

Silver Mines Limited

ACN 107 452 942

**Notice of
Annual General Meeting
&
Explanatory Statement**

**The Annual General Meeting to be held at
The Christie Conference Centre, Mining Room,
Level 2, 3 Spring Street, Sydney, NSW 2000
on
19 November 2012 at 10.30 am (Sydney time).**

The Annual Report is available online visit www.silverminesltd.com.au

This Notice of Annual General Meeting, Explanatory Statement and Proxy Form should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2012 Annual General Meeting of Silver Mines Limited ACN 107 452 942 (Company) will be convened at Christie Conference Centre, Mining Room, Level 2, 3 Spring Street, Sydney, NSW, 2000, on 19 November 2012 at 10.30 am (Sydney time). If you are unable to attend the meeting, we encourage you to complete and return the enclosed Proxy Form. The completed Proxy Form must be received by the Company at least 48 hours before the commencement of the meeting.

An Explanatory Statement, which accompanies and forms part of this Notice, describes the various matters to be considered.

Terms used in this Notice will, unless the context otherwise requires have the same meaning as explained in the Explanatory Statement.

AGENDA

Financial Statements and Reports

To receive and consider the Annual Financial Report of the Company, together with the Directors' Report and Auditor's Report for the period ending 30 June 2012.

Resolution 1 – Non binding approval of Remuneration Report

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That for all purposes, Shareholders adopt the Remuneration Report set out in the Directors' Report for the year ended 30 June 2012.”

Notes:

- a) The vote on this resolution is advisory only and does not bind the Directors of the Company.
- b) The Company's key management personnel and their closely related parties must not cast a vote on the Remuneration Report unless they are appointed in writing as a proxy for a member eligible to vote on the resolution and that proxy specifies how to vote on the resolution.
- c) The Chairman will vote all undirected proxies in favour of this resolution. If you wish to vote “against” or “abstain” you should mark the relevant box on the attached Proxy Form.

Resolution 2 – Re-election of Director

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That for all purposes, Mr David Sutton, being a director of the Company who retires in accordance with the Company’s constitution and being eligible offers himself for election, is elected as a director”.

Resolution 3 – Ratify an Issue of Securities

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That for the purposes of Listing Rule 7.4 of the Listing Rules of ASX Limited and for all other purposes, the Company ratifies the issue and allotment of 12,504,733 fully paid ordinary shares and 6,252,376 attaching options, exercisable at 10 cents per share, expiring 13 November 2013.”

Short Explanation: Approval is sought under Listing Rule 7.4 to allow the Company to ratify the issue and allotment of these securities. Please refer to the Explanatory Statement for details.

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 3 by any person who participated in the issue and any associate of any such person. However, the Company need not disregard a vote if:

- i. The vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*
- ii. The vote is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.*

Resolution 4 – Approval of 10% Placement Facility

To consider and, if thought fit, pass the following resolution as a **special resolution**:

“That pursuant to and in accordance with Listing Rule 7.1A of the Listing Rules of ASX Limited and for all other purposes, Shareholders approve the issue of equity securities up to 10% of the issued capital of the Company (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Statement.”

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 4 by any person who may participate in the 10% Placement Facility and any associate of any such person and a person who may obtain a benefit, except a benefit solely in the capacity of a holder of shares, if this resolution is passed. However, the Company need not disregard a vote if:

- i. The vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*

- ii. *The vote is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.*

Resolution 5 – Approval of the Performance Rights Share Plan

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That the Silver Mines Limited Performance Rights Plan (Plan), the principal terms of which are summarized in the Explanatory Statement and the issue of performance rights under the plan be approved for all purposes.”

Short Explanation: The Plan requires approval by Shareholders. The Plan is designed to be an incentive to key people who assist in the successful development and operation of the Company. In addition, approval is sought pursuant to ASX Listing Rule 7.2 (exception ix (b)) so that shares issued pursuant to the Plan are not included in the Company’s 15% capacity for the purposes of ASX Listing Rule 7.1.

Please refer to the Explanatory Memorandum for further details.

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 5 by any person who is a Director of the entity (except one who is ineligible to participate in any employee incentive scheme in relation to the entity) and any associate of any such person. However, the Company need not disregard a vote if:

- i. *The vote is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*
- ii. *The vote is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.*

Resolution 6 – Approval of issue of Performance Rights to David Sutton

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That pursuant to and in accordance with the ASX Listing Rules, Chapter 2E of the Corporations Act 2001 and all other purposes, approval be given to grant 1 million Performance Rights (being a right to acquire 1 million fully paid ordinary shares in the Company subject to satisfaction of relevant performance condition) to David Sutton, the Company’s Chairman pursuant to the Company’s Performance Rights Share Plan as described in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by any person who is a Director of the entity (except one who is ineligible to participate in any employee incentive scheme in relation to the entity) and any associate of any such person. Notwithstanding the above, the Company will not disregard a vote on this resolution if it is cast in the following circumstances:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*
- (ii) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.*

Resolution 7 – Approval of issue of Performance Rights to Charles Straw

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That pursuant to and in accordance with the ASX Listing Rules, Chapter 2E of the Corporations Act 2001 and all other purposes, approval be given to grant 1 million Performance Rights (being a right to acquire 1 million fully paid ordinary shares in the Company subject to satisfaction of relevant performance condition) to Charles Straw, the Company’s Managing Director pursuant to the Company’s Performance Rights Share Plan as described in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by any person who is a Director of the entity (except one who is ineligible to participate in any employee incentive scheme in relation to the entity) and any associate of any such person. Notwithstanding the above, the Company will not disregard a vote on this resolution if it is cast in the following circumstances:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*
- (ii) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.*

Resolution 8 – Approval of issue of Performance Rights to Malcolm Bird

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That pursuant to and in accordance with the ASX Listing Rules, Chapter 2E of the Corporations Act 2001 and all other purposes, approval be given to grant 1 million Performance Rights (being a right to acquire 1 million fully paid ordinary shares in the Company subject to satisfaction of relevant performance condition) to Malcolm Bird,

the Company's Director pursuant to the Company's Performance Rights Share Plan as described in the Explanatory Statement accompanying this Notice of Meeting."

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by any person who is a Director of the entity (except one who is ineligible to participate in any employee incentive scheme in relation to the entity) and any associate of any such person. Notwithstanding the above, the Company will not disregard a vote on this resolution if it is cast in the following circumstances:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*
- (ii) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.*

Resolution 9 – Approval of issue of Performance Rights to Kevin Lynn

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That pursuant to and in accordance with Chapter 2E of the Corporations Act 2001 and all other purposes, approval be given to grant 1 million Performance Rights (being a right to acquire 1 million fully paid ordinary shares in the Company subject to satisfaction of relevant performance condition) to Kevin Lynn, the Company's Company Secretary pursuant to the Company's Performance Rights Share Plan as described in the Explanatory Statement accompanying this Notice of Meeting."

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by Mr Kevin Lynn and any person associated with him. Notwithstanding the above, the Company will not disregard a vote on this resolution if it is cast in the following circumstances:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*
- (ii) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.*

Resolution 10 – Approval of issue of Performance Rights to David Hobby

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That pursuant to and in accordance with Chapter 2E of the Corporations Act 2001 and all other purposes, approval be given to grant 1 million Performance Rights (being a right to acquire 1 million fully paid ordinary shares in the Company subject to

satisfaction of relevant performance condition) David Hobby, the Company's Chief Geologist pursuant to the Company's Performance Rights Share Plan as described in the Explanatory Statement accompanying this Notice of Meeting."

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by Mr David Hobby and any person associated with him. Notwithstanding the above, the Company will not disregard a vote on this resolution if it is cast in the following circumstances:

- (i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*
- (ii) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.*

By Order of the Board of Directors

A handwritten signature in black ink, appearing to read 'Kevin Lynn', with a large loop at the end.

Kevin Lynn
Company Secretary
19 October 2012

Explanatory Statement

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the Company's 2012 Annual General Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the resolutions in the accompanying Notice of Annual General Meeting.

This Explanatory Statement should be read in conjunction with the Notice of Annual General Meeting.

The Explanatory Statement consists of the following sections:

1. Financial Statements and Reports
2. Resolution 1: Non-binding approval of Remuneration Report
3. Resolution 2: Re - Election of Mr David Sutton as a Director
4. Resolution 3: Ratify an Issue of Securities
5. Resolution 4: Approval of 10% Placement Facility
6. Resolution 5: Approval of the Performance Rights Share Plan
7. Resolution 6 - 8: Approval of Issue of Performance Rights to Directors
8. Resolution 9 - 10: Approval of Issue of Performance Rights to Senior Staff
9. Other information
10. Action to be taken by Shareholders
11. Annexure A - Questions from Shareholders
12. Annexure B – Performance Rights Plan

Enclosed is the Proxy Form.

Explanatory Statement

1. Financial Statements and Reports

The Annual Financial Report, Directors' Report and Auditor's Report for the Company for the period ending 30 June 2012 will be laid before the meeting.

There is no requirement for Shareholders to approve these reports. However, the Chairman will allow a reasonable opportunity for Shareholders to ask questions or make comments about those reports and the management of the Company. Shareholders will also be given a reasonable opportunity to ask the auditor questions about the conduct of the audit and the preparation and content of the Auditor's Report.

In addition to taking questions at the meeting, written questions to the Chairman about the management of the Company, or to the Company's auditor may be made about:

- the preparation and content of the Auditor's Report;
- the conduct of the audit;
- accounting policies adopted by the Company in relation to the preparation of the Financial Statements; and
- the independence of the auditor in relation to the conduct of the audit.

To assist the Board and the auditor of the Company in responding to your questions please submit any questions you may have using the enclosed Question Form at Annexure A of the Explanatory Statement so that it is received no later than 48 hours before the commencement of the meeting and sent to:

Kevin Lynn
Chief Financial Officer
Silver Mines Limited
Level 5, 17 - 19 Bridge Street
Sydney, NSW 2000
Australia
-or-
Fax: +61 2 9253 0901

As required under section 250PA of the Corporations Act, at the Annual General Meeting, the Company will distribute a list setting out the questions directed to the Auditor received in writing, being questions which the Auditor considers relevant to the content of the Auditor's Report or the conduct of the audit of the Financial Report for the period ended 30 June 2012.

The Chairman will allow a reasonable opportunity to respond to the questions set out on this list.

2. Resolution 1: Adoption of Remuneration Report

The Corporations Act 2001 requires that the Company propose a resolution that the Remuneration Report of the Company be adopted. The Remuneration Report is set out in the Director's Report contained in the Company's 2012 Annual Report.

The Remuneration Report sets out the Company's remuneration arrangements for the executive and non-executive Directors and executive employees of the Company.

A reasonable opportunity will be given for discussion of the Remuneration Report at the meeting. Shareholders should note that the vote on this resolution is advisory only and does not bind the Company or the Directors.

The board will consider the outcome of the vote and comments made by Shareholders on the Remuneration Report at this meeting when reviewing the Company's Remuneration policies. If 25% or more of the votes that are cast are voted against the adoption of the Remuneration Report at two consecutive Annual General Meetings Shareholders will be required at the second of those Annual General meetings on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's Directors other than the Managing Director must stand for re-election.

Key management personnel (including Directors) and their closely related parties must not cast on the report on the Remuneration Report unless as holders of directed proxies for Shareholders eligible to vote on the resolution and that proxy specifies how to vote on the resolution.

The Company encourages all Shareholders to cast their votes on this resolution. The Chairman will vote all undirected proxies in favour of this resolution. If you wish to vote "against" or "abstain" you should mark the relevant box in the attached Proxy Form.

3. Resolution 2: Re-election of Director

This Resolution deals with the re-election of Mr. David Sutton as Directors of the Company.

In accordance with ASX Listing Rule 14.4 and the Company's constitution, at every Annual General Meeting, one third of the Directors for the time being must retire from office and are eligible for re-election. The Directors to retire are:

- (a) those who have been in office for 3 years since their appointment or last reappointment;
- (b) those who have been longest in office since their appointment or last reappointment; or
- (c) if the Directors have been in office for an equal length of time, by agreement.

In addition, the Company's constitution requires that any director appointed by the board, either to fill a casual vacancy or as an addition to the Board, must retire at the next Annual General Meeting following his or her appointment, but is eligible for re-election at that Annual General Meeting.

In accordance with the Company's constitution, Mr. David Sutton retires and being eligible, has offered himself for election. The remaining Directors, Mr. Malcolm Bird and Mr. Charles Straw recommend to Shareholders that Mr. Sutton be elected as a director.

Details of Mr. Sutton's background and experience are set out in the 2012 Annual Report.

4. Resolution 3 – Ratification of the Allotment and Issue of Securities Background

On 8 June 2012 the Company issued by way of placement, a total of 12,504,733 fully paid ordinary shares and 6,252,376 free attaching options exercisable at 10 cents per share, expiring on 13 November 2013 to professional and sophisticated investors.

Regulatory Requirements - ASX Listing Rule 7.1 and 7.4

The Company did not breach Listing Rule 7.1 .

Resolution 3 is required to be approved in accordance with ASX Listing Rule 7.4. Approval is sought under ASX Listing Rule 7.4 to allow the Company to ratify the issue and allotment of 12,504,733 fully paid ordinary shares and 6,252,376 free attaching options exercisable at 10 cents per share, expiring on 13 November 2013 to professional and sophisticated investors.

The reason for an approval under ASX Listing Rule 7.4 is to reinstate the capacity of the Company to issue up to 15% of its securities in the next 12 months without the approval of its Shareholders.

The following information is provided to Shareholders for the purpose of obtaining shareholder approval pursuant to the ASX Listing Rules:

- (a) the number of securities allotted by the Company was 12,504,733 shares and 6,252,376 attaching options exercisable at 10 cents per share, expiring on 13 November 2013 to professional and sophisticated investors;
- (b) the allottees of the securities were professional and sophisticated investors;
- (c) the options are unlisted;
- (d) the securities were allotted for 6 cents per share with half a free attaching option; and
- (e) the funds raised on the exercise of the options were used to continue drilling programs at the Company's New England projects and working capital.

Directors' Recommendation

The Board recommends Shareholders vote in favour of Resolution 3.

Terms of the Options

- (a) Subject to condition (g) the options are exercisable wholly or in part at any time from day of issue and will expire on 13 November 2013;
- (b) Each option shall entitle the option holder to acquire one (1) share in the capital of the Company;
- (c) Each option may be exercised by delivering to the registered office of the Company a notice in writing during the period referred to in condition (a) stating the intention of the option holder to exercise a specified number of options, accompanied by an option certificate, if applicable, and a cheque made payable to the Company for the subscription monies due, subject to the funds being duly cleared funds. The exercise of only a portion of the options held does not affect the holder's right to exercise the balance of any options remaining;
- (d) All shares issued on exercise of the options will rank pari passu in all respects with the Company's then issued shares. These options will be unlisted;
- (e) The options are transferable;
- (f) Any notice of exercise of an option received by the Company will be deemed to be a notice of the exercise of that option as at the date of the receipt;
- (g) There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of securities offered to Shareholders of the Company during the currency of the options. However, the Company will ensure that for the purpose of determining entitlements to any such issue, the record date will be at least 10 business days after the issue is announced so as to give holders the opportunity to exercise their options before the date for determining entitlement to participate in any issue;

- (h) Share allotted pursuant to the exercise of the options will be allotted following receipt of all the relevant documents and payment and will rank equally with existing issued shares; and
- (i) In the event of a reconstruction (including consolidations, subdivision, reduction or return) of the issued capital of the Company, all rights of the option holder shall be reconstructed in accordance with the ASX Listing Rules.

5. Resolution 4 – Approval of 10% Placement Facility

5.1 General

Listing Rule 7.1 A enables eligible entities to issue Equity Securities up to 10% of its issued share capital through placements over a 12 month period after the annual general meeting (10% Placement Facility). The 10% Placement Facility is in addition to the Company's 15% placement capacity under Listing Rule 7.1.

An eligible entity for the purposes of Listing Rule 7.1 A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity.

The Company is now seeking shareholder approval by way of a **special resolution** to have the ability to issue Equity Securities under the 10% Placement Facility.

The exact number of Equity Securities to be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to Section 5.2(c) below).

The Company actively seeks to continue exploration. The Company may use the 10% Placement Facility to facilitate further exploration.

The Directors of the Company believe that Resolution 4 is in the best interests of the Company and unanimously recommend that Shareholders vote in favour of this resolution.

5.2 Description of Listing Rule 7.1A

(a) Shareholder approval

The ability to issue Equity Securities under the 10% Placement Facility is subject to shareholder approval by way of a **special resolution** at an annual general meeting.

(b) Equity Securities

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company. The Company, as at the date of the Notice, has on issue two classes of quoted Equity Securities, Shares and Listed Options.

(c) Formula for calculating 10% Placement Facility

Listing Rule 7.1 A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

$$(AxD)-E$$

A is the number of shares on issue 12 months before the date of issue or agreement:

(A) plus the number of fully paid shares issued in the 12 months under an exception in Listing Rule 7.2;

(B) plus the number of partly paid shares that became fully paid in the 12 months;

(C) plus the number of fully paid shares issued in the 12 months with approval of holders of shares under Listing Rule 7.1 and 7.4. This does not include an issue of fully paid shares under the entity's 15% placement capacity without shareholder approval;

(D) less the number of fully paid shares cancelled in the 12 months.

Note that A has the same meaning in Listing Rule 7.1 when calculating an entity's 15% placement capacity.

D is 10%

E is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of Shareholders under Listing Rule 7.1 or 7.4.

(d) Listing Rule 7.1 and Listing Rule 7.1A

The ability of an entity to issue Equity Securities under Listing Rule 7.1 A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of this Notice, the Company has on issue 163,997,091 Shares and therefore has a capacity to issue:

- (i) 24,599,564 Equity Securities under Listing Rule 7.1; and
- (ii) Subject to shareholder approval being sought under Resolution 4, 16,399,710 Equity Securities under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1 A.2 (refer to Section 5.2(c) above).

(e) Minimum Issue Price

The issue price of Equity Securities issued under Listing Rule 7.1 A must be not less than 75% of the VWAP of Equity Securities in the same class calculated over the 15 Trading Days immediately before:

- (i) The date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) If the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

(f) 10% Placement Period

Shareholder approval of the 10% Placement Facility under Listing Rule 7.1 A is valid from the date of the annual general meeting at which the approval is obtained and expires on the earlier to occur of:

- (i) the date that is 12 months after the date of the annual general meeting at which the approval is obtained; or
- (ii) the date of the approval by Shareholders of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking), or such longer period if allowed by ASX **(10% Placement Period)**.

5.3 Listing Rule 7.1A

The effect of Resolution 4 will be to allow the Directors to issue the Equity Securities under Listing Rule 7.1 A during the 10% Placement Period without using the Company's 15% placement capacity under Listing Rule 7.1.

Resolution 4 is a **special resolution** and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate shareholder, by a corporate representative).

5.4 Specific Information required by Listing Rule 7.3A

Pursuant to and in accordance with Listing Rule 7.3A, information is provided in relation to the approval of the 10% Placement Facility as follows:

- (a) The Equity Securities will be issued at an issue price of not less than 75% of the VWAP for the Company's Equity Securities over the 15 Trading Days immediately before:
 - (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
 - (ii) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

- (b) If Resolution 4 is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders' voting power in the Company will be diluted as shown in the below table (in the case of Listed Options, only if the Listed Options are exercised). There is a risk that:
 - (i) the market price for the Company's Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and
 - (ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date or the Equity Securities are issued as part of consideration for the acquisition of a new asset, which may have an effect on the amount of funds raised by the issue of the Equity Securities.

The below table shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities for variable "A" calculated in accordance with the formula in Listing Rule 7.1 A(2) as at the date of this Notice.

The table also shows:

- (i) two examples where variable "A" has increased, by 50% and 100%. Variable "A" is based on the number of ordinary securities the Company has on issue. The number of ordinary securities on issue may increase as a result of issues of ordinary securities that do not require Shareholder approval {for example, a pro rata entitlements issue or scrip issued under a takeover offer) or future specific

placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and

- (ii) two examples of where the issue price of ordinary securities has decreased by 50% and increased by 100% as against the current market price.

Variable 'A' in Listing Rule 7.1 A.2		Dilution		
		\$0.03 50% decrease in Issue Price	\$0.06 Issue Price	\$0.12 100% Increase in Issue Price
Current Variable A 163,997,091 Shares	10% Voting Dilution	16,399,710 shares	16,399,710 shares	16,399,710 shares
	Funds Raised	\$491,991	\$983,983	\$1,960,765
50% increase in current Variable A 245,995,637 Shares	10% Voting Dilution	24,599,564 shares	24,599,564 shares	24,599,564 shares
	Funds Raised	\$737,987	\$1,475,974	\$2,951,948
100% increase in current Variable A 327,994,182 Shares	10% Voting Dilution	32,799,418 shares	32,799,418 shares	32,799,418 shares
	Funds Raised	\$983,983	\$1,967,965	\$3,935,930

The table has been prepared on the following assumptions:

- (i) The Company issues the maximum number of Equity Securities available under the 10% Placement Facility.
- (ii) No Listed Options (including any Listed Options issued under the 10% Placement Facility) are exercised into Shares before the date of the issue of the Equity Securities:
- (iii) The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
- (iv) The table does not show an example of dilution that may be caused to a particular shareholder by reason of placements under the 10% Placement Facility, based on that shareholder's holding at the date of the meeting.
- (v) The table shows only the effect of issues of Equity Securities under Listing Rule 7.1 A, not under the 15% placement capacity under Listing Rule 7.1.
- (vi) The issue of Equity Securities under the 10% Placement Facility consists only of shares. If the issue of Equity Securities includes Listed Options, it is assumed that those Listed Options are exercised into shares for the purpose of calculating the voting dilution effect on existing Shareholders.
- (vii) The issue price is \$0.06, being the intraday price of the shares on ASX on 9 October 2012.

- (c) The Company will only issue and allot the Equity Securities during the 10% Placement Period. The approval under Resolution 4 for the issue of the Equity Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities or Listing Rule 11.2 (disposal of main undertaking)).

- (d) The Company may seek to issue the Equity Securities for the following purposes:
 - (i) non-cash consideration for the provision of services in relation to the continued exploration of its Silver projects. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1 A.3; or
 - (ii) cash consideration. In such circumstances, the Company intends to use the funds raised towards continued exploration on its Silver projects.

The Company will comply with the disclosure obligations under Listing Rules 7.1 A(4) and 3.1 0.5A upon issue of any Equity Securities.

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the allottees of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

- (iii) the methods of raising funds that are available to the Company, including but not limited to, rights issue or other issue in which existing security holders can participate;
- (iv) the effect of the issue of the Equity Securities on the control of the Company;
- (v) the financial situation and solvency of the Company; and
- (vi) advice from corporate, financial and banking advisers (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.

Further, if the Company is successful in acquiring new resources assets or investments, it is likely that the allottees under the 10% Placement Facility will be the vendors of the new resources assets or investments.

- (e) The Company has not previously obtained Shareholder approval under Listing Rule 7.1A.
- (f) A voting exclusion statement is included in the Notice. At the date of the Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.

6. Resolution 5 - Approval of the Performance Rights Share Plan

Performance Rights Share Plan – Background

Silver Mines Limited will adopt the Performance Right Share Plan (Plan) for the following reasons:

- to align the interests of their Eligible Employees, especially senior management, with the performance of the Company and the interests of its Shareholders;
- to provide the Eligible Employees with a direct equity interest in the Company;
- as a means of attracting and retaining key staff;
- to reward the Eligible Employees in a form that does not involve a cash payment to the Eligible Employees;
- to provide the Eligible Employees with an incentive to improve (and maximise) the Company's performance; and
- to provide leverage to the Eligible Employees in the event of good performance by the Company.

Silver Mines Limited is similar to many other small companies. The Company wishes to directly involve its Directors and Eligible Employees in its business and to reward them by reference to the performance of the Company. Further, it wishes to preserve its cash for use in growing its business. Accordingly, the Directors of the Company decided to implement a Performance Rights Share Plan.

The Plan is designed as a standard component of Director and Eligible Employee remuneration and is intended to comprise the long term incentive component of remuneration. Accordingly, performance rights under the Plan will be granted at no cost. The Plan has a limit of 15% of the Company's issued capital at the relevant point in time.

Grants made under the Plan will be subject to a performance period (usually set at between 2 and 3 years for the initial grants) and Performance Rights will only vest if the relevant performance conditions are satisfied at the end of the relevant assessment period. The Plan has generally been designed to link rewards to Eligible

Employees with improvements in Company performance and the delivery of returns to Shareholders, and for other Eligible Employees, to reward their performance.

The terms of the Plan are similar to the equivalent plans adopted by other companies. A copy of the full terms of the Plan will be sent free of charge to any shareholder on request.

A summary of the terms of the performance rights to be issued to the Directors is set out below. The Company advises that this is a new scheme and that no Performance Rights have been issued under this scheme.

A summary of the key terms of the Performance Rights Share Plan is set out below:

Eligibility (Eligible Employees)	Directors, Executives and Employees (Eligible Employees) of the Company as determined by the Board are eligible to participate in the Plan.
Form of grant	Performance Rights, being a right to acquire fully paid ordinary shares in the Company subject to satisfaction of relevant performance conditions. Each Performance Right granted will entitle the executive to 1 fully paid ordinary share in the Company.
Participation	Eligible Employees may be invited by the Board to participate in the Plan.
Maximum Number of Performance Rights	The aggregate number of Performance Rights to be issued under the Plan is limited to no more than 15% of the total number of shares on issue at that time.
Performance conditions	The Board has discretion under the rules of the Plan to set performance conditions which will apply to a grant of Performance Rights. The relevant performance conditions may vary between grants.
Grant price	Although the Board has the discretion under the Plan to set a grant price, it is intended that Performance Rights will be granted at no cost to the participating Eligible Employee (on the basis that the grant comprises part of the Eligible Employee 's remuneration).
Vesting and exercise price	There is no exercise price for Performance Rights, once relevant Performance conditions are met, the Performance Rights vest and Eligible Employee's may call for the underlying Performance Shares to be issued to them. Once approval has been granted the performance

	rights will be issued within 12 months.
Restrictions attaching to Performance Rights	Performance Rights may only be transferred with the consent of the Board or by force of law (i.e. upon death or bankruptcy), and will lapse immediately where an Eligible Employee purports to transfer them in breach of the rules of the Plan.
Restrictions attaching to Performance Shares	The Board has discretion under the Plan to impose trading or other restrictions on Performance Shares issued to an Eligible Employee upon vesting of a Performance Right.
Cessation of employment	<p>If the Eligible Employee ceases to be employed by the Company due to death, disability, bona fide redundancy or other reason with the approval of the Board:</p> <ul style="list-style-type: none"> • the Board has the discretion to determine that some or all of the executive’s unvested Performance Rights will vest having regard to pro rata performance against the relevant performance conditions; and • if the Board does not make a determination, or determines that only some of the Eligible Employee’s Performance Rights will vest, then all remaining unvested Performance Rights will lapse. • If the Eligible Employee ceases to be employed for any other reason the unvested performance rights will lapse. • If the Eligible Employee acts fraudulently or dishonestly or is in breach of his or her obligations to the Company, the Board may deem any unvested Performance Rights to have lapsed, and deem all or any Performance Shares to be forfeited.
Takeover/scheme of arrangement	In the event of a takeover bid or scheme of arrangement in respect of the Company, the Board has discretion to determine that some or all of an Eligible Employee’s Performance Rights vest, having regard to pro rata performance against the relevant performance conditions.
Bonus issues, rights issues and reconstruction	If shares are issued pro rata to the Company’s Shareholders generally by way of bonus issue or rights issue or any reorganisation of the issued capital of the Company is effected, the number of Performance Rights to which an Eligible Employee is entitled will be adjusted by the Board to ensure that no advantage or disadvantage accrues to the Eligible Employee.

Amendment to the Plan	Subject to any applicable relevant laws and rules, and to specified restrictions in the rules of the Plan, the Company may at any time by written instrument or by resolution of the Board, amend the rules of the Plan or the terms of Performance Rights granted.
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7. Resolution 6 – 8 Issue of Performance Rights to Directors

Resolutions 6 to 8 deal with the issue of performance rights to Directors.

The Company is similar to those of many other small cap companies. The Company wishes to directly involve each of its Directors and Eligible Employees in its business and to reward them by reference to the performance of the Company. Further, the Company wishes to preserve its cash for use in growing its business.

It is proposed to allocate 1 million Performance Rights to each Director for no consideration, and they will vest based on the below performance hurdles:

- (i) That the Director remains in continuous employment after the date of approval of the Performance Rights Share plan until 31 December 2013; and
- (ii) The share price of the Company increases to at least 20 cents from the approval of the Performance Rights Share Plan and remains above 15 cents until the period ending 31 December 2013 (allocation 500,000 shares); and
- (iii) That the Company achieves a JORC resource (indicated, measured or inferred) of 20 million ounces of Silver from the date of approval of the Performance Rights Share Plan and prior to 31 December 2013 (allocation 500,000 shares).

If either i or ii above are achieved, or i and iii are achieved 500,000 shares will vest.

No person has received securities under this scheme as it is a new scheme. In relation to the previous plan approved by Shareholders each Director received 500,000 Shares in the Company upon satisfaction of performance hurdles.

Advantages of the Proposed Issue of Performance Rights

Remuneration in the form of a performance rights package serves to provide a significantly greater incentive to the recipients to increase shareholder value than the simple outlay of a cash sum.

Disadvantages of the Proposed Issue of Performance Rights

Despite your Directors' belief that this proposal serves the interests of the Company and its Shareholders, Shareholders should be aware that the exercise of performance rights granted under this proposal will dilute their shareholdings in the Company. The voting power and ability of Shareholders to influence the affairs of the Company will also be affected adversely if the performance rights granted.

There are 163,997,091 shares on issue in the Company. If all the performance rights vested and were issued, there would be an increase of 5,000,000 shares in the capital of the Company.

Legal requirements

The giving of a financial benefit to a related party of a public Company is ordinarily prohibited by Chapter 2E of the Corporations Act 2001 (Cth). The exceptions to the general prohibition are where the benefit is given with the approval of the Shareholders or the benefit is given in one or more of the limited circumstances in which the giving of a financial benefit to a related party of a public Company is permitted.

One exception to the general rule is where the benefit constitutes "reasonable remuneration" in respect of the duties and responsibilities of the related party in the management of the public Company. In the opinion of the Directors, the issue of the performance rights does constitute "reasonable remuneration" in respect of each of the Directors and, as the provision of such benefits is expressly permitted by section 211(1) of the Corporations Act 2001 (Cth), the Directors do not consider the Company is strictly required to seek shareholder approval in order to give the Directors the financial benefit that is inherent in the issue to them of the performance rights.

Despite the foregoing, your Directors believe it is appropriate that Shareholders vote on the proposal prior to the issue of performance rights to the relevant Directors. Accordingly, they have authorised the preparation of this notice of meeting in compliance with the requirements set out in Chapter 2E of the Corporations Act 2001 (Cth) for meetings at which resolutions are proposed for approval by the Shareholders of the giving of a financial benefit to a related party (i.e. in this case, the Directors).

Set out above are details of the nature of the financial benefit to be given to the Directors and the advantages and disadvantages of approval by the Shareholders of the resolution that will permit, if approved, the giving of the financial benefit.

In relation to the proposed issue of performance rights, no director wishes to make a recommendation to Shareholders given his direct personal interest in the proposed issue of performance rights.

8. Resolution 9 – 10 Issue of Performance Rights to Senior Management

Resolutions 9 to 10 deals with the issue of performance rights to senior management who are Kevin Lynn, Company Secretary and David Hobby, Chief Geologist. Each will be issued 1 million Performance Rights subject to approval by Shareholders.

The issue of Performance Rights is on the same terms as Directors as described above.

9. Other Information

There is no other information known to the Company that is material to a shareholder's decision on how to vote on the resolutions set out in the Notice. However, should any shareholder be in doubt as to how they should vote on any resolution and/or as to how a resolution may affect them, they should seek advice from their accountant, solicitor or other professional adviser as soon as possible.

Queries as to the lodgment of proxies and other formalities in relation to the meeting should be directed to the Company Secretary.

10. Action to be taken by Shareholders

Enclosed with the Notice of Meeting and this Explanatory Statement is a Proxy Form for use by Shareholders. All Shareholders are invited and encouraged to attend the meeting or, if they are unable to attend in person and are eligible to vote, to complete, sign and return the Proxy Form to the Company in accordance with the instructions contained on the Proxy Form and the Notice of Meeting. Lodgment of a Proxy Form will not preclude a shareholder from attending and voting at the meeting in person.

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company or you may photocopy this form.

To appoint a second proxy you must on each Proxy Form state (in the appropriate box) the percentage of your voting rights which are the subject of the relevant proxy. If both Proxy Forms do not specify that percentage, each proxy may exercise half your votes. Fractions of votes will be disregarded.

Votes on Resolutions

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each resolution. All your shareholding will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any resolution by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given resolution, your proxy may vote as he or she chooses. If you mark more than one box on a resolution your vote on that resolution will be invalid.

Proxy and Voting Entitlement Instructions

Signing Instructions

You must sign this form as follows in the spaces provided:

- Individual: where the holding is in one name, the holder must sign.
- Joint Holding: where the holding is in more than one name, all of the Shareholders should sign.
- Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the Company's share registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
- Companies: where the Company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the Company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a Representative of the Corporation is to attend the meeting a "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate is either included in the Notice or may be obtained from the Company's Share Registry.

Silver Mines Limited
ACN 107 452 942

**Appointment of Corporate Representative
Section 250D of the Corporations Act 2001**

Shareholder Details

This is to certify that by a resolution of the Directors of:

.....
(Company),
Insert name of shareholder Company

the Company has appointed:

.....
Insert name of corporate representative

in accordance with the provisions of section 250D of the Corporations Act 2001, to act as the body corporate representative of that Company at the meeting of the members of Silver Mines Limited to be held at Christie Conference Centre, Ming Room, Level 2, 3 Spring Street, Sydney, NSW, on 19 November 2012 at 10.30 a.m. (Sydney Time) and at any adjournments of that meeting.

DATED 2012

Please sign here

Executed by the Company)
in accordance with its constituent documents)
)

.....
Signed by Authorised Representative

.....
Signed by Authorised Representative

.....
Name of Authorised Representative (print)

.....
Name of Authorised Representative (print)

.....
Position of Authorised Representative (print)

.....
Position of Authorised Representative (print)

Instructions for Completion

1. Insert name of appointer Company and the name or position of the appointee (eg John Smith or each Director of the Company).
2. Execute the Certificate following the procedure required by your Constitution or other constituent documents.
3. Print the name and position (e.g. Director) of each Company officer who signs this Certificate on behalf of the Company.
4. Insert the date of execution where indicated.
5. Mail or Deliver the Certificate to the office at Silver Mines Limited, Level 5, 17 – 19 Bridge Street, Sydney, NSW 2000, Australia - or - Fax: +61 2 9253 0901

Annexure A: Questions from Shareholders

This form is provided with the notice of the Annual General Meeting of Silver Mines Limited ACN 107 452 042 to be held at Christie Conference Centre, Ming Room, Level 2, 3 Spring Street, Sydney, NSW, on 19 November 2012 at 10.30 a.m. (Sydney Time), to assist Shareholders in asking questions of:

- the Directors of the Company in relation to the management of the Company; and
- Moyes Yong & Co, as the auditor who prepared the Auditor’s Report for the period ended 30 June 2012, in relation to the audit, the preparation and content of the Auditor’s Report, the accounting policies adopted by the Company in relation to the preparation of the Financial Statements and the independence of the auditor in relation to the conduct of the audit.

The board of Directors and the auditor will endeavor to respond to the questions received by Shareholders as the chair of the meeting determines is reasonable given the time available at the meeting.

Name of Shareholder/s:

Questions (please place an X in the box next to the question if your question is directed at the auditor)

Lodging this form

If you wish to ask questions using this form, you should submit this form as described below by no later than 48 hours before the commencement of the meeting.

By mail: Kevin Lynn, Chief Financial Officer,
Silver Mines Limited
Level 5, 17 - 19 Bridge Street
Sydney, NSW 2000
Australia
- or -
Fax: +61 2 9253 0901

Annexure B: Performance Rights Plan

Silver Mines Limited
Performance Rights Plan

19 October 2012

**SILVER MINES LIMITED
PERFORMANCE RIGHTS PLAN RULES**

1. PURPOSE AND ESTABLISHMENT

1.1 The purpose of the Plan is to:

- (a) provide Eligible Persons with the opportunity to acquire Shares, subject to satisfying certain specified performance criteria;
- (b) attract Eligible Persons to Silver Mines Limited; and
- (c) motivate and retain Eligible Persons of Silver Mines Limited.

1.2 Commencement

The Plan will commence on the date determined by the Board.

2. DEFINITIONS AND INTERPRETATION

2.1 Definitions

In these Rules:

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to it in section 318 of the *Income Tax Assessment Act 1936* (Cth).

ASX means ASX Limited ABN 98 008 624 691.

ASX Listing Rules means the official listing rules of ASX in force from time to time after taking into account any waiver, modification or exemption which is in force in relation to the Company whilst it is listed on ASX.

Attorney has the meaning given to that term in Rule 11.1.

Board means the board of directors of the Company or a committee of the Board appointed by those directors, as constituted from time to time.

Change of Control means:

- (a) a takeover bid is announced for all of the issued Shares and the bidder has acquired voting power in the Company of more than 50%;
- (b) a court sanctions a compromise or arrangement for the purposes of, or in connection with, a scheme for the amalgamation of the Company with any other company or companies under Part 5.1 of the Corporations Act; or
- (c) a transaction has occurred (other than a takeover or a scheme of arrangement) under which control of the Company has passed from the then existing shareholders.

Company means Silver Mines Limited ACN 107 452 942.

Corporations Act means the *Corporations Act 2001* (Cth).

Disposal Restriction means restrictions on disposal or dealing in a Right or a Share determined by the Board.

Director means a director of the Company.

Eligible Person means:

- (a) a full-time or permanent part-time employee of the Company or any related body corporate of the Company;
- (b) a director (including a non-executive director) or secretary of the Company or any related body corporate of the Company; or
- (c) any other person who is determined by the Board to be an Eligible Person for the purposes of the Plan.

Grant Date means the date on which Rights are granted, as specified in the Invitation.

Invitation has the meaning given in Rule 3.3.

Participant means an Eligible Person who accepts an Invitation to participate in and has been granted Rights under the Plan.

Performance Condition means a condition specified in the Terms and Conditions which must be satisfied before the Right becomes a Vested Right.

Plan means the Silver Mines Limited Performance Rights Plan as set out in these Rules, as altered or added to under Rule 9.

Record Date has the meaning given by the ASX Listing Rules.

Redundancy, in relation to a Participant, means termination or cessation of employment as a result of redundancy, as determined by the Board.

Retirement, in relation to a Participant, means cessation of employment in circumstances where the Board is satisfied that the Participant has genuinely and permanently retired from the workforce.

Right means a right to acquire a Share on the terms set out in these Rules.

Rules means the rules of the Plan contained in this document.

Security Interest means a mortgage, charge, pledge, lien or other encumbrance of any nature.

Share means a fully paid ordinary share in the capital of the Company.

Special Circumstances, in relation to a Participant, means ceasing to be an Eligible Person by reason of:

- (a) Redundancy;
- (b) Retirement; or

(c) other circumstances which are considered by the Board to be extraordinary.

Terms and Conditions means the terms and conditions applicable to a Right granted to a Participant under these Rules as set out in the Invitation.

Total and Permanent Disablement, in relation to a Participant, means that the Participant has, in the opinion of the Board, become permanently incapacitated to such an extent as to render the Participant unlikely to again engage in the Participant's primary occupation.

Trust means the trust established in accordance with Rule 4.

Trustee means the trustee of the Trust from time to time.

Unvested Right means a Right which is neither a Vested Right nor a Right that has lapsed, expired or been forfeited in accordance with these Rules or the Terms and Conditions.

Vested Right has the meaning given in Rule 5.4.

Vesting Notice means a notice given to a Participant pursuant to clause 5.5 specifying the number of Rights held by the Participant that have become Vested Rights and the number of Shares the Participant is entitled to receive.

2.2 **Rules for interpreting this document**

Headings are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this document, except where the context makes it clear that a rule is not intended to apply.

- (a) A reference to:
 - (i) legislation (including subordinate legislation) is to that legislation as amended, modified re-enacted or replaced, and includes any subordinate legislation issued under it;
 - (ii) a document or agreement, or a provision of a document or agreement, is to that document, agreement or provision as amended, supplemented, replaced or notated;
 - (iii) a party to a document or agreement includes a permitted substitute or a permitted assign of that party;
 - (iv) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person; and
 - (v) anything (including a right, obligation or concept) includes each part of it.
- (b) A singular word includes the plural, and vice versa.
- (c) A word which suggests one gender includes the other genders.
- (d) If a word is defined, another part of speech has a corresponding meaning.
- (e) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.

- (f) The terms listed, related body corporate, takeover bid and voting power have the meaning given in the Corporations Act.

3. ELIGIBILITY AND INVITATION

3.1 Eligibility

In its discretion, the Board may, from time to time, invite any Eligible Person to participate in and be granted Rights under the Plan on such terms and conditions (subject to these Rules) as the Board determines.

3.2 Matters Board may take into account

In exercising its discretion under Rule 3.1, the Board may take into account any matter which it considers relevant including, but not limited to:

- (a) **(position)** the position in Silver Mines Limited held or to be held by the Eligible Person;
- (b) **(employment arrangements)** the Eligible Person's employment arrangements with Silver Mines Limited;
- (c) **(contribution)** the contribution made by, or the potential contribution to be made by, the Eligible Person to Silver Mines Limited (or any member of it);
- (d) **(company)** the interests of the Company; and
- (e) **(cap on rights to be issued)** the total number of Rights which may be granted under the Plan without causing the Company to exceed the 5% limit in ASIC Class Order [CO 03/184] (or if such limit is replaced, any limit specified by ASIC or any other regulatory authority from time to time as a condition for relief from any disclosure requirements under any law relating to the offer or grant of the Rights.)

3.3 Invitation

An invitation to participate in the Plan (**Invitation**):

- (a) **(timing)** may be made by the Board at any time;
- (b) **(form)** subject to these Rules, may be in such form as the Board determines;
- (c) **(matters to be included)** must specify:
 - (i) **(name)** the name of the Eligible Person;
 - (ii) **(number of Rights)** the number of Rights granted or to be granted to the Eligible Person;
 - (iii) **(Terms and Conditions)** the Terms and Conditions applicable to the Rights (see Rule 5.1);
 - (iv) **(manner of acceptance)** the time by which, and manner in which, the Participant must indicate that he or she does or does not accept the Invitation;
 - (v) **(Grant Date)** the date on which the Rights were or are to be granted to the Participant.

3.4 **Grant of Rights**

On the Grant Date, the Company must grant the number of Rights specified in the Invitation to the Participant.

3.5 **Rules, terms and constitution binding**

Where a Participant accepts an Invitation and has been granted Rights, that Participant will be bound by these Rules, the Terms and Conditions and, in respect of Shares provided to the Participant when the Rights become Vested Rights, the constitution of the Company.

3.6 **Personal nature**

An Invitation is not transferable and an Eligible Person may only accept or reject a grant of Rights in the Eligible Person's name (or, with the permission of the Board, in the name of an Associate) and not on behalf of any other person.

4. **TRUST IN CONNECTION WITH RIGHTS AND SHARES**

The Company may establish a trust and arrange for the Trustee to subscribe for or purchase Shares to be held on trust for a class of discretionary beneficiaries. The terms of the trust will provide for the following:

- (a) **(directions)** the Trustee must comply with directions of the Company to purchase or subscribe for Shares, subject to the Trustee having sufficient funds to purchase or subscribe for the Shares;
- (b) **(dividends and voting)** the treatment of dividends and distributions received by the Trustee in respect of Shares held by the Trustee, and arrangements for voting of Shares held by the Trustee;
- (c) **(transfer)** transferring Shares to Participants when Rights become Vested Rights; and
- (d) **(any other matters)** any other matter that the Company considers necessary or desirable to ensure that the trust complies with all applicable laws and that the position of the Company and Participants is not adversely impacted.

5. **RIGHTS**

5.1 **Terms and Conditions**

The Terms and Conditions applicable to a Right must include:

- (a) **(description)** a description of the Rights;
- (b) **(amount payable)** the amount (if any) payable by the Participant for the Rights or the Shares to which the Rights relate;
- (c) **(time vesting)** the period of time before Rights may become Vested Rights;
- (d) **(Performance Conditions)** the Performance Conditions;
- (e) **(Disposal Restrictions)** the Disposal Restrictions (if any);
- (f) **(expiry or lapse)** the circumstances in which a Right will expire or lapse;

- (g) **(forfeiture conditions)** the circumstances in which the Participant will forfeit Rights or any interest in, or right to receive, Shares; and
- (h) **(other conditions)** any other condition that the Board may determine.

5.2 **Board determination**

The Board will determine whether or not a Performance Condition in respect of some or all of a Participant's Rights has been satisfied in accordance with the Terms and Conditions and any determination by the Board is final and conclusive.

5.3 **Board discretion**

Subject to the Terms and Conditions, the Board may at any time by written notice to a Participant vary or waive a Performance Condition.

5.4 **Vesting of Rights**

A Right becomes a Vested Right when the Performance Conditions applicable to that Right are satisfied or waived in accordance with these Rules and the Terms and Conditions.

5.5 **Vesting Notice**

The Board will give a Participant a Vesting Notice as soon as practicable after the Right becomes a Vested Right in accordance with the Terms and Conditions.

5.6 **Issue or Transfer of Shares to Participants**

Subject to Rule 5.7, as soon as practicable after a Right becomes a Vested Right, the Board will cause Shares to be issued to the Participant or if a Trust has been established under clause 4 and Shares deposited with the Trustee notify the Trustee and assist the Trustee to transfer to the Participant the number of Shares specified in the Vesting Notice.

5.7 **Cash in lieu of Shares**

Where the Board determines that a Participant's entitlement to Shares under a Vested Right may be satisfied wholly or partly in the form of cash rather than Shares, then the Participant shall receive, in lieu of all of the Shares which would otherwise have been issued or transferred to him or her, the aggregate market value of such Shares, as determined by the Board, as at the date on which the Board gives a Vesting Notice under Rule 5.5.

5.8 **No dealing with Rights**

Without the prior approval of the Board, a Participant must not grant any Security Interest in or over or otherwise dispose of or deal with any Rights or any interest in Rights (including by way of hedging activities) until the relevant Shares are either issued or transferred to that Participant, and any such Security Interest or disposal or dealing will not be recognised in any manner by the Company. Participants are required to abide by any share trading policy of the Company which applies to Eligible Persons. A Right dealt with in breach of this Rule 5.8 lapses immediately.

5.9 **Disposal Restrictions on Shares**

The Board may make such arrangements as it considers necessary to enforce any Disposal Restrictions on Shares acquired under the Plan which apply under the Terms and Conditions, including the application of a holding lock (as defined in the ASX Listing Rules).

5.10 Lapse of Rights

Subject to the Terms and Conditions, unless the Board determines otherwise, all Unvested Rights automatically lapse if:

- (a) **(Performance Condition not satisfied)** a Performance Condition in relation to some or all of a Participant's Rights is not satisfied to any extent; and
- (b) **(expiry of Performance Condition)** the period for satisfaction of that Performance Condition has expired.

5.11 No compensation

A Participant will not be entitled to any payment or compensation from any person as a result of the lapse, expiry or forfeiture of any Right in accordance with these Rules or the Terms and Conditions.

6. ACCELERATION OF VESTING

Subject to the Terms and Conditions, the Board may determine that all or a portion of Unvested Rights become Vested Rights in any of the following circumstances:

- (a) **(Death or Total and Permanent Disablement)** the Participant ceases to be an Eligible Person by reason of death or Total and Permanent Disablement;
- (b) **(Special Circumstances)** a Participant ceases to be an Eligible Person by reason of Special Circumstances;
- (c) **(Change of Control)** there is a Change of Control;
- (d) **(delisting)** the Company ceases to be listed on ASX at any time after it is first listed on ASX; or
- (e) **(other matters)** such other circumstances as the Board determines.

7. RANKING

Shares acquired under the Plan will rank equally with all existing issued Shares in all respects from the date of issue or transfer to the Participant except for any rights which they have by reference to a Record Date before the date of issue or transfer.

8. PARTICIPATION IN FUTURE ISSUES

8.1 Participation generally

A Participant may only participate in new issues of Shares or other securities to holders of Shares if Rights held by that Participant have become Vested Rights and the Shares in respect of those Vested Rights have been issued or transferred (as the case requires) to, and registered in the name of, that Participant before the Record Date for determining entitlements to the new issue. For the avoidance of doubt, this Rule will not cause an Unvested Right to become a Vested Right.

8.2 Effect on Unvested Rights

If a Right has not become a Vested Right or became a Vested Right and the Shares in respect of those Vested Rights have not been issued or transferred before the Record Date for determining

entitlements to the issue (and the Right has not lapsed, expired or been forfeited), then the following provisions will apply:

- (a) **(Rights issue)** if the Company makes a pro-rata offer or invitation to holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) for a subscription price, the price (if any) payable by a Participant when the Right becomes a Vested Right will not be altered;
- (b) **(Pro-rata bonus issues)** if the Company makes a pro-rata bonus issue of Shares or other securities to holders of Shares (other than an issue in lieu of or in satisfaction of dividends or by way of dividend reinvestment)
 - (i) the number of Shares to be transferred or issued to the Participant when the Right becomes a Vested Right is the number of Shares before that bonus issue plus the number of Shares which would have been issued to the Participant under the bonus issue if the Right had become a Vested Right and the Shares in respect of those Vested Rights had been issued or transferred to, and registered in the name of, the Participant before the Record Date for the bonus issue; and
 - (ii) the price (if any) payable by the Participant when the Right becomes a Vested Right will be adjusted proportionately;
- (c) **(Sub-division or consolidation)** if the Company subdivides or consolidates its Shares, the Rights must be subdivided or consolidated (as the case may be) in the same ratio as the Shares;
- (d) **(Return of capital)** if the Company makes a return of capital, the number of Rights remain unaltered;
- (e) **(Cancellation of capital that is lost)** if the Company makes a cancellation of any paid up share capital that is lost or not represented by available assets, the number of Rights remains unaltered;
- (f) **(Pro rata cancellation of capital)** if the Company reduces its issued share capital on a pro rata basis, the number of Rights must be reduced in the same ratio as the Shares; and
- (g) **(General reorganisation)** If the Company reorganises its issued share capital in any way not contemplated by this Rule 8.2, the number of Rights must be reorganised so that the Participant will not receive a benefit that holders of Shares do not receive.

8.3 **Cumulative adjustments**

Each adjustment under Rule 8.2 must be made for every Unvested Right or Vested Right where the Share issue or transfer has not occurred at the Record Date every time the relevant Rule applies while a Participant holds an Unvested Right or vested Right where the Share issue or transfer has not occurred at the Record Date.

8.4 **Rounding**

Until a Right becomes a Vested Right, all calculations adjusting the number of Shares must be carried out to include all fractions, but when the Right becomes a Vested Right the number of Shares to be issued or transferred to the Participant is rounded up to the next whole number.

8.5 **Notice of adjustment**

The Company must give notice to Participants of any adjustment to the number or description of securities which are to be issued or transferred to the Participant when a Right becomes a Vested Right, and if at that time the Company is listed on ASX it must do so in accordance with the ASX Listing Rules.

8.6 Compliance with ASX Listing Rules

The Company is intending to list on the ASX. Whilst the Company is listed on ASX, an adjustment must not be made under this Rule 8 unless it is consistent with the ASX Listing Rules. The Company may amend the terms of any Right, or the rights of any Participant under this Plan, to comply with the ASX Listing Rules applying at the time to any reorganisation of capital of the Company if at the time of that reorganisation the Company is listed on ASX.

9. ADMINISTRATION OF THE PLAN

9.1 Board administration

The Plan will be administered by the Board.

9.2 Board powers

The Board may:

- (a) **(procedures)** decide on appropriate procedures for administering the Plan, including the form of application forms and other forms and notices to be issued under the Plan;
- (b) **(resolve questions)** resolve conclusively all questions of fact or interpretation concerning the Plan and these Rules and any dispute of any kind that arises under the Plan;
- (c) **(delegate)** delegate to any person for any period and on the terms it decides the exercise of any of its powers or discretions under the Plan;
- (d) **(amend or waive)** subject to Rules 9.4 to 9.6 and, whilst the Company is listed on ASX, subject also to the ASX Listing Rules, amend, add to or waive any Rule of the Plan (including this Rule) or any Terms and Conditions, or any restriction or other condition relating to any Right granted under the Plan; and
- (e) **(waive a breach)** waive any breach of a provision of the Plan.

9.3 Non-residents of Australia

The Board may adopt additional rules of the Plan applicable in any jurisdiction outside Australia under which Rights granted under the Plan may be subject to additional or modified terms, having regard to any securities, exchange control or taxation laws or regulations or similar factors which may apply to the Participant or to Silver Mines Limited in relation to the Rights. Any additional rule must conform to the basic principles of the Plan.

9.4 Limitation on amendments

The Board must not make any amendment to these Rules, or to any restriction or other condition relating to any Rights granted under the Plan, which reduces the rights of Participants in respect of Rights granted to them before the date of the amendment. However, this Rule 9.4 does not apply to any amendment made for the purpose of:

- (a) **(comply with laws)** complying with present or future State or Commonwealth legislation governing or regulating the maintenance or operation of the Rules or similar plans;
- (b) **(corrections)** correcting any manifest error; or
- (c) **(tax implications)** considering possible adverse tax implications in respect of the Rules arising from, among other things:
 - (i) adverse rulings from the Commissioner of Taxation;
 - (ii) changes to tax legislation (including an official announcement by the Commonwealth of Australia); or
 - (iii) changes in the interpretation of tax legislation by a court or tribunal of competent jurisdiction.

9.5 **Termination, suspension and reinstatement of the Plan**

- (a) The Board may resolve at any time to terminate, suspend or reinstate the operation of the Plan.
- (b) If the Plan is suspended or terminated, the Board will decide how Rights and Shares are to be dealt with.

9.6 **Board's discretion**

Subject to Rule 9.4, the Board has an unfettered and absolute discretion:

- (a) **(exercise of power or discretion)** in exercising any power or discretion concerning the Rules, Terms and Conditions or any Rights; and
- (b) **(act)** to act or refrain from acting under these Rules or concerning the Plan or any Rights.

10. **PARTICIPANT'S OBLIGATIONS**

A Participant must complete and execute any document (including but not limited to applications for Shares and Share transfers) and must do all acts or things on behalf of and in the name of the Participant which the Board considers necessary or desirable for the purpose of giving effect to these Rules or the Terms and Conditions.

11. **ATTORNEY**

11.1 **Appointment**

Each Participant, in consideration of the grant of Rights, shall be deemed to irrevocably appoint each Director, the Company and any person nominated from time to time by the Board as its attorney to complete and execute any document and do all things the Board considers necessary or desirable to give effect to these Rules or the Terms and Conditions.

11.2 **Ratification**

The Participant shall be deemed to covenant that the Participant shall ratify and confirm any act or thing done pursuant to Rule 11.1 and shall releases Silver Mines Limited, each Director and each Attorney from any liability whatsoever arising from the exercise of the powers conferred by

this Rule 11 and shall indemnify and hold harmless Silver Mines Limited, each Director and the Attorney in respect any such liability.

12. DUTIES AND TAXES

The Company:

- (a) **(duties and taxes)** is not responsible for any duties or taxes which are or may become payable on the grant of Rights, or on the transfer, acquisition or issue of Shares when Rights become Vested Rights or any other dealing with the Shares (except for payroll tax or other taxes imposed on the relevant member of Silver Mines Limited in its capacity as employer of the Participant or to the degree it determines to accept those costs); and
- (b) **(withholding)** may make any withholding or payment which it is required by law to make in connection with the Plan, the Rights or transfer, acquisition or issue of Shares under the Plan.

13. NO COMPENSATION OR DAMAGES

13.1 Terms of employment or office not affected

The rights and obligations of a Participant as an employee or director of the Company or any related body corporate of the Company are not affected by his or her participation in the Plan.

13.2 No right to compensation

No Participant has any right to compensation or damages as a result of the termination of his or her employment or office as a director for any reason, so far as those rights arise or may arise from the Participant ceasing to have rights under the Plan as a result of the termination.

14. NOTICES

Any notice to Participants may be given in such manner as the Board determines.

15. GOVERNING LAW

The Plan is governed by the laws of New South Wales.

Name and Address

Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction on the form. Securityholders sponsored by a broker should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

YOUR VOTE IS IMPORTANT

FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 10.30am (Sydney Time) SATURDAY 17th NOVEMBER 2012

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 Appointment of Proxy

Indicate here who you want to appoint as your Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 Voting Directions to your Proxy

You can tell your Proxy how to vote

To direct your proxy how to vote, place a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

STEP 3 Sign the Form

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders must sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at **10.30 am(Sydney Time) on Monday 19th November 2012**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxies may be lodged using the reply paid envelope or:

BY MAIL - Silver Mines Limited
Level 5, 17-19 Bridge Street
Sydney NSW 2000

BY FAX - + 61 2 9253 0901

IN PERSON - Silver Mines Limited
Level 5, 17-19 Bridge Street
Sydney NSW 2000

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

