

30th September 2016

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

COMMENCEMENT OF DRILLING AND UPDATE BOWDENS SILVER

Highlights

- **Commencement of drilling program totalling 15,000 metres at Bowdens Silver.**
- **Resource expansion and resource upgrade focus.**
- **Planning for an expanded program of up to a further 20,000 metres including high order exploration targets.**
- **Feasibility Study and Environmental Impact Statement programs advancing.**
- **High resolution airborne geophysical program commencing.**

Introduction

Silver Mines Limited (ASX:SVL) (“Silver Mines” or “the Company”) is pleased to advise on the commencement of drilling activities and other works at its flagship Bowdens Silver Project (“Bowdens Silver”) located near Mudgee, New South Wales.

Drilling Commencement at Bowdens Silver

A total of 15,000 metres of diamond and reverse circulation drilling is initially planned to:

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

The drill program follows approximately 63,000 metres of drilling that has been previously completed at Bowdens Silver with the current program providing tighter drill spacing along with

testing of extensional targets. Included in the program is oriented diamond core drilling to provide structural geology information for targeting extensions of high-grade zones.

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

All regulatory approvals for the recommencement of activities have been obtained, with drilling to commence immediately.

Feasibility Study and Environmental Impact Study

It is the Company's priority is to fast-track the Bowdens Silver Project to mine development.

The project has had a very substantial body of work completed covering all aspects of mine development. The components of the Feasibility Study are currently being revised and evaluated in conjunction with the Company's consultants.

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

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

Environmental Impact Study work to date has been comprehensive. Many elements requiring significant lead time have been mostly completed or are well advanced allowing the Company to expedite lodgement.

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

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

Geophysical Program

A high resolution airborne geophysical survey covering over 20,000 line kilometres including the entirety of the Bowdens Silver tenement area of 1654 km² will be conducted. Contractor documentation has been completed with the program commencing shortly.

Deed of Variation

As announced on 30th June 2016, the Company advised that it had entered into a Deed of Variation with Kingsgate Consolidated Limited ("Kingsgate Consolidated") for the purchase of 100% of Bowdens Silver. A further amendment with regards to the final AUD\$5 million payment to Kingsgate Consolidated concerning the residual 15% interest in Bowdens Silver has been completed. A non-refundable payment of AUD\$1 million will be paid on 30th

September 2016 with the residual amount (plus 10% interest from 30th September 2016) to be paid on or prior to 30th December 2016.

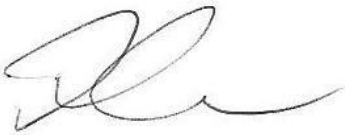
About the Bowdens Silver Project

The Bowdens Silver Project is located in central New South Wales, approximately 26 kilometres east of Mudgee. The recently consolidated project area comprises 1,654 km² (408,000 acres) of titles covering approximately 80 kilometres of strike of the highly mineralised Rylstone Volcanics. Multiple target styles and mineral occurrences have potential throughout the district including analogues to Bowdens Silver, high-grade silver-lead-zinc epithermal and volcanogenic massive sulphide (VMS) systems and copper-gold targets.

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

Yours faithfully

Silver Mines Limited



Trent Franklin

Company Secretary

About Silver Mines Limited

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

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