SILVER MINES LIMITED

STATUTORY REPORT

30 JUNE 2009

Contents

SILVER MINES LIMITED
DIRECTORS' REPORT

The Directors present their report on the Company for the year ended 30 June 2009.

Directors

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

David Henty Sutton *(Non Executive Director–Chairman)*
Kim Austen Slater *(Non Executive Director)*
David John Straw *(Non Executive Director)*
Malcolm Harvey Bird *(Non Executive Director)*

Principal Activities

During the 12 months to June 30 2008 Silver Mines Limited (SVL) continued to aggressively explore its NSW tenements with the majority of work and expenditure focused on the Webbs Silver Project on EL5674. The Company wound back its exploration activities as a result of the global economic downturn and put in place work programs to conserve capital in September 2008.

Webbs Silver Project (EL5674)

- Webbs Silver Project Global inferred resource estimate (dated August 2008) of 670,000 tonnes at 210g/t silver (6.8 ounces per tonne silver) for 4.5 million ounces of silver.

- Webbs Silver South Prospect inferred resource (which is part of the Global estimate above) of 510,000 tonnes at 230g/t silver (7.4 ounces per tonne silver) for 3.8 million ounces of silver.

- Copper, zinc and lead provide significant value to the Inferred Resource representing 40% of the calculated value in this model.

Our interpretation of the project is that a north-south trending mineralised envelope exists over a strike length of approximately 2,000m with the historic Webbs Silver Mine located in the northern third. The envelope is up to 15 metres wide in places and contains a series of higher grade silver-rich polymetallic veins up to five metres wide and up to 100 metres long and at least 250 metres deep from the surface – as is the case at the Webbs Silver Mine. These higher grade lodes have been the primary target for the exploration to date (Figure 1).

Our exploration team has successfully demonstrated that the interpretation is valid and have thus far delineated eight high priority targets within the mineralised envelope. Of these eight targets only four have been drilled by us and silver-rich polymetallic mineralisation has been intersected in all four. The product of this drilling is an Inferred Resource estimate for the four targets as shown above.
This is an excellent result and demonstrates not only that our team has a successful targeting strategy but also demonstrates that the project is showing all the signs of a potential mine.

Other Tenements

Our Mole River projects continue to deliver good results with a number of targets generated that require ground geophysics and drilling. SVL will continue to place these projects on care and maintenance until financing opportunities improve.

SILVER MINES LIMITED
DIRECTORS' REPORT
(continued)

Results

The Company incurred a pre-tax operating loss of $673,091 (2008: loss $546,480).

Dividends

No dividend has been paid since the end of the previous financial year and no dividend is recommended for the current year, (2008 – nil).

Review of Operations

The comprehensive review of operations is covered in the General Managers Report that accompanies these accounts.

Significant Changes in the State of Affairs

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

Events subsequent to reporting date

Since 30 June the Company has raised a total of $428,000 through the issue of 3,200,000 shares at 3.5 cents per share and 7,900,000 shares at 4 cents per share.

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

Likely developments

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

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

Environmental Issues

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

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

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

Information on Directors

David Henty Sutton, *Non-Executive Chairman*

David has many years experience in stock broking and investment banking. Since 2002 he has been Executive Chairman of Martin Place Securities Pty Ltd, a boutique investment firm holding an AFS Licence, where his responsibilities include management of corporate finance, advisory and share broking facilities within the firm. Martin Place Securities Pty Ltd provides services in corporate advisory, stock broking, and investment research, with particular emphasis on the resources and energy sectors.

Prior to his current role David was a partner and Director of several Australian Stock Exchange firms including Clarke & Co, McNab Clarke and more recently, a Director of TA Securities, Hudson Securities and Terrain Securities. He became a member of the Stock Exchange of Melbourne and subsequently of the Australian Stock Exchange Limited.

His past experience of directorships of public companies includes Imperial Corporation Ltd., (a company producing natural gas in the United States), Sinovus Mining Limited, Fall River Resources Limited and Imperial Corporation Limited.

<u>Other listed company directorships held during past 3 years:</u>
Sinovus Mining Limited
Imperial Corporation Ltd
Reef Mining Limited

David John Straw, *Non-Executive Director*

David Straw is a geologist with extensive experience in all phases of mineral exploration, project development, joint ventures, mine development, production, valuation and finance, across most commodities including silver, gold, tin, tungsten, base metals, iron ore, mineral sands, uranium, asbestos and coal. He has wide experience with companies, governments and individuals. He also has an intimate knowledge of all levels of corporate administration. His global experience includes, but is not limited to, Australia, Canada, USA, Mexico, Africa (South, West and Central), Europe and South-East Asia.

David has held a broad range of technical, managerial and advisory positions through his career to both small and large exploration and mining companies as well as governments.

Selected highlights from his career include; Chief Geologist at Canadian Johns-Manville Co. Ltd., Director of Yerranderie Silver Limited and of Mareeba Mining and Exploration Limited. He also has held various positions including Vice President Exploration, Vice President Mineral Development and Directors of Inco Australia and Inco Indonesia. He was Deputy Managing Director of merchant bank Westralian International, and a Director of Robe River Ltd. He has held various positions form Operations Manager to General Manager Corporate Development of Mount Isa Mines and Director of various subsidiaries. At BMI Limited he held various positions including General Manager and Director of mining subsidiaries.

<u>Other listed company directorships held during past 3 years:</u>
Arthar Resources Corp
Tearlach Resources Ltd

Kim Austen Slater, *Non-Executive Director:*

Kim Slater has over 25 years experience in senior executive roles within the banking and financial services industry. Over this time he has provided specialist advice on structured products, hybrids, fixed interest, and equity derivative products to the Board and executives of major public and private institutions. He has held positions with County Natwest, Deustche Bank, and Salomon Smith Barney. His background in derivatives led him to being involved in many large corporate transactions, breaking new ground in the use of derivatives in takeovers and corporate finance.

More recently Kim operates an independent boutique advisory practice that specialises in providing strategic advice and corporate guidance to Boards and senior executives of ASX-listed companies. His experience in successfully driving development and executing strategy combined with the experience and knowledge of owning and operating his own small business, give a useful and varied perspective to the strategic aspirations of Silver Mines Ltd.

Other listed company directorships held during past 3 years:
Mobile Soft Limited

***Malcolm Harvey Bird**, Non Executive Director*

Malcolm Bird has over 35 years experience in the stock broking industry with an emphasis on mining investments. He is currently a Director of Morning Star Gold NL and has been on the Board of Central West Gold NL since its creation 17 years ago.

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

Company Secretary
Kevin Lynn B.Bus, CA, FAIDC, FFin
Mr Lynn is a Chartered Accountant with over 20 years corporate and finance and is also Company Secretary to several listed companies.

Remuneration Report

Remuneration policy

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

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

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

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

Executives are also entitled to participate in the employee share and option arrangements.
The executive Directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

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

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

Performance based remuneration

The Company currently has no performance based remuneration component built into the General Managers executive remuneration package.

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

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

The Directors have set the base fees payable as follows –

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

In addition to the fees above, the Company makes compulsory superannuation contributions on behalf of each Director in accordance with the Superannuation Guarantee Act. The Company does not have any schemes for retirement benefits for Non-Executive Directors.

Service Agreements

There are no other service agreements.

Director remuneration for the year ended 30 June 2009

	Salary & Fees	Non Monetary	Super-annuation	Retirement benefits	Equity Options	Other Bonuses	Total
D Sutton 2009	30,000	-	-	-	-		30,000
2008	30,000	-	-	-	-		30,000
D Straw 2009	30,000	-	-	-	-		30,000
2008	30,000	-	-	-	-		30,000
K Slater 2009	30,000	-	-	-	-		30,000
2008	30,000	-	-	-	-		30,000
M Bird 2009	30,000	-	-	-	-		30,000
2008	30,000	-	-	-	-		30,000

The Directors were each paid $7,500 in cash for the three month period 30 September 2008 and resolved to take their fees for the remaining period in the form of shares in the Company. The Shares will be valued at the weighted average share price of the Company shares during the quarter in which the fees became due and payable. The issue of these shares will be the subject of a resolution to be put to shareholders at the Company's next Annual General Meeting.

Remuneration of the 5 named executives who receive the highest remuneration for the year ended 30 June 2009

	Salary & Fees	Non Monetary	Super-annuation	Retirement benefits	Equity Options	Other Bonuses	Total
K Lynn 2009	36,000	-	-	-	-	-	36,000
2008	36,000	-	-	-	-	-	36,000
C Straw 2009	160,560	-	-	-	-	-	160,560
2008	154,505	-	13,905	-	-	25,000	193,410

Options granted as part of remuneration

No options were issued to Directors or executives as part of their remuneration for the year. For details of Directors and executives interests in options at year end, refer note 15 of the financial statements.

Performance Income as a proportion of total remuneration

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

Meetings of Directors

The following table sets out the number of meetings of the Company's Directors during the year ended 30 June 2009 and the number of meetings attended by each Director.

Name	Board Meetings	
	Eligible	**Attended**
D Sutton	6	6
M Bird	6	6
D Straw	6	-
K Slater	6	6
C Straw as Alternate Director for D Straw	-	6

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

Shares and Options

During the year the Company issued 5,305,000 shares at an issue price of 3.5 cents per share. No new options were issued.

Corporate Governance

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

Non-Audit Services

The Company engages the services of its auditor, Graham Abbott Associates, on other assignments in addition to their statutory audit duties where the firm's expertise and experience with the Company are beneficial. Non-audit services to be undertaken by the auditor are referred to the Chairman of the Company for approval where the fees are expected to exceed $10,000.

The Board of Directors has considered the level and nature of non-audit services provided by the auditor during the year and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the nature and scope of each type of non-audit service provided by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001. Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below.

	2009 $	2008 $
Audit services:		
Remuneration for audit and review of financial reports under the Corporations Act 2001	19,192	16,950
Other assurance services:		
Independent Accountants Report – UK Plus Listing	-	5,930 -
Total auditor's remuneration	**19,192**	**22,880**

Directors and Officers Indemnification

During the financial year Silver Mines Limited paid premiums of $14,580 (2008: $29,051) to insure the Directors and Officers of the Company.

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

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

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is set out on page 10 and forms part of the Director's Report.

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

David Sutton
Director

30 September 2009

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Silver Mines Limited

I declare that, to the best of my knowledge and belief, in relation to our review of Silver Mines Limited for the year ended 30 June 2009 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

Graham Abbott – Principal

Graham Abbott Associates
Chartered Accountants

Dated 30 September 2009.
Sydney, Australia.

SILVER MINES LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 $	2008 $
Revenues from ordinary activities	2	44,705	219,341
Expenses from ordinary activities			
- Accounting/ Company secretarial		(37,624)	(36,000)
- Wages		(20,724)	(195,873)
- Share registry		(25,829)	(26,656)
- Stock exchange fees		(18,773)	(15,823)
- Bank fees		(4,178)	(2,003)
- Auditors		(17,200)	(22,800)
- Directors emoluments		(127,455)	(127,984)
- Office expenses		(23,006)	(6,952)
- Occupational health & safety		-	(621)
- IT & communications		(6,783)	(19,297)
- Rent		(44,978)	(33,529)
- Depreciation		(66,026)	(39,529)
- Insurance		(32,107)	(31,763)
- Professional advisors		(12,870)	(85,753)
- Plus Market Listing fees		(215,437)	-
- Other expenses from ordinary activities		(64,806)	(121,238)
Total expenses		(717,796)	(765,821)
Loss from ordinary activities before income tax expense	3	**(673,091)**	**(546,480)**
Income tax expense	4	-	-
Loss from ordinary activities after income tax expense		**(673,091)**	**(546,480)**
		Cents	**Cents**
Basic earnings per share	21	(0.01)	(0.01)
Diluted earnings per share	21	(0.01)	(0.01)

The accompanying notes form an integral part of these financial statements.

SILVER MINES LIMITED

BALANCE SHEET
AS AT 30 JUNE 2009

	Notes	2009 $	2008 $
Current Assets			
Cash and cash equivalents	5	373,395	1,491,991
Receivables	6	50,516	150,783
Total Current Assets		423,911	1,642,774
Non-Current Assets			
Other financial assets	7	75,550	110,550
Intangible assets			
- Deferred exploration & development	8	3,965,310	3,193,474
Property plant & equipment	9	124,422	188,031
Total Non-Current Assets		4,165,282	3,492,055
Total Assets		4,589,193	5,134,829
Current Liabilities			
Payables	10	228,841	284,061
Provisions	11	7,934	4,307
Total Current Liabilities		236,775	288,368
Non Current Liabilities			
Payables	10	131,939	129,283
Total Non Current Liabilities		131,939	129,283
Total Liabilities		368,714	417,651
Net Assets		**4,220,479**	**4,717,178**
Equity			
Contributed equity	12	5,747,792	5,571,400
Accumulated losses	13	(1,527,313)	(854,222)
Total Equity		**4,220,479**	**4,717,178**

The accompanying notes form an integral part of these financial statements.

SILVER MINES LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Ordinary Shares $	Retained Earnings $	Total $
Balance at 30 June 2007		**5,612,981**	**(307,742)**	**5,305,239**
Shares Issued during the year		-	-	-
Costs of funds raised		(41,581)	-	(41,581)
Loss attributable to members of the Company		-	(546,480)	(546,480)
Balance at 30 June 2008		**5,571,400**	**(854,222)**	**4,717,178**
Shares Issued during the year		185,675	-	185,675
Costs of funds raised		(9,283)	-	(9,283)
Loss attributable to members of the Company		-	(673,091)	(673,091)
Balance at 30 June 2009		**5,747,792**	**(1,527,313)**	**4,220,479**

The accompanying notes form an integral part of these financial statements.

SILVER MINES LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 $	2008 $
Cash Flows From Operating Activities			
Interest received		44,705	219,341
Payments to suppliers and employees		(600,440)	(690,815)
Net cash outflows from operating activities	18	(555,735)	(471,474)
Cash Flows From Investing Activities			
Exploration bonds		35,000	(60,550)
Property plant & equipment		(2,417)	(212,356)
Exploration expenditure		(771,836)	(2,295,157)
Net cash outflows from investing activities		(739,253)	(2,568,063)
Cash Flows From Financing Activities			
Proceeds from the issue of shares		185,675	-
Fund raising costs		(9,283)	(41,581)
Borrowings – finance leases			129,283
Net cash inflows from financing activities		176,392	87,702
Net Increase in Cash Held		(1,118,596)	(2,951,835)
Cash at the Beginning of the Financial Year		1,491,991	4,443,826
Cash at the End of the Financial Year	5	**373,395**	**1,491,991**

The accompanying notes form an integral part of these financial statements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

Silver Mines Limited (the "Company") is a public company domiciled in Australia. The financial report covers Silver Mines as an individual entity. The financial report was authorised for issue on 30 September 2009 by the Board of Directors.

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

(b) Basis of Preparation

Statement of Compliance

The financial report of Silver Mines Limited is a general purpose financial report prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001. International Financial Reporting Standards form the basis of Australian Accounting Standards adopted by the AASB.

Compliance with AIFRS

Statement of Compliance
The financial report of Silver Mines Limited is a general purpose financial report prepared in accordance with Australian Accounting Standards (AASBs) including Australian Accounting Interpretations, adopted by the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations (UIG) and the Corporations Act 2001. International Financial Reporting Standards form the basis of Australian Accounting Standards adopted by the AASB.

Compliance with AIFRS
Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Silver Mines Limited complies with International Financial Reporting Standards (IFRS).

The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report.

- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Company's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Company only operates in one industry and one geographic segment. No changes to the presentation of segment information are expected from the application of this standard.

- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income" and makes changes to the statement of changes in equity. The revised standard does not change the recognition, measurement of disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the revised standard on the Company's disclosures.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(b) Basis of Preparation

- Revised AASB 123 *Borrowing Costs* removes the option to expense all borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Company's 30 June 2010 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Company has not yet determined the potential effect of the revised standard on future earnings.

- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the amending standard on the Company's financial report.

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

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

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

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

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

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

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

(c) Exploration and Evaluation Expenditure

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

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

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

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

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

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

(d) Trade creditors

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

(e) Cash

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

(f) Net fair value

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

(g) Revenue

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(h) Income Tax

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

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

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

(i) Goods and Services Tax (GST)

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

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

(j) Acquisitions of Assets

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

(k) Property, Plant and Equipment

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

(i) The depreciation rates used are as follows:

Plant and equipment	20-25% straight line
Office furniture and equipment	25-33⅓% straight line
Motor vehicles	33⅓% straight line

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(ii) *Impairment*

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

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

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

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

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

(l) Employee Entitlements

Wages, salaries and annual leave

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

Long Service Leave

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

Equity-settled compensation

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

Employee option plan

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

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

(m) Impairment

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

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

(n) Intangible Assets

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

(o) Issued Capital

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

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

(p) Earnings Per Share

Basic earnings per share

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

Diluted earnings per share

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(q) Financial Instruments

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

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

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

Classification and Subsequent Measurement

Loans and Receivables

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

Financial Liabilities

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

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

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

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

(t) Going Concern
The financial statements are presented on a going concern basis. Since 30 June 2009 the Company has raised a total of $428,000 through the issue of 3,200,000 shares at 3.5 cents per share and 7,900,000 shares at 4 cents per share. The directors are not aware of any uncertainties which would cast doubt of the Company's ability to continue as a going concern.

	2009 $	2008 $
2. REVENUE		
Revenue from operating activities		
Interest received	**44,705**	**219,341**

3. OPERATING EXPENSES

The operating loss from operating activities:

	2009 $	2008 $
- Accounting/ Company secretarial	(37,624)	(36,000)
- Wages	(20,724)	(195,873)
- Share registry	(25,829)	(26,656)
- Stock exchange fees	(18,773)	(15,823)
- Bank fees	(4,178)	(2,003)
- Auditors	(17,200)	(22,880)
- Directors emoluments	(127,455)	(127,984)
- Office expenses	(23,006)	(6,952)
- Occupational health & safety	-	(621)
- IT & communications	(6,783)	(19,297)
- Rent	(44,978)	(33,529)
- Depreciation	(66,026)	(39,529)
- Insurance	(32,107)	(31,763)
- Professional advisors	(12,870)	(85,753)
- Plus Market Listing fees	(215,437)	-
- Other expenses from ordinary activities	(64,808)	(121,238)
Total	**(717,796)**	**(765,821)**

4. INCOME TAX

	2009 $	2008 $
(a) Temporary Differences		
Current tax	-	-
Deferred tax	-	-
Underprovision for previous years	-	-
Total	-	-
(b) Reconciliation of income tax expense to prima facie tax payable		
Operating loss before income tax	**(673,091)**	**(546,480)**
Prima facie income tax benefit at 30% on operating loss	201,927	163,944
Add tax effect of:		
Tax losses and temporary differences not recognised	(201,927)	(163,944)
Non temporary differences	-	-
Income tax attributable to operating loss	-	-

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

SILVER MINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

4. INCOME TAX (Continued)

	2009 $	2008 $
(c) There is no amount of tax benefit recognised in equity as the tax effect of temporary differences has not been booked		
(d) Tax Losses		
Unused tax losses for which no tax loss has been booked as a deferred tax asset adjusted for non temporary differences	1,527,313	854,222
Potential tax benefit at 30%	458,194	256,267
(e) Unrecognised temporary differences		
Non deductible amounts as temporary differences	-	-
Accelerated deductions for book compared to tax	-	-
Total	458,194	256,267
Potential effect on future tax expense	458,194	256,267

5. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	**373,395**	**1,491,991**

Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the statement of financial position as follows:

Cash assets	**373,395**	**1,491,991**

The effective interest rates on term deposits were 5.08% (2008: 7.2%).

6. RECEIVABLES

Other Debtors	50,516	150,783
Provision for Doubtful Debts	-	-
	50,516	**150,783**

7. OTHER FINANCIAL ASSETS

Non-Current		
Performance guarantee bonds	**75,550**	**110,550**

8. INTANGIBLE ASSETS

Non-Current		
Exploration expenditure		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phase		
Opening balance	3,193,474	898,317
Expenditure in the period	771,836	2,295,157
Expenditure written off	-	-
	3,965,310	**3,193,474**

	2009 $	2008 $

9. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment - at cost	188,031	85,605
Financial Lease Assets	-	147,843
Assets acquired	2,417	-
Less: Accumulated depreciation	(66,026)	(45,417)
	124,422	**188,031**

Reconciliation

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

	Plant & Equipment $	Motor Vehicles $	Total $
Carrying value at start of year	**60,486**	**127,545**	**188,031**
Additions	2,417	-	2,417
Disposals	-	-	-
Depreciation	(29,625)	(36,401)	66,026
Carrying value at end of year	**33,278**	**91,144**	**124,422**

	2009 $	2008 $

10. PAYABLES

Current

Trade creditors and accruals	**228,841**	**284,061**

Non Current

Hire Purchase Creditors	**131,939**	**129,283**

11. PROVISIONS

Employee Entitlements	**7,934**	**4,307**
Number of Employees at year end	**1**	**2**

12. CONTRIBUTED EQUITY

(a) Issued and paid up capital

	2009 $	2008 $
Balance at the beginning of the financial year	5,571,400	5,612,981
Issue of shares to raise capital	185,675	-
Share Issue Costs	(9,283)	(41,581)
Balance at the end of the financial year	**5,747,792**	**5,571,400**

Consisting of 48,802,505 ordinary shares (2008: 43,497,505 ordinary shares)

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$
25 September 2006	Seed Capital	13,820,005	$0.08	1,142,005
19 January 2007	Tenement Acquisition Shares	5,375,000	$0.06	375,000
19 January 2007	IPO Shares	20,652,500	$0.20	4,130,500
21 February 2008	Placement	3,600,000	$0.21	756,000
	Transaction costs arising from share issues	-		(782,105)
28 May 2008	Bonus Issue	50,000		-
30 June 2008	**Balance**	**43,497,505**		**5,571,400**
29 June 2009	Placement	5,305,000	$0.035	185,675
	Transaction costs arising from share issues			(9,283)
30 June 2009	**Balance**	**48,802,505**		**5,747,792**

(a) Issued and paid up capital

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

(b) Share Options

- 13,820,000unlisted options at 20 cents per share expiring November 2009.
- 2,000,000 Underwriters Options issued to Martin Place Securities Pty Ltd at 25 cents per share expiring November 2009
- 2,500,000 options to Directors of the Company exercisable at 20 cents per share expiring 5 years from the dated of issue 8 May 2012.
- 1,300,000 options to executives and staff of the Company exercisable at 20 cents per share expiring 5 years from the dated of issue 8 May 2012.

(c) Capital Management

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

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

Movements in options	2009 Number	2008 Number
Balance at the beginning of the financial year	19,620,000	19,620,000
Options Lapsed	-	-
Options Exercised	-	-
Options Issued	-	-
Balance at the end of the financial year	**19,620,000**	**19,620,000**

13. ACCUMULATED LOSSES

	2009 $	2008 $
Opening balance	854,222	307,742
Net loss for year	673,091	546,480
Closing balance	**1,527,313**	**854,222**

14. AUDITOR'S REMUNERATION

	2009 $	2008 $
Remuneration for audit or review of the financial reports of the Company:		
Current auditors of the Company:		
Audit and review of the financial statements	19.192	16,950
Other services	-	5,930
	19,192	**22,880**

15. REMUNERATION OF DIRECTORS AND EXECUTIVES

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

Directors	
D Sutton	Chairman – Non-Executive
D Straw	Director – Non-Executive
K Slater	Director – Non-Executive
M Bird	Director – Non-Executive
Specified Executives	
C Straw	General Manager (Alternate director for D Straw)
K Lynn	Company Secretary

(b) Relevant Interests in Options and Ordinary Shares at the Date of this Report

Ordinary shares	Balance 1 July 2008	Net change other	Balance 30 June 2009
Specified Directors			
D Sutton	1,090,000	407,450	1,497,450
D Straw	-	-	-
K Slater	-	-	-
M Bird	6,085,000	-	6,085,000

OPTIONS

Employee Options	Balance 1 July 2008	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2009
Specified Directors					
D Sutton	500,000	-	-	-	500,000
D Straw	500,000	-	-	-	500,000
K Slater	500,000	-	-	-	500,000
M Bird	500,000	-	-	-	500,000
Specified Executives					
C Straw	500,000	-	-	-	500,000
K Lynn	500,000	-	-	-	500,000
Total	**3,000,000**	**-**	**-**	**-**	**3,000,000**

(c) Directors' and Senior Officers' Emoluments

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

15. REMUNERATION OF DIRECTORS AND EXECUTIVES (Continued)

The Company employed a General Manager, who was involved in, concerned in, and took part in the management of the Company's affairs. Details of the nature and amount of the remuneration of each Director of the Company are set out below:

Director remuneration for the year ended 30 June 2009

	Salary & Fees	Non Monetary	Super-annuation	Retirement benefits	Equity Options	Other Bonuses	Total
D Sutton 2009	**30,000**	-	-	-	-	-	**30,000**
2008	30,000	-	-	-	-	-	30,000
D Straw 2009	**30,000**	-	-	-	-	-	**30,000**
2008	30,000	-	-	-	-	-	30,000
K Slater 2009	**30,000**	-	-	-	-	-	**30,000**
2008	30,000	-	-	-	-	-	30,000
M Bird 2009	**30,000**	-	-	-	-	-	**30,000**
2008	30,000	-	-	-	-	-	30,000

Remuneration of the 5 named executives who receive the highest remuneration for the year ended 30 June 2009

	Salary & Fees	Non Monetary	Super-annuation	Retirement benefits	Equity Options	Other Bonuses	Total
K Lynn 2009	**36,000**	-	-	-	-	-	**36,000**
2008	36,000	-	-	-	-	-	36,000
C Straw 2009	**160,560**	-	-	-	-	-	**160,560**
2008	154,505	-	13,905	-	-	25,000	193,410

(d) Individual directors' and executives compensation disclosures

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

The fair value of options is provided in the Remuneration Report section of the Directors' Report.

There were no shares or options issued as remuneration to executives during the financial year ended June 2009.

The Directors were each paid $7,500 in cash for the three month period 30 September 2008 and resolved to take their fees for the remaining period in the form of shares in the Company. The Shares will be valued at the weighted average share price of the Company shares during the quarter in which the fees became due and payable. The issue of these shares will be the subject of a resolution to be put to shareholders at the Company's next Annual General Meeting.

16. RELATED PARTY TRANSACTIONS

Related parties of Silver Mines Limited fall into the following categories:

Directors

Other Transactions with Director Related Entities

Payment/provision of the following payments were made for consulting and other services to related entities of the following Directors:

	2009 $	2008 $
D Sutton	9,284	41,581

Payments to Mr Sutton represent capital raising fees to Martin Place Securities Pty Ltd of which Mr Sutton is a Director. The transaction was on normal commercial terms.

17. SEGMENT INFORMATION

Business Segments

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

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

	2009 $	2008 $
Operating loss after income tax	(673,091)	(546,479)
Depreciation	66,026	39,529
Increase/(decrease) in Receivables	102,923	8,731
Increase/ (decrease) in Payables	(55,221)	28,102
(Increase) / decrease in Provisions	3,267	(1,357)
Net cash outflows from operating activities	**(555,735)**	**(471,474)**

19. COMMITMENTS FOR EXPENDITURE

Operating Leases

Non-cancellable operating lease rentals are payable as follows:

Due within one year	53,000	53,000
Due beyond one year and within five years	-	53,000
	53,000	**106,000**

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

20. FINANCIAL INSTRUMENT DISCLOSURES

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

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

(a) Market Risk

(i) Foreign exchange risk

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

(ii) Price Risk

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

(iii) Cash flow and fair value interest rate risk

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

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

The interest rate risk is detailed in the table below.

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing		Non-interest Bearing	Total
			Within 1 year	Over 1 year		
	%	$	$	$	$	$
2009						
FINANCIAL ASSETS						
Cash assets	7.5%		373,395	-	-	373,395
Performance guarantee bonds			-	75,550	-	75,550
Other financial assets	-		-	-	50,516	50,516
			373,395	75,550	50,516	499,461
FINANCIAL LIABILITIES						
Payables	-		-	(131,939)	(236,775)	(368,714)
NET FINANCIAL ASSETS (LIABILITIES)			**373,395**	**(56,389)**	**(186,259)**	**130,747**

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing		Non-interest Bearing	Total
			Within 1 year	Over 1 year		
	%	$	$	$	$	$
2008						
FINANCIAL ASSETS						
Cash assets	7.5	-	1,491,991	-	-	1,491,991
Performance guarantee bonds		-	-	110,550	-	110,550
Other financial assets	-	-	-	-	150,783	150,783
		-	1,491,991	110,550	150,783	1,753,324
FINANCIAL LIABILITIES						
Payables	-	-	-	(129,283)	(288,368)	(417,651)
NET FINANCIAL ASSETS (LIABILITIES)		**-**	**1,491,991**	**(18,733)**	**(137,585)**	**1,335,673**

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

	2009 $	2008 $
Net financial assets per above	130,747	1,335,673
Property Plant & Equipment	124,422	188,031
Deferred Exploration & Development	3,965,310	3,193,474
Net assets per statement of financial position	**4,220,479**	**4,717,178**

(c) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security in respect of recognised financial assets, is the carrying amount as disclosed in the statements of financial position and notes to the financial statements.

(d) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through adequate amount of committed credit facilities and the ability to close out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows matching maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets.

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

(e) Net Fair Values

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

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

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

(f) Sensitivity Analysis

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

21. EARNINGS PER SHARE

	2009 Cents	**2008 $**
Basic earnings per share	(0.01)	(0.01)
Diluted earnings per share	(0.01)	(0.01)
	Number	**Number**
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basis earnings per share and alternative basis earnings per share	**43,759,121**	**43,449,505**
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share and alternative diluted earnings per share	**63,379,121**	**63,069,505**
	$	**$**
Reconciliation of earnings used in calculating earnings per share		
Earnings used in calculating basic and diluted earnings per share	**(673,091)**	**(546,480)**

Options granted to employees and Directors are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share.

22. LEASED ASSETS

The Company leases premises and vehicles under a number of finance and operating lease agreements. Some leases provide the Company with the option to purchase equipment at a beneficial price. The leased equipment secures lease obligations. At 30 June 2009, the net carrying amount of leased vehicles was $91,143 (2008: $147,843).

23EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after balance date other than the raising of a total of $428,000 through the issue of 3,200,000 shares at 3.5 cents per share and 7,900,000 shares at 4 cents per share.

24. COMPANY DETAILS

The **registered office** of the Company is

Silver Mines Limited
11 Rodborough Avenue
Crows Nest NSW 2065
Australia

The **principal places of business** are:

Silver Mines Limited
Sydney Office
Suite 201,109 Alexander Street
Crows Nest, NSW 2065

Silver Mines Limited
Exploration Office
+61 2 9436 0533
+61 2 9436 0688

SILVER MINES LIMITED

DIRECTORS' DECLARATION

The Directors declare that:

1 the financial statements and notes, as set out on pages 11 to 33 are in accordance with the *Corporations Act 2001* and:

(a) comply with Accounting Standards and the Corporations Regulations 2001; and

(b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the Company and economic entity;

2 the Chief Executive Officer and Chief Finance Officer have each declared that:

(a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

(b) the financial statements and notes for the financial year comply with the Accounting Standards; and

(c) the financial statements and notes for the financial year give a true and fair view;

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

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

David Sutton
Director
30 September 2009

SILVER MINES LIMITED

INDEPENDENT AUDIT REPORT

To the members of Silver Mines Limited

Report on the Financial Report

We have audited the accompanying financial report of Silver Mines Limited (the Company), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Liability limited by a scheme approved under Professional Standards Legislation.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Silver Mines Limited on 30 September 2009, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

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

(a) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 6 to 8 of the directors' report for the year ended 30 June 2009. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Silver Mines Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

Graham Abbott Associates
Chartered Accountants

Graham Abbott – Principal

30 September 2009

SILVER MINES LIMITED
CORPORATE DIRECTORY

Directors

David Sutton Non -Executive Chairman
David Straw Non-Executive Director
Malcolm Bird Non-Executive Director
Kim Slater Non-Executive Director
Charles Straw (Alternate Director for D Straw)

Company Secretary
Kevin Martin Lynn

General Manager
Charles Straw

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Sydney NSW 2000

Auditors
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10 Crown Street
Sydney
NSW 2011

Company's Solicitor
Macpherson + Kelly
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