

SILVER CITY MINERALS LIMITED



Silver City Minerals Limited

ACN 130 933 309

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY MEMORANDUM

PROXY FORM

Date of Meeting

28 November 2012

Time of Meeting

3.00 pm (Sydney time)

Place of Meeting

Northern Suburbs Rugby Club, 80 Christie Street, St Leonards, NSW



NOTICE OF ANNUAL GENERAL MEETING

SILVER CITY MINERALS LIMITED

ACN 130 933 309

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fifth Annual General Meeting of shareholders of Silver City Minerals Limited (**Company**) will be held at the Northern Suburbs Rugby Club, 80 Christie Street, St Leonards, NSW on 28 November 2012 at 3.00 pm (Sydney time) for the purpose of transacting the following business.

ORDINARY BUSINESS

2012 Financial Statements

To receive and consider the financial statements of the Company for the year ended 30 June 2012, consisting of the Financial Report, the Directors' Report and Auditor's Report.

Resolution 1 – Remuneration Report

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

"That the Remuneration Report of the Company for the year ended 30 June 2012 be adopted."

Resolution 2 - Re-Election of Mr Robert Besley as a Director

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

"That Robert Besley, having retired as a Director pursuant to clause 6 of the Company's Constitution and, being eligible and having offered himself for re-election, be re-elected as a Director."

Resolution 3 - Grant of Options to Managing Director, Christopher Torrey

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

"That, for the purposes of Listing Rule 10.11, and for all other purposes, approval is given for issue of 1,000,000 Options to Christopher Torrey (or his nominee) for nil consideration at an exercise price of 15 cents each with an expiry date of 23 August 2015 and otherwise on the terms and conditions described in the Explanatory Memorandum which is attached to and forms part of this Notice."

By order of the Board

Ivo Polovineo
Secretary

Date: 11 October 2012



NOTICE OF ANNUAL GENERAL MEETING

Explanatory Memorandum

The Explanatory Memorandum accompanying this Notice of Annual General Meeting is incorporated in and comprises part of this Notice of Annual General Meeting, and should be read in conjunction with this Notice of Annual General Meeting.

Shareholders are specifically referred to the Glossary in the Explanatory Memorandum which contains definitions of capitalised terms used both in this Notice of Annual General Meeting and the Explanatory Memorandum.

Voting Exclusion

Resolution 1

A vote on Resolution 1 must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person described above may cast a vote on Resolution 1 if:

- (c) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- (d) the vote is not cast on behalf of a person described in paragraphs (a) or (b) above.

The Chair will not vote any undirected proxies in relation to Resolution 1 unless the shareholder specifically authorises the Chair to vote in accordance with the Chair's stated voting intentions. If a shareholder wishes to nominate the Chair as their proxy for the purpose of Resolution 1 the shareholder must either tick the 'for' or 'against' box, directing the Chair how to vote, or tick the box authorising the Chair to vote in accordance with his or her stated voting intentions, on the enclosed Proxy Form in order for their proxy vote to be counted. Alternatively, shareholders can nominate as their proxy for the purpose of Resolution 1 a proxy who is not a member of the Company's Key Management Personnel. That person would be permitted to vote undirected proxies.

Resolution 3

The Company will disregard any votes in respect of Resolution 3 if they are cast by or on behalf of Christopher Torrey, or any person who may obtain a benefit from the issue of securities under Resolution 3, or any associate of Christopher Torrey.

However the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the relevant proxy form; or
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.



NOTICE OF ANNUAL GENERAL MEETING

Proxies

Please note that:

- (a) a member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company; and
- (c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

A form of proxy accompanies this Notice of Annual General Meeting.

New sections of the Corporations Act took effect on 1 August 2011 and apply to voting by proxy on or after 1 August 2011 (whether or not the proxy was appointed before, on or after that date). Shareholders and their proxies should be aware of these changes as they will apply to this Meeting. Broadly, the changes mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Record date

The Company has determined, in accordance with regulation 7.11.37 of the *Corporations Regulations* 2001 (Cth), that the holders of Shares recorded in the Company's register as at 7pm (Sydney time) on 26 November 2012 shall, for the purposes of determining voting entitlements at the Annual General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

Corporate Representative

Any corporate shareholder who has appointed a person to act as its corporate representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company and/or registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative.



This Explanatory Memorandum forms part of a Notice of Annual General Meeting convening the annual general meeting of shareholders of Silver City Minerals Limited (**Company**) to be held on 28 November 2012. This Explanatory Memorandum is to assist shareholders in understanding the background to and the legal and other implications of the Notice of Annual General Meeting and the reasons for the resolutions proposed. Both documents should be read in their entirety and in conjunction with each other.

The Directors recommend that shareholders read this Explanatory Memorandum in full before making any decision in relation to the resolutions.

All the resolutions are ordinary resolutions. They are separate resolutions and in no way dependent on each other.

RESOLUTION 1 – REMUNERATION REPORT

The Remuneration Report for the year ended 30 June 2012 is set out in the Directors' Report on pages 17 to 20 of the Annual Report.

The Remuneration Report:

- Explains the Board's policies relating to remuneration of Directors, secretaries and executives of the Company;
- Discusses the relationship between such policies and the Company's performance;
- Provides details of any performance conditions attached to such remuneration; and
- Sets out remuneration details for each Director and certain named executives.

Shareholders should note that the vote on Resolution 1 is advisory only and, subject to the matters outlined below, will not bind the Company or the Directors. However, the Board will take the outcome of the vote into consideration when reviewing the Company's remuneration policy.

The Corporations Act prohibits a vote on this resolution being cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, the details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person described above may cast a vote on Resolution 1 if:

- (i) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and

- (ii) the vote is not cast on behalf of a person described in paragraphs (a) or (b) above.

The Chair will not vote any undirected proxies in relation to Resolution 1 unless the shareholder specifically authorises the Chair to vote in accordance with the Chair's stated voting intentions. If a shareholder wishes to nominate the Chair as their proxy for the purpose of Resolution 1 the shareholder must either tick the 'for' or 'against' box directing the Chair how to vote, or tick the box authorising the Chair to vote in accordance with his or her stated voting intentions, on the enclosed Proxy Form in order for their proxy vote to be counted. Alternatively, shareholders can nominate as their proxy for the purpose of Resolution 1 a proxy who is not a member of the Company's Key Management Personnel. That person would be permitted to vote undirected proxies.

Subject to the above, the Chair will vote all undirected proxies in favour of Resolution 1.

RESOLUTION 2 – RE-ELECTION OF ROBERT BESLEY AS A DIRECTOR

Pursuant to clause 6 of the Company's Constitution, at each annual general meeting of the Company 1/3 of all the Directors must retire from office and are eligible for re-election.

The Company provides the following information concerning Mr Besley:

Biographical details

Mr Besley is a geologist with more than 40 years' experience in the minerals industry in Asia, the Middle East, North and South America, Australia and the Pacific Rim. He spent 13 years with Unocal, seven of those as Manager of Minerals for Australia and the Pacific and was General Manager of Australmin Holdings Limited when that company developed a minerals sands project in eastern Australia and a gold mine in Western Australia.

Mr Besley founded and was Managing Director of CBH Resources Limited from its initial ASX listing as a junior to when it was an important Australian zinc/lead/silver producer. He was a founding Director of Kimberley Metals Ltd and is currently a non-executive director. Mr Besley has served as Deputy Chairman of the NSW Minerals Council.

Details of relationships between the Candidate and the Company

Mr Besley is a non-executive Director and Independent Chairman of the Company.

Details of relationships between the Candidate and Directors of the Company

Not applicable.



Other directorships held

Mr Besley is a non-executive Director of Kimberley Metals Ltd.

The term of office already served by Mr Besley

Mr Besley joined the Board on 5 March 2010.

The Directors (other than Mr Besley) do not have an interest in the outcome of Resolution 2 and recommend that shareholders vote in favour of Resolution 2.

RESOLUTION 3 - GRANT OF OPTIONS TO MANAGING DIRECTOR

In accordance with Resolution 3 the Company proposes to grant 1,000,000 Options to the Managing Director, Christopher Torrey, as a component of his equity based remuneration. The Options will be issued for nil consideration and will vest immediately.

Further terms and conditions of the Options are set out in the schedule to this Explanatory Memorandum.

Mr Torrey is a related party of the Company due to the fact that he is a Director. The issue of Options constitutes a "financial benefit" as described in the Corporations Act.

Under Chapter 2E of the Corporations Act a public company cannot give a financial benefit to a related party unless an exception applies or shareholders have, in a general meeting, approved the giving of that financial benefit to the related party. It is the view of the Board that the issue of Options to Mr Torrey, as a component of his equity based remuneration, does not require shareholder approval under Chapter 2E of the Corporations Act and that the exemption in section 211(1) of the Corporations Act applies to the proposed issue of Options.

The Board considers that the issue of Options to Mr Torrey constitutes reasonable remuneration given the circumstances of the Company and the responsibilities involved in Mr Torrey's role as Managing Director. In this respect, the Board has specifically considered the number of Options proposed to be granted to Mr Torrey and the underlying value of those Options. Accordingly, the Company is not seeking shareholder approval under Chapter 2E of the Corporations Act for the issue of Options to Mr Torrey.

Shareholder approval for the grant of Options is being sought for the purposes of ASX Listing Rule 10.11. If shareholder approval is given under ASX Listing Rule 10.11, shareholder approval is not required under ASX Listing Rule 7.1.

If Resolution 3 is passed, it will permit the Company to issue the Options to Mr Torrey who is a Director, and therefore a related party of the Company.

Other information

1) Reasons for grant of Options

The Company has been fortunate to attract a highly regarded management team, and given the relatively small size of the Company it is important that the Company retain its key people and, in particular, its leadership.

The grant of the Options is an important component of Mr Torrey's total remuneration package. The Board considers that the issue of Options is a cost effective means of rewarding Mr Torrey for his performance to date and provides an incentive to Mr Torrey to continue to work towards increasing shareholder wealth. Please see the

Directors' Recommendation below for further information regarding the reasons for the proposed issue of Options.

2) Dilution effect on existing members' interests

If all of the Options to be granted pursuant to Resolution 3 are exercised, the effect will be to dilute the interests of existing shareholders. The table below sets out the impact on the number of Shares and Options on an undiluted and fully diluted basis:

	Number of Shares
Shares on issue at date of this notice	98,030,228
Add Options already on issue (upon exercise)	47,517,263
Total potential issued capital	145,547,491
Options to be granted to Director	1,000,000
Potential issued capital fully diluted	146,547,491
Dilution effect	0.68%

If all the Options are exercised, a further 1,000,000 Shares will be on issue and \$150,000 (based on an exercise price of \$0.15 per Share) will be raised by the Company. The Company intends to use the funds raised, if any, to meet its working capital requirements.



Trading History

The market price of the Company's Shares during the period the Options are issued and unexercised may be one factor in determining whether or not Mr Torrey will exercise the Options. The Company's Shares may be trading on the ASX at a price which is higher than the exercise price of the Options. In these circumstances, if Mr Torrey then sells his Shares arising from the exercise of the Options, he would realise an immediate profit.

As at 23 August 2012, being the date of the Board recommendation of the issue of the Options, the Company's closing share price was \$0.099.

The highest, lowest and last recorded market price of the Shares quoted on ASX from the date of the previous AGM (21 November 2011) to 10 October 2012 (being the day immediately before the date of this Notice) were:

Lowest	\$0.06
Highest	\$0.185
Last	\$0.068

3) Opportunity costs and taxation consequences to the Company

A-IFRS requires the Company to expense Options granted to Directors with the expense being transferred to an Options

Expense Reserve. The amount to be expensed and transferred to the Options Expense Reserve in relation to Resolution 3 is estimated at \$29,900 for the financial year ended 30 June 2013. This amount will be transferred from the Option Expense Reserve to Issued Capital on the exercise of the Options. If the Options lapse, the amount will remain in the Options Expense Reserve.

4) Valuation of Options

The Options to be granted have been independently valued on a methodology based on an amended Black, Scholes, Merton methodology with binomial variation, as encapsulated in the Accounting Standard AASB 2 "Share Based Payments".

The valuation methodology calculated the average value of the Options in relation to Resolution 3 at \$0.0299 per option with a total value of \$29,900. In calculating the Option valuation the following inputs were used in the Binomial methodology:

Exercise Price	\$0.15
Expected Life	3 years
Dividend Yield	0%
Volatility	58.96%
Exercise Price Multiple	2.0
Risk free rate (3 year Treasury Bond yields)	4.75%
Base share price	\$0.0978

5) Director's Remuneration and Equity holdings in the Company

In addition to the Options proposed to be granted, effective 1 July 2012, Mr Torrey will receive a salary of \$280,000 per annum pursuant to his employment agreement with the Company.

Mr Torrey is entitled to reimbursement of all reasonable travelling, accommodation and other expenses that he properly incurs in connection with the business of the Company.

The current Share and Option holdings of Mr Torrey and his associates is as follows:

Shares Directly and Indirectly Held	Options Directly and Indirectly Held
140,000	3,000,000

6) Other information required by the ASX Listing Rules for Resolution 3

Listing Rule 10.11 requires shareholder approval for an issue of equity securities to a related party. Approval is therefore

being sought for the proposed grant of Options to the Managing Director, Mr Torrey.

Listing Rule 10.13 requires this Notice of Meeting to include the following specified information in relation to the Options to be granted to Directors to the extent that such information is not disclosed elsewhere in this Explanatory Memorandum:

- The maximum number of securities to be issued to Mr Torrey is 1,000,000 Options. The valuation of the Options is \$29,900.
- No funds will be raised by the grant of the Options as they are being granted for no consideration.



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- c) The Company intends to grant the Options to Mr Torrey as soon as practicable after the date of the Annual General Meeting but in any event, no later than one month after the date of the Meeting.

Directors' Recommendation

The Directors (other than Mr Torrey because of his interest) recommend that shareholders vote in favour of resolution 3.

The Board (other than Mr Torrey) considers that the issue of 1,000,000 Options (valued at a total average value of \$29,990) to Mr Torrey as part of his equity based remuneration and in recognition of his contribution to the Company and his ongoing responsibilities, is appropriate.

The Board has formed this view having regard to the nature of the role of the Managing Director and Christopher Torrey's level of skill and experience, and to the circumstances of the Company. Additionally, the issue of Options to Christopher Torrey allows him to further participate in the future growth and prosperity of the Company through share ownership, thus reinforcing his commitment to the Company.

GLOSSARY

In this Explanatory Memorandum and Notice of Annual General Meeting the following expressions have the following meanings unless stated otherwise or unless the context otherwise requires:

ASX means ASX Limited ACN 008 624 691;

ASX Listing Rules means the official listing rules of ASX;

Board means the board of Directors;

Closely Related Party of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependant of the member or of the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the *Corporations Regulations 2001* (Cth);

Company means Silver City Minerals Limited ACN 130 933 309;

Corporations Act means *Corporations Act 2001* (Cth);

Directors mean the directors of the Company;

Key Management Personnel has the same meaning as in the accounting standards (so the term broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director, whether executor or otherwise, of the Company);

Meeting means the meeting of shareholders convened by the Notice of Annual General Meeting;

Notice of Annual General Meeting means the notice of annual general meeting to which this Explanatory Memorandum is attached;

Option means an option to acquire a Share; and

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



SCHEDULE

TERMS AND CONDITIONS OF OPTIONS

- The options held by the optionholder are exercisable in whole or in part at any time during the exercise period. Options not exercised before the expiry of the exercise period will lapse.
- Options are exercisable by notice in writing to the Board delivered to the registered office of the Company and payment of the exercise price in cleared funds.
- The Company will not apply for official quotation on ASX of the options. The Company will make application for official quotation on ASX of new shares allotted on exercise of the options. Those shares will participate equally in all respects with existing issued ordinary shares, and in particular new shares allotted on exercise of the options will qualify for dividends declared after the date of their allotment.
- Options can only be transferred with Board approval, except that if at any time before expiry of the Exercise Period the optionholder dies, the legal personal representative of the deceased optionholder may:
 - (i) elect to be registered as the new holder of the options;
 - (ii) whether or not he becomes so registered, exercise those options in accordance with the terms and conditions on which they were granted; and
 - (iii) if the deceased has already exercised options, pay the exercise price in respect of those options.
- An optionholder may only participate in new issues of securities to holders of ordinary shares in the Company if the option has been exercised and shares allotted in respect of the option before the record date for determining entitlements to the issue. The Company must give prior notice to the optionholder of any new issue before the record date for determining entitlements to the issue in accordance with the ASX Listing Rules.
- If there is a bonus issue to the holders of ordinary shares in the capital of the Company, the number of ordinary shares over which the option is exercisable will be increased by the number of ordinary shares which the holder of the option would have received if the option had been exercised before the record date for the bonus issue.
- If the Company makes a rights issue (other than a bonus issue), the exercise price of options on issue will be reduced according to the following formula:

$$A = O - \frac{E [P - (S + D)]}{(N + 1)}$$

Where:

- A = the new exercise price of the option;
 - O = the old exercise price of the option;
 - E = the number of underlying ordinary shares into which one option is exercisable;
 - P = the average closing sale price per ordinary share (weighted by reference to volume) recorded on the stockmarket of ASX during the five trading days immediately preceding the ex-rights date or ex entitlements date (excluding special crossings and overnight sales and exchange traded option exercises);
 - S = the subscription price for a security under the pro rata issue;
 - D = the dividend due but not yet paid on existing underlying securities (except those to be issued under the pro rata issue); and
 - N = the number of securities with rights or entitlements that must be held to receive a right to one new security.
- If, during the currency of the options the issued capital of the Company is reorganised, those options will be reorganised to the extent necessary to comply with ASX Listing Rules.