panstyn Investments Pty Ltd	2,625,000	12.72
DMG & Partners Securities Pte Ltd	2,500,000	12.12
Cedar Top Investments Ltd	2,500,000	12.12
Germaine Investments Holdings Inc	2,000,000	9.69
Warman Investments Pty ltd	1,000,000	4.85
Yeronda Nominees Pty Ltd	950,000	4.60
Budberth Pty Ltd	950,000	4.60
Mr Richard Graham Warren	500,000	2.42
Huntley Family Holdings Pty Ltd	500,000	2.42
Bluestone 23 Limited	500,000	2.42
Bohuon Resources Pty ltd	475,000	2.30
Mr Robert Lewis Richardson and Ms Susanne Brint	250,000	1.21
Graynic Metals Limited	250,000	1.21
Seistend Pty Ltd	200,000	0.97
Mr Michael David Leggo	200,000	0.97
Mr Peter Hellings	200,000	0.97
Sarah Franks and B J Retail Pty Ltd	125,000	0.61
Ipseity Pty Ltd	125,000	0.61
Warinco Services Pty Limited	100,000	0.48
Blue Lake Resources Pty Ltd	100,000	0.48
Ms Wendy Lynne Corbett	30,000	0.15
Mr Justin Bradley Clyne	30,000	0.15
Mr Peter Maurice Buckley	20,000	0.10
Total fully paid shares issued	**20,630,000**	**100.00**

SHAREHOLDER INFORMATION

Distribution of Shareholders		
Range	**Number of Shareholders**	**Ordinary Shares**
1 – 1,000	0	0
1,001 – 5,000	0	0
5,001 – 10,000	0	0
10,001 – 100,000	3	80,000
100,001 – and over	21	20,550,000
	24	**20,630,000**

Voting rights

There are no restrictions on voting rights. On a show of hands every member present or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Optionholders have no voting rights until the options are exercised.

CORPORATE DIRECTORY

Board of Directors

Greg Jones	Chairman
Michael Leggo	Managing Director
Bob Richardson	Non-Executive Director
Robert J Waring	Non-Executive Director

Company Secretary
Justin Clyne

Registered Office
Suite 3, Level 1, 80 Chandos Street
St Leonards, NSW 2065
PO Box 956, Crows Nest, NSW 1585
Telephone: 02 9437 1737
Facsimile: 02 9906 5233
Website: www.silvercitymining.com.au
Email: info@silvercitymining.com.au

Share Registrar
Registries Limited
Level 7, 207 Kent Street, Sydney, NSW 2000
GPO Box 3993, Sydney, NSW 2001
Telephone: 02 9290 9600
Facsimile: 02 9279 0664
Website: www.registries.com.au

Auditors and Independent Accountants
Barnes Dowell James
Level 13, 122 Arthur Street
North Sydney, NSW 2060

Banker
Commonwealth Bank of Australia
Bank of Western Australia Limited

Share Capital
At 30 June 2009 there were 20,630,000 fully paid ordinary shares, 15,000,000 converting performance shares, 15,000,000 JORC converting performance shares and 5,550,000 options.

SILVER CITY MINING LIMITED

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