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CHAIRMAN'S LETTER TO SHAREHOLDERS

Highlights

- **Completion of Rights Issue and Successful Re-quotations of Securities;**
- **Strengthened balance sheet with \$5.2 million in deleveraging, \$4 million in cash, total current assets of \$9 million and a total asset base of \$35 million;**
- **Texas Silver Mine Resumed Operations and targeting production of 95,000 tonnes per month post upgrade of crusher in September, 2013;**
- **Silver production poised to reach name-plate capacity of 80,000 oz per month in Q4, 2013;**
- **Connection to grid-power expected in Q4 resulting in estimated \$12 million in savings for life of mine;**
- **Powerline Value Fund US\$10 million Pre-Pay and Offtake unconditional and alternative streaming transactions under consideration.**

Dear Shareholders

Alcyone Resources Limited has undertaken a significant level of corporate activity over the past six months under a new Board and management team. Since my last letter to you in April 2013, we have made considerable progress and I would like to take this opportunity to provide you with an update on the key achievements.

Rights Issue Completion

On 9 August 2013, our Company confirmed receipt of \$7.4 million under the Rights Issue and Shortfall, exceeding the minimum Rights Issue requirement of \$6 million. The allocation for the 2 for 1 pro-rata non-renounceable Rights Issue was completed on 14 August 2013 following the completion of all conditions for the Rights Issue. In summary, the Company received a total subscription for the Rights Issue of 1,484,435,537 shares and 742,217,769 free options, with 17.56% of the Company's share register taking up their rights.

In light of current equity market conditions across the junior mining sector, I am delighted to report that the Rights Issue highlights the strong financial support we have received from you to implement the strategy of being a pure-play silver producer with a focus on earnings growth under a recapitalised structure alongside a new Board and management team.

The Company's shares were re-quoted on the Australian Securities Exchange on August 14, 2013 following a more than four-month suspension as part of a significant corporate operational review and fundraising process.

Balance Sheet & Capital Structure

The Board took the view that the Rights Issue was the most appropriate and equitable mechanism in which to raise sufficient capital through the equity markets to simplify and de-risk the Company's balance sheet. Through the rights issue, the Company has retired \$3.6 million in debt and in conjunction with the repayment of the Company's \$1.6 million pre-pay facility with Credit Suisse through the close out of the Company's hedge position, the Company has managed to deleverage by a total of \$5.2 million. Going forward, the primary focus is to be a profitable operation through the optimisation of the Company's flagship silver project, the Texas Silver Mine in Queensland. The Company is in a strong position to take the Mine to name plate production capacity, having finished the Rights Issue with \$4 million in cash, total current assets of \$9 million and a total asset base of \$35 million and a net asset base of \$18 million.

Operational Objectives

Following a detailed operational review under the new Board and management team, the Company has been recapitalised to fund a key infrastructure upgrade and to increase production volumes while reducing costs at the Texas Silver Mine. Crushing operations recommenced on the 5th of August and will begin to leach and extract silver within 14 days. The major shutdown to upgrade the crusher has been planned for the last two weeks of September and expects to achieve nameplate production of 95,000 tonnes per month during October, which will provide the foundation for production of 80,000 plus ounces of silver per month. The Company intends to use the funds raised for the construction and commissioning of the HV power line to access grid power and reduce the cost of power from 0.38 cents per k/w hr to 0.18 cents per k/w hr realising savings of \$12 million life of mine. Installation and purchase of various cost saving facilities will also be completed over the next 4 months. Mining production from the open cut pit will commence once ROM stockpiles have been partially depleted.

Silver Purchase Agreement

The closing date for the Rights Issue was subject to our Company obtaining \$2.5 million of additional financing and \$2 million in funding from an off-take Facility metal streaming agreement being unconditional. On 6 June 2013, our Company entered into a US\$10 million Silver Purchase Agreement with Powerline Value Fund that provided an off-take agreement for the delivery of our Company's silver production from its Texas Silver Mine. On 13 August 2013, the Company confirmed that the Powerline Agreement had become unconditional, completing a key component of the rights issue and allowing the Company 45 days to commence accessing funding under the Agreement at its own discretion. The need for the company to access funds pursuant to the Powerline Facility was always going to be determined by the availability of funds under the US\$10 million Preciosa Metal Streaming transaction. As announced to the market on August 14, 2013, the Company decided to terminate the Preciosa transaction and as such now intends to draw funds as required from the Powerline Facility.

Silver Price and Currency Movements

We are well positioned to benefit from the recent silver price rally which is up more than 14% since the end of June 2013 with recent trading at AUD\$23+ per ounce. The combination of a strengthening USD silver price and a weakening AUD currency provide a more favourable pricing and currency environment for our company and are forecast to have a positive impact on future cash flows and earnings.

Outlook

The Board has full confidence that this strategic turnaround can now be implemented successfully with the opportunity to deliver strong earnings and cash flows thereby maximising shareholder returns. We would like to thank you for the financial support you have provided us over the past few months and look forward to meeting you at our Annual General Meeting in November 2013.

Yours faithfully,



Paul D'Sylva
Chairman
15 August 2013