

# INVESTOR PRESENTATION – July 2013



***Paul D'Sylva – Non-Executive Chairman***  
***Michael Reed - Managing Director***

# CAUTIONARY STATEMENT

## Disclaimer

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Prospective investors should make their own independent evaluation of an investment in Alcyone including, without limitation, seeking professional advice.

## Forward-Looking Statements

Certain statements made during or in connection with this communication, including, without limitation, those concerning exploration targets, contain or comprise certain forward-looking statements regarding Alcyone's exploration operations, economic performance and financial condition. Although Alcyone believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct.

Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment and other government actions, fluctuations in metals prices and exchange rates and business and operational risk management. Alcyone undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today's date or to reflect the occurrence of unanticipated events.

# CURRENT SITUATION

ALCYONE (ASX:AYN) IS A SILVER PRODUCER BASED IN SOUTH-EAST QUEENSLAND.  
The Company is seeking to raise up to \$16.25M to refinance and implement operational improvements.

## HISTORICAL ISSUES Oct 2012 – Mar 2013

- Throughput limitations in the crushing circuit reduced capacity to 60,000 per month.
- Weather;
  - Two floods within six months during 2013 severely affected operational output;
  - Adverse impact on mining rate, crusher throughput and heap leach performance.



## NEW BOARD & MANAGEMENT APPOINTED March 2013

- Completed operational review that identified key required improvements including:
  - Upgrade to crushing circuit to allow greater throughput & improve operational efficiency;
  - Construction of new power line; and
  - Purchase of key mining equipment.



## PROGRESS TO DATE July 2013

- Reduction in overhead costs;
- Silver streaming agreement in negotiation;
- Implemented Incentive Shares program for Directors and Senior Management linked to performance; and
- Implemented Employee Performance Rights Scheme in place.

# BOARD & MANAGEMENT

**Dr Paul D'Sylva**  
(Non- Exec Chairman)  
Appointed March 2013

Dr D'Sylva, PhD is a Partner for Empire Equity Ltd, a boutique corporate advisory group. Dr D'Sylva has led and arranged over A\$500M in funding transactions since 2008 for a diverse range of resource and energy companies in equity, debt and structured financings on a proprietary basis as well as from a network of institutional funding partners.

**Mr Michael Reed**  
(Managing Director)  
Appointed May 2011

Mr Reed has managed Alcyone's Texas Silver Mine for the last two years and is a metallurgist with over 20 years' experience within the Australian mining industry, both in process facilities and mining operations. He has held senior technical, operational and corporate positions and has a diversified background in gold and alumina. Prior to joining Alcyone, Michael spent six years with Norseman Gold in senior roles, including Mill Superintendent, General Manager and Principal Metallurgist.

**Mr Timothy Morrison**  
(Non-Exec Director)  
Appointed March 2013

Mr. Morrison is a Partner at Empire Equity, a boutique corporate advisory group. Mr. Morrison has extensive experience in structuring equity debt financing for mid-tier ASX listed companies. Prior to this role, Mr. Morrison was CEO and Executive Chairman for a listed and unlisted companies and has previously served as a member of the investment committee for a superannuation funded private equity investment vehicle.

**Trevor Harris**  
(CFO & Co Secretary)  
Appointed March 2011

Mr Harris has over 20 years experience in financial management in a wide variety of industry sectors. A CPA qualified Accountant, Trevor also holds a postgraduate qualification in Commercial Law and is a Chartered Company Secretary. He has filled multi-disciplinary roles within companies such as BGC Australia and Toll Holdings. Trevor's mining experience includes senior financial roles in the West African Gold and Iron Ore sectors with Shield Mining Limited (ASX:SHX) and Sphere Minerals Limited (ASX:SPH).



# TEXAS SILVER PROJECT

Texas Silver Project (100% owned) is located 350km SSW from Brisbane and 10km from the town of Texas.

JORC compliant (Measured, Indicated and Inferred) resource of 13.25 Mt @ average grading 54 g/t Ag for 23.0 moz Ag at two prospects Twin Hills and Mt Gunyan.

1.2M oz of silver produced from heap leach operations in ramp up phase between June 2011 & March 2013.

9 -10 year mine life at current processing capacity of 700,000 tpa.

The Project has the capability to leach 1.1M tonnes per annum once the crusher is upgraded.

Over 140,000 sq m or 1.1Mt currently under irrigation at Texas Silver Operations, providing a strong foundation for production growth



# WHY SILVER?

Unlike Gold - Silver is consumed in industrial applications, creating an ongoing demand to replenish supply.



## USES

- A store of value / currency.
- Industrial applications - Electronics, medical, and alternative energies.
- Jewellery.

## DEMAND

- Silver demand is expected to grow approximately 1.18 bn ounces by 2015.
- Silver supply is approximately 950 mm ounces and is expected to increase to 1.05 bn ounces by 2015.
- Technology driven demand is up 78% over the past 20 years to nearly 500 mm ounces.
- Average annual demand growth in China and India of 9% since 1990. (Source: Silver Institute 2012)

# PERFORMANCE SUMMARY

	1H FY2013	1H FY2012	CHANGE (%)	ANNUALISED TARGET
Silver production (oz)	439,431	274,301	60%	1.28M
Mined Grade	65 g/t	64 g/t	2%	81 g/t
Silver inventory (oz)	614,187	236,738	159%	700,000
Recovery	58%	58%	No change	58%
Mining (t)	426,946	189,361	125%	1.2Mtpa
Processing (t)	392,211	194,343	102%	1.14Mtpa
Revenue	\$13,331,168	\$286,883	4,547%	\$33M
Net profit/(Loss) inc non cash amortisation	(\$1,240,599)	(\$2,539,324)	51%	(\$1.9M)

Silver production for the HY increased by 60% to 439,431oz

Ore processed increased by 102% to 392,211 tonnes

Despite the challenges experienced during 1H FY2013, AYN delivered a 4,547% increase revenues to \$13.3M

Modeled at the medium term historical average of \$28/oz AUD

# IMPACT OF OPERATIONAL IMPROVEMENTS

Upgrading the crusher will increase tonnes treated from 700,000 to 1.1M tonnes per annum with capacity to produce in excess of 1.25M ounces per annum.



Increase in tonnages will result in not only an increase in ounces but a better C3 cost due to improved efficiency.



Reduction in cost will assist in mitigating the risk of a volatile silver price.



There are no hidden costs related to the upgrade and the changes are already planned and can be executed in a short time frame.



# REDUCING COSTS

ITEM	UPGRADE	COST (Estimated)	FINANCIAL BENEFIT
<b>CRUSHING CIRCUIT</b>			
Stage One – Upgrade primary crushing circuit	Install an additional cone crusher which will act as tertiary crusher and surge bin to control product flow. This will provide an increase in tonnages by reducing the reduction ratio from 7:1 to 3:1. The additional crusher has already been purchased	\$80K	First stage of an overall increase from 700,000 tonnes to 1.1M tonne p.a., realising cost benefits relating to economies of scale due to a high % of fixed costs
Stage Two – Fines Bypass Project	Removes or scalps the sub 4mm particle from the Quad Rolls crusher feed.	\$100K	Will deliver cost savings for reagents and manganese usage in the second half of the circuit.

**This upgrade will see a 30% – 35% increase in capacity to achieve the targeted 1.14 m tpa, representing a conservative 95% of nameplate capacity.**

<b>CONSTRUCTION OF A NEW POWER LINE</b>	Will provide the operation with access to grid power. Approved by all relevant State regulatory bodies Will reduce power costs from 0.39c per kW/hr to 0.18c per kW/hr	\$1M	Monthly ongoing cost saving of \$100k Payback Period 10 Months LOM savings of \$9.6M
<b>MINING EQUIPMENT</b>	Purchase key mining equipment currently hired.	\$1M	Reduction in overheads of 125K per month Payback Period - 8 Months LOM savings of \$12M
<b>CONSTRUCTION OF CYANIDE MIXING FACILITY</b>	Enables Company to directly purchase cyanide from Asia.  Will reduce costs per tonne from \$4,900 to an average of \$3,200 - \$3,800 per tonne.	\$800K	Cost saving of \$100K+ per month Payback period 8 Months LOM savings of \$9.6M

**Life of Mine Savings Estimated at circa \$31M in addition to increased productivity**

# COST ANALYSIS - POST UPGRADE

Planned operational upgrades and increased production rate will lead to a steady state low cost of production.

## ASSUMPTIONS – 2013/2014

Production	1.28M ozs
Mine Life	8 Years
Spot Silver Price (1 June)	US\$23.56

## COSTS - 2013/2014

ITEM	\$	COST/oz
Mining	8,106,513	6.34
Processing	12,024,048	9.40
Site Administration	2,749,600	2.15
<b>C1 Cash Cost</b>	<b>22,880,161</b>	<b>17.89</b>
Corporate	2,601,873	2.03
Exploration - Base	960,000	0.75
Exploration - Drilling	1,000,000	0.78
<b>C3 Cash Cost</b>	<b>27,442,034</b>	<b>21.45</b>

# METAL STREAMING AGREEMENT

The company is reviewing definitive documents in relation to a metal streaming facility with key terms listed below:

\$10m USD initial investment

Gives the buyer the right to purchase 15% of Life of Mine (LOM) production at a cost of \$6.50/oz USD or 80% of the prevailing market price

Minimum of 100,00oz to be delivered within 18 months

Secured over the assets of the company

Provides for a future equity investment via the issue of 200m options at a 50% premium to the 30 day VWAP

# ENTITLEMENT OFFER

2 for 1 non renounceable pro rata Entitlement Offer at an issue price of 0.05 cents per Share to raise up to \$16.25M.

Subscribers are to receive one free attaching option exercisable at 1.0 cent on or before 31 July 2015 for every two shares subscribed for and issued.

Attractively priced – Rights issue represents a significant discount (58.3% discount) to last traded price of 1.2 cents

A Black Scholes valuation utilising a risk free rate of 3.0% and volatility of 70% implies a valuation of approximately 0.29 cents per option (i.e. 0.145 cents attributable to each new share subscribed)

With ~\$3000 support from each shareholder the Company will be well on its way to being successfully recapitalised, and able to implement key operational improvements that will return the operation to profitability.

Shareholders and other investors can apply for additional shares via the shortfall application form attached to the Prospectus

EFFECT ON CAPITAL STRUCTURE*	NUMBER
Shares currently on issue	1,625,092,716
Shares offered pursuant to the Offer	3,250,185,432
Shares to be issued to Celtic Capital <sup>1</sup>	176,879,218
<b>Total Shares on issue on completion of the Offer</b>	<b>5,052,157,366</b>

Assuming all Entitlements are accepted and no Options or Convertible Notes are exercised prior to the Record Date of the Replacement Prospectus lodged on 13 June 2013<sup>1</sup> These Shares are being issued to Celtic Capital as part fees and part collateral under the Equity Placement Facility and the Celtic Convertible Securities, each of which are summarised at sections 9.6 and 9.4 respectively. The issue of these Shares are subject to shareholder approval at the Shareholder meeting.



# USE OF FUNDS

USE OF FUNDS	\$6M Raising (Minimum)	\$10M Raising	\$16.25M Raising (Maximum)
Repay Promissory Notes	3.0	3.0	3.0
Redeem outstanding Convertible Securities	-	-	3.20
Plant and Equipment upgrades	0.50	3.00	3.00
Creditor Payments	-	0.22	2.89
Costs of the Offer	0.53	0.78	1.16
Working Capital	1.97	3.00	3.00
<b>Total Required</b>	<b>6.00</b>	<b>10.00</b>	<b>16.25</b>

FUNDING SOURCES	\$M	\$M	\$M
Silver Prepay Facility	\$10.0	\$10.0	\$10.0
Entitlements Offer	\$6.0	\$10.0	16.25
<b>Total to be Secured</b>	<b>\$16M</b>	<b>\$20M</b>	<b>\$26.25M</b>

## THE COMPANY IS IN NEGOTIATIONS TO SECURE ADDITIONAL FUNDING AS FOLLOWS

SOURCES OF FUNDING	FUNDING AMOUNT
Bridge Debt Financing	\$2.5M
Pre-pay and Off-take Agreement	A\$10M
Silver Streaming Agreement	US\$10M (up front plus a fixed amount for 15% of the Company's production at Texas Project over the life of mine)

- The Company estimates it will need to obtain additional funding of between \$2,000,000 and \$2,500,000 before the Offer is completed in order to meet its anticipated expenditure commitments.
- The Company anticipates it will secure this funding through a bridge debt financing similar to that it has recently secured with Bergen in the coming weeks.
- Assuming bridge debt financing is secured, the Company expects to be able to meet its short to medium term objectives if it only the minimum subscription of \$6,000,000 under the Rights Issue is raised, provided the Company is also able to draw down additional funding under the Celtic Capital Equity Placement Facility announced on 15 April 2013 (which requires Shareholder approval) and the \$10,000,000 pre-pay and off-take agreement currently being negotiated by the Company (Offtake Agreement).

# INDICATIVE TIMELINE

EVENT	2013
Lodgement of Prospectus with the ASIC	13 June 2013
Lodgement of Prospectus & Appendix 3B with ASX	13 June 2013
Prospectus despatched to Shareholders and Offer opens	14 June 2013
Notice sent to Optionholders	14 June 2013
Notice sent to Eligible and Ineligible Shareholders	14 June 2013
Shareholder Meeting to approve Offer	15 July 2013
Closing Date*	26 July 2013
Securities quoted on a deferred settlement basis	29 July 2013
ASX notified of under subscriptions	31 July 2013
Issue Date	2 August 2013
Despatch of holding statements	6 August 2013
Anticipated lifting of suspension of Securities and Quotation of Securities issued under the Offer*	7 August 2013

\*The Directors may extend the Closing Date by giving at least 6 Business Days notice to ASX prior to the Closing Date and may vary other dates without notice. As such the date the Securities are expected to commence trading on ASX may vary.

# SUMMARY



With the support of existing shareholders, Alcyone will have the opportunity to recapitalise and emerge from a challenging period with a simplified balance sheet, improved operational performance and production rate and a clear pathway to profitability.

The proposed key operational improvements will result in reduced operational overheads, lower unit costs and increased production, helping the Company to achieve its targeted production levels while also improving operating margins.



# CONTACT



## FOR FURTHER INFORMATION

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# COMPETENT PERSONS STATEMENT

The information in this report that relates to data used for and the resultant Mineral Resources for the Texas Silver project is based on information compiled by Mr Peter Ball who is a Member of the Australasian Institute of Mining and Metallurgy and Director of DataGeo a mining and exploration consultancy.

Mr Ball has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a "Competent Person" as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves".

Mr Ball consents to the inclusion in this Report of the information compiled in the form and context in which they appear.

The information in this Report that relates to Exploration is based on information also compiled by Mr Ball.

The information in this report that relates to data used for and the resultant Ore Reserve for the Texas Silver project is based on information compiled by Mr Ian Huitson who is a Member of the Australasian Institute of Mining and Metallurgy and Director of Mining Solutions Pty Ltd a mining and management consultancy.

Mr Huitson is a mining engineer with over 25 years experience in underground and open pit environments and has sufficient experience which is relevant to this type of mineral deposit and mining methodology to qualify as a "Competent Person" as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves".

Mr Huitson consents to the inclusion in this Report of the information compiled in the form and context in which they appear

# MINERAL RESOURCE INVENTORY

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DEPOSIT	CATEGORY	TONNES	AG G/T	CONTAINED AG MOZ
Twin Hills	Measured	2,151,000	80	5.5
	Indicated	6,152,000	44	8.7
	Inferred	1,045,000	51	1.7
	Total	9,348,000	53	16.0
Mt Gunyan	Measured	754,000	56	1.3
	Indicated	2,884,000	56	5.2
	Inferred	302,000	48	0.5
	Total	3,940,000	55	7.0
<b>Total</b>	<b>All Categories</b>	<b>13,288,000</b>	<b>54</b>	<b>23.0</b>

- The Twin Hills Mineral Resource model is as declared at 29 March 2012; is inclusive of the Ore Reserve and depleted for mining to the end of July 2012
- The Mt Gunyan Mineral Resource model is as declared at 28<sup>th</sup> August 2012.
- Twin Hills is reported above a 26.5g/t Ag cut-off; Mt Gunyan above a 30g/t Ag cut-off.

(Numbers are rounded and thus may not reflect accurately individual calculations within the table.)

# PRO FORMA BALANCE SHEET

Consolidated Balance Sheet (Post Capital Raising)	UNAUDITED 1 May 2013	PRO FORMA 1 May 2013 (\$6M raised)	PRO FORMA 1 May 2013 (\$10M raised)	PRO FORMA 1 May 2013 (\$16.25M raised)
<b>CURRENT ASSETS</b>				
Cash	\$128,699	\$6,102,968	\$9,853,674	\$15,720,894
Inventory	\$6,987,013	\$6,987,013	\$6,987,013	\$6,987,013
<b>TOTAL CURRENT ASSETS</b>	\$7,578,103	\$13,552,372	\$17,303,078	\$23,170,298
<b>TOTAL NON-CURRENT ASSETS</b>	\$25,867,583	\$25,867,583	\$25,867,583	\$25,867,583
<b>TOTAL ASSETS</b>	\$33,445,686	\$39,419,955	\$43,170,661	\$49,037,881
<b>CURRENT LIABILITIES</b>				
Trade Payables	\$5,290,611	\$5,290,611	\$5,290,611	\$5,290,611
Provisions	\$420,854	\$420,854	\$420,854	\$420,854
Convertible Notes Loan	\$1,200,000	\$2,400,000	\$2,400,000	\$2,400,000
Finance lease liabilities	\$369,056	\$369,056	\$369,056	\$369,056
<b>TOTAL CURRENT LIABILITIES</b>	\$7,280,521	\$8,480,521	\$8,480,521	\$8,480,521
<b>TOTAL NON CURRENT LIABILITIES</b>	\$7,688,899	\$7,688,899	\$7,688,899	\$7,688,899
<b>TOTAL LIABILITIES</b>	\$14,969,420	\$16,169,420	\$16,169,420	\$16,169,420
<b>NET ASSETS (LIABILITIES)</b>	\$18,476,266	\$23,250,535	\$27,001,241	\$32,868,461
<b>TOTAL EQUITY</b>	\$18,476,266	\$23,250,535	\$27,001,241	\$32,868,461