

# ALCYONE RESOURCES LIMITED

ACN 056 776 160

## SUPPLEMENTARY PROSPECTUS

### IMPORTANT INFORMATION

This Supplementary Prospectus is dated 2 August 2013 and is supplementary to the prospectus dated 29 May 2013 issued by Alcyone Resources Limited (ACN 056 776 160) (**Company**), as replaced by a replacement prospectus dated 13 June 2013 (**Prospectus**).

This Supplementary Prospectus was lodged with the Australian Securities and Investments Commission (**ASIC**) on 2 August 2013. The ASIC does not take any responsibility for the contents of this Supplementary Prospectus.

This Supplementary Prospectus must be read together with the Prospectus. If there is a conflict between the Prospectus and this Supplementary Prospectus, this Supplementary Prospectus will prevail. Terms and abbreviations defined in the Prospectus have the same meaning in this Supplementary Prospectus.

This Supplementary Prospectus will be issued with the Prospectus as an electronic prospectus and may be accessed on the internet at [www.alcyone.com.au](http://www.alcyone.com.au).

This document is important and should be read in its entirety. Please consult your legal, financial or other professional adviser if you do not fully understand the contents.

Other than the changes set out below, all other details in relation to the Prospectus remain unchanged. The Directors believe that the changes in this Supplementary Prospectus are not materially adverse from the point of view of an investor.

Accordingly, no action needs to be taken if you have already subscribed for Shares under the Prospectus. A copy of this Supplementary Prospectus will be available on the Company's website.

**ALCYONE RESOURCES LIMITED**  
**ACN 056 776 160**

**SUPPLEMENTARY PROSPECTUS**

**1. EXTENSION OF CLOSING DATE**

As announced to the ASX on 18 July 2013, the Company has decided to extend the Closing Date of the Offer from 5.00pm (AEST) on 26 July 2013 to 5.00pm (AEST) on 2 August 2013.

Accordingly, references to the Closing Date in the Prospectus are amended to refer to this new date and the dates in the Indicative Timetables in Section 2 of the Prospectus are amended as shown in the following table:

Closing Date	5.00pm AEST on 2 August 2013
Securities quoted on a deferred settlement basis	6 August 2013
ASX notified of under subscriptions	8 August 2013
Issue Date	13 August 2013
Despatch of Holding Statements	15 August 2013
Anticipated lifting of suspension of Securities and Quotation of Securities issued under the Entitlement Offer	16 August 2013

**2. MATERIAL CONTRACTS**

**2.1 Preciosa Silver Stream Agreement**

As announced to the ASX on 29 July 2013, the Company signed a silver purchase agreement (**Silver Purchase Agreement**) with Preciosa Streaming Company Inc (a company incorporated in Barbados (**Preciosa**) on 26 July 2013. The material terms of the Silver Purchase Agreement are summarised in Schedule 1 of this Supplementary Prospectus.

The Company is working towards satisfaction of the outstanding conditions of the Silver Purchase Agreement, which must be satisfied or waived no later than 2 August 2012.

**2.2 Bridge Financing**

As announced to the ASX on 29 July 2013, the Company signed a convertible note agreement (**Convertible Note Agreement**) with Jacob Trading LLC (**Jacob Trading**), a nominee of Platinum Capital Limited (**Platinum**) on 28 July 2013 for the issue of 1,500,000 convertible notes, each with a face value of A\$1 (with 25% repayable after 45, 60, 90 and 120 days from the date of issue).

The material terms of the Convertible Note Agreement are summarised in Schedule 1 of this Supplementary Prospectus.

On 2 August 2013, the Company issued Jacob Trading a total of 1,500,000 convertible notes, each with a face value of \$1, as summarised in section 8.1

below, in accordance with the Convertible Note Agreement. 75% of the convertible notes are only convertible with shareholder approval.

The Company has agreed to keep the Shortfall Offer open until 27 November 2013 under the terms of the bridge financing referred to in section 2.2 below, being the maturity date of the Jacob Trading convertible notes. This is to allow the holder of the convertible notes, if it chooses, to subscribe for Shortfall, with the subscription amount offset against the subscription amount.

Keeping the Shortfall Offer open will also allow the Prospectus to be used for the purpose of section 708A(11) of the *Corporations Act 2001* in relation to any issues of Shares before the Shortfall Offer closes.

### **3. OFFER CONDITIONS**

#### **3.1 Offer Conditions**

Two of the three conditions to the Offer have been satisfied, as follows, and it is anticipated that the remaining condition will be satisfied shortly.

#### **3.2 Shareholder Approval**

The Offer was conditional on Shareholders approving the Offer. This condition was satisfied at the Shareholder meeting held on 15 July 2013.

#### **3.3 Short Term Bridge Financing**

The Offer was conditional on the Company obtaining \$2,500,000 in additional financing prior to the Closing Date. The Company has obtained a total of \$1,500,000 in short term bridge funding to date from Celtic Capital and the Jacob Trading Convertible Note Agreement (as announced).

As a result of additional cost savings measures (including the shutdown of the Texas Mine to prepare for the crusher upgrade) since the Prospectus was lodged, the Company has determined that it does not require the additional \$1,000,000 in short term bridge financing to remain solvent.

This condition to the Offer is therefore amended to require only \$1,500,000 in short term bridge financing before the Closing Date, and the Company advises that this condition has been satisfied with the provision of funds under the Jacob Trading Convertible Note Agreement.

#### **3.4 Offtake/Silver Stream Agreement**

The Offer was conditional on the Company entering into one or both of the Off-take Agreement or Silver Stream Agreement and having at least A\$2,000,000 of funding drawn down or unconditionally available at the Closing Date.

As announced to the ASX on 6 June 2013, the Company entered into the Powerline Off-take Agreement and, as announced on 29 July 2013, entered into the Preciosa Silver Purchase Agreement. Either of these agreements satisfy part of this condition.

The other part of the condition, having at least A\$2,000,000 unconditionally available (**\$2 million Condition**), is not yet satisfied, but will be upon the outstanding conditions to the Powerline Off-take Agreement or Preciosa Silver

Purchase Agreement being satisfied (the key outstanding conditions relate to security documentation).

The Company is currently working towards satisfaction of the outstanding conditions. The Company advises that the time for satisfaction of the \$2 million Condition is extended from the Closing Date to 12 August 2013, to allow time for the conditions of at least one of these agreements to be satisfied..

The Company will not complete the Offer if the \$2 million condition is not satisfied by the scheduled date for completion of the Rights Issue (being 13 August 2013).

#### **4. MINIMUM SUBSCRIPTION**

The minimum subscription for the Offer of A\$6,000,000 has been satisfied, taking into account subscriptions received under the Offer and the Shortfall Offer.

#### **5. DEBT TO EQUITY**

The Company has received subscriptions of approximately \$3.6 million under the Shortfall Offer through agreements with existing creditors, with the subscription funds to be used by the Company to redeem the following debt and convertible securities held by those existing creditors on the date the Offer is completed:

- (a) Bergen Global has agreed to subscribe for \$1,200,000 of the Shortfall, in return for the full redemption of the Third Bergen Convertible Security (with a face value of \$750,000) and a \$450,000 partial redemption of the \$1,200,000 Bergen Debt Security (resulting in a residual face value of \$750,000);
- (b) YA Global has agreed to subscribe for \$1,000,000 of the Shortfall, in return for the partial redemption of its YA Global Convertible Security (with a face value of \$1,112,500); and
- (c) Celtic Capital has agreed to subscribe for \$1,400,000 of the Shortfall, in return for the full redemption of its 1,400,000 Celtic Convertible Promissory Notes (each with a face value of \$1)

#### **6. USE OF FUNDS**

Under section 6.1 of the Prospectus, the Company indicated that, if the minimum subscription of \$6 million was raised, it intended to use \$3 million to redeem certain Debt Securities/Convertible Securities.

As a result of the debt to equity redemptions summarised in clause 5 above, the Company now intends to redeem approximately \$3.6 million of Debt Securities/Convertible Securities as set out in clause 5.

These changes will result in the Company having a total of \$4,050,000 short term redemption obligations under its debt securities/convertible securities comprising:

- (a) \$750,000 of the Bergen Debt Security, repayable on 15 August 2013. The Company is negotiating a cash repayment standstill of 9 months from the end of the Shortfall Offer in respect of this payment; and

- (b) 1,500,000 Jacob Trading Convertible Notes (face value of \$1 each), with 25% repayable after 45, 60, 90 and 120 days from the date of issue, being 1 August 2013. The Company has agreed with Jacob Trading to set aside \$1 million from the Offer to meet these repayment obligations.

As a result of the above changes, the funds raised from the Offer and Shortfall Offer are planned to be used in the accordance with the table set out below:

	<b>\$6M Raising (minimum)</b>	<b>\$10M Raising</b>	<b>\$16.25M Raising (maximum)</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Repay/ Redeem Debt Securities/Convertible Securities <sup>1</sup>	3.6	3.6	3.6
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 Entitlement Offer	0.53	0.78	1.16
Working Capital	1.37	2.4	2.4
<b>TOTAL</b>	<b>6.00</b>	<b>10.00</b>	<b>16.25</b>

**Notes:**

- This refers to the full redemption of the Third Bergen Convertible Security summarised at Section 9.3 of the Prospectus, a partial \$450,000 redemption of the Bergen Debt Security summarised at Section 9.5 of the Prospectus, the full redemption of the Celtic Convertible Promissory Notes summarised at Section 6 of this Prospectus and the partial \$1,000,000 redemption of the YA Global Convertible Security summarised at Section 9.1 of the Prospectus. This amount does not include provision for putting \$1 million from the Offer into escrow to be used towards repayment of the Jacob Trading Convertible Notes, or the repayment of those Convertible Notes. The Company expects, based on subscriptions received to date, that these funds will come from subscriptions to the Offer and Shortfall in excess of the minimums subscription of \$6 million.

**7. PRO FORMA BALANCE SHEET**

The Company's updated pro forma balance sheet is set out below, reflecting the changes resulting from the events detailed in this Supplementary Prospectus, being the issue of the Jacob Trading convertible notes and related securities, and reduction in short term bridge funding to \$1.5 million.

	<b>UNAUDITED 1-May-13</b>	<b>PROFORMA 1-May-13 (6m raised)</b>	<b>PROFORMA 1-May-13 (10m raised)</b>	<b>PROFORMA 2-May-13 (16.25m raised)</b>
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents <sup>1</sup>	\$128,699	\$3,842,968	\$9,042,968	\$13,042,968
Trade and other receivables	\$217,517	\$217,517	\$217,517	\$217,517
Prepayments	\$244,874	\$244,874	\$244,874	\$244,874
Inventory	\$6,987,013	\$6,987,013	\$6,987,013	\$6,987,013

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<b>TOTAL CURRENT ASSETS</b>	\$7,578,103	\$11,292,372	\$16,492,372	\$20,492,372
<b>NON-CURRENT ASSETS</b>				
Receivables	\$2,141,642	\$2,141,642	\$2,141,642	\$2,141,642
Property, plant and equipment	\$11,435,921	\$11,435,921	\$11,435,921	\$11,435,921
Finance lease asset	\$971,887	\$971,887	\$971,887	\$971,887
Investments	\$17,569	\$17,569	\$17,569	\$17,569
Mineral exploration and evaluation expenditure	\$6,295,051	\$6,295,051	\$6,295,051	\$6,295,051
Mineral development expenditure	\$5,005,513	\$5,005,513	\$5,005,513	\$5,005,513
<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	\$37,159,955	\$42,359,955	\$46,359,955
<b>CURRENT LIABILITIES</b>				
Trade and other payables	\$5,290,611	\$4,450,611	\$4,450,611	\$4,450,611
Provisions	\$420,854	\$420,854	\$420,854	\$420,854
Convertible note loan <sup>1</sup>	\$1,200,000	\$2,340,000	\$2,340,000	\$2,340,000
Finance lease liabilities	\$369,056	\$369,056	\$369,056	\$369,056
Financial liabilities	\$0	\$1,500,000	\$1,500,000	\$1,500,000
<b>TOTAL CURRENT LIABILITIES</b>	\$7,280,521	\$9,080,521	\$9,080,521	\$9,080,521
<b>NON CURRENT LIABILITIES</b>				
Provisions	\$3,590,173	\$3,590,173	\$3,590,173	\$3,590,173
Convertible Note Loan	\$3,500,000	\$2,300,000	\$2,300,000	\$2,300,000
Finance lease liabilities	\$511,463	\$511,463	\$511,463	\$511,463
Financial Liabilities	\$87,263	\$87,263	\$87,263	\$87,263
<b>TOTAL NON CURRENT LIABILITIES</b>	\$7,688,899	\$6,488,899	\$6,488,899	\$6,488,899
<b>TOTAL LIABILITIES</b>	\$14,969,420	\$15,569,420	\$15,569,420	\$15,569,420
<b>NET ASSETS (LIABILITIES)</b>	\$18,476,266	\$21,590,535	\$26,790,535	\$30,790,535
<b>EQUITY</b>				
Contributed equity	\$101,166,188	\$107,440,457	\$112,640,457	\$116,640,457
Reserves	\$3,018,690	\$3,018,690	\$3,018,690	\$3,018,690
Accumulated losses	-\$81,635,625	-\$81,635,625	-\$81,635,625	-\$81,635,625
Current year losses	-\$4,072,987	-\$7,232,987	-\$7,232,987	-\$7,232,987
<b>TOTAL EQUITY</b>	\$18,476,266	\$21,590,535	\$26,790,535	\$30,790,535

## 8. EFFECT ON CAPITAL STRUCTURE

### 8.1 Jacob Trading Convertible Note Agreement

As part consideration for the Jacob Trading Convertible Note Agreement, the Company has issued to a nominee of Platinum:

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- (a) 126,647,059 Shares (comprising 9,000,000 Shares as a fee and 117,647,059 Shares at a deemed issue price of 0.425 cents per Share as collateral under the Convertible Note Agreement), increasing the total Shares currently on issue to 1,751,739,775 Shares; and
- (b) 36 million free quoted Options exercisable at 0.1 cent each and expiring 31 July 2015, increasing the total Options currently on issue to 124,839,105 Options.

## **8.2 Convertible and Debt Securities**

As a result of the issue of convertible notes under the Jacob Trading Convertible Note Agreement, and conversion of debt securities to convertible securities following shareholder approval on 15 July 2013, the Company currently has on issue a total of:

- (a) 3,575,004 convertible securities, comprising:
  - (i) the 3,200,004 convertible securities identified in section 6.4 of the Prospectus; and
  - (ii) 375,000 Jacob Trading convertible notes (being the 25% of the convertible notes that are convertible without shareholder approval); and
- (b) 1,125,001 debt securities, comprising:
  - (i) 1,125,000 Jacob Trading convertible notes (being the 75% of the convertible notes that are only convertible with shareholder approval); and
  - (ii) 1 Bergen Debt Security with a face value of \$1,200,000 (to be redeemed by \$450,000 under a subscription to the Shortfall Offer, as set out in clause 5(a) above).

## **9. DIRECTORS' AUTHORISATION**

This Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Supplementary Prospectus with the ASIC.

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**Dr Paul D'Sylva**  
**Director**  
**For and on behalf of**  
**Alcyone Resources Limited**

## **SCHEDULE 1 – MATERIAL AGREEMENTS**

### **1. PRECIOSA SILVER PURCHASE AGREEMENT**

#### **1.1 Conditions**

The Silver Purchase Agreement is subject to various conditions that must be satisfied or waived no later than 2 August 2013 (or such later date as agreed by Preciosa) including:

- (a) Alcyone and Texas Silver entering into a first-ranking or pari passu security interest in favour of Preciosa by way of a general security deed over their assets and mining mortgages over each of the Mining Properties ("Security"). The Security will terminate upon Texas Silver delivering 350,000 oz of Refined Silver to Preciosa;
- (b) Preciosa having been granted at least pari passu rights with existing senior creditors of Alcyone and any of its subsidiaries pursuant to a deed of priority and removal of all securities granted by Alcyone or Texas Silver in favour of Powerline Value Fund II, LLC ("Powerline");
- (c) the termination of the silver purchase agreement dated 7 June 2013 between Powerline, Alcyone and Texas Silver;
- (d) all necessary regulatory, shareholder and third party approvals being obtained. The Company does not anticipate that any regulatory or shareholder approvals are required and is seeking necessary third party consents;
- (e) execution and registration of a royalty agreement under which Preciosa will be granted a perpetual 6% gross value royalty ("GVR") on all gross revenues of the Mining Properties, payable quarterly in arrears, should Texas Silver not deliver 100,000 ounces of Payable Silver (Ag) under the terms of the Silver Purchase Agreement within eighteen months of the Effective Date or if there is a material breach or default by the Company or Texas Silver under the Silver Purchase Agreement;
- (f) existing senior creditors of Alcyone and Texas consenting to the creation and registration of the Security;
- (g) each of Alcyone and Texas Silver confirming that there are no events of default or potential events of default under the Silver Purchase Agreement; and
- (h) completion of satisfactory due diligence by Preciosa, acting reasonably.

The Company is working towards satisfaction of these conditions.

#### **1.2 Right to Purchase**

- (a) Subject to the satisfaction of the conditions, Preciosa has the right to purchase an amount of Refined Silver (as defined below) equal to 17.5% of the amount of Payable Silver (as defined below) ("Metal Stream") produced from Alcyone's Texas Silver Project (and any tenements

owned by the Company or any of its subsidiaries from time to time within 80km of the Project) (together, the "Mining Properties") for the first eighteen months commencing on the commencement of normal mining operations as determined in Preciosa's sole discretion ("**Effective Date**").

- (b) Thereafter Preciosa shall have the right to purchase 15.0% of the amount of Payable Silver produced from the Mining Properties. Preciosa has agreed to pay the lesser of US\$6.50 or 80% of the prevailing market price per ounce of silver fixing price in US dollars (as quoted on the London Bullion Market Association) in cash for each ounce of Refined Silver sold under the Silver Price Agreement.

### **1.3 US\$10 million upfront payment**

- (a) Preciosa has agreed, subject to the satisfaction or waiver of the condition set out below, to invest US\$10 million as consideration for the Company and Texas Silver entering into the Silver Purchase Agreement, to be paid in two instalments of US\$5 million.
- (b) The first US\$5 million investment (being the Subscription Amount of US\$3 million and the US\$2 million cash payment), is subject to the Company, by 9 August 2013, either receiving valid subscriptions totalling at least AU\$13 million under the Rights Issue and Shortfall, or existing promissory note holders and non-supplier creditors agreeing to a standstill pursuant to which they will be repaid in cash not before nine months after completion of the Rights Issue and Shortfall. The Company is working towards satisfying this condition.
- (c) Preciosa will be entitled to nominate two non executive directors of the Company and Texas upon being issued securities under the Shortfall.
- (d) The second US\$5 million instalment will be payable to the Company after the Effective Date and upon it achieving the following milestones, to be determined in the reasonable judgment of Preciosa:
  - (i) the installation of the new crushing circuit;
  - (ii) three consecutive months of independently verified crushing throughput of greater than 85,000 tons per month, and three consecutive months of refined production greater than 70,000 ounces Ag;
  - (iii) the instalment, active commissioning and utilization of the powerline connecting to the commercial power grid and other key operational improvements; and
  - (iv) minimum silver price of US\$17.50 as quoted by the London Bullion Market Association spot price at the time of three consecutive months of throughput greater than 85,000 tons per month and three consecutive months of refined production of greater than 70,000 ounces Ag.
- (e) The US\$10 million investment must be used exclusively to develop the Mining Properties and to lower operating costs.

## 1.4 Other material terms

- (a) As from the date of execution of the Silver Purchase Agreement, Alcyone and Texas Silver are prohibited from incurring any additional encumbrances on their respective assets without the prior consent of Preciosa.
- (b) Preciosa has agreed to collaborate with the Company in relation to acquiring other silver mining projects, in return for a right to silver production on those projects, for a quantity to be agreed, on similar commercial terms. Preciosa also has a first right of refusal for other silver sales or royalties.
- (c) Subject to the termination provisions in the Silver Purchase Agreement, the term of the Silver Purchase Agreement is for 40 years after the Effective Date. The agreement contains standard commercial terms for an agreement of this nature, including in relation to the conduct of operations and consent requirements for creating additional encumbrances and indebtedness, and to issue additional securities (including conversion of debt) and entering into any prepay facility.
- (d) For the purposes of the Silver Purchase Agreement:

“Effective Date” means the later of (i) the Company receiving at least A\$6M in valid subscriptions from the Rights Issue and associated shortfall offer and (ii) the commencement of normal mining operations after the proposed plant shutdown for the crusher upgrade as determined in Preciosa's sole discretion; and

“Payable Silver” means the number of ounces of silver mined, produced, extracted or otherwise recovered from the Mining Properties, less the number of ounces of silver deducted by the refinery on account of the processing of such silver into refined silver.

## 2. JACOB TRADING CONVERTIBLE NOTE AGREEMENT

Term	Details
Title	Convertible Note Agreement
Dated	28 July 2013
Holder	Jacob Trading LLC
Subscription Amount	\$1,000,000
Securities Issued	1,500,000 Convertible Notes. 75% of the Convertible Notes are only convertible with Shareholder approval, and so are treated as debt securities. The Company must hold a shareholder meeting within 30 business days of 28 July 2013 (45 business days if an independent expert's report is required) to approve these Convertible Notes being converted (at which time they will be treated as being issued as convertible securities) and to refresh the Company's placement capacity.
Face Value	\$1.00 each (a total of \$1,500,000)
Maturity Date	25% repayable after 45, 60, 90 and 120 days from the date of

	issue, being 1 August 2013.
<b>Interest</b>	Default Interest of 15% pa.
<b>Unsecured</b>	The Convertible Notes are unsecured but are to rank in priority over any unsecured creditor.
<b>Escrow</b>	On completion of the Rights Issue, the Company must place \$1 million from the Rights Issue in escrow as security for repayment of the Convertible Notes. The escrow amount is reduced by an amount any face value converted or redeemed.
<b>Conversion</b>	<p>Each Convertible Notes is convertible in whole, and not part, at Jacob's election before the maturity date.</p> <p>Upon the holder providing a conversion notice that requires conversion of some or all of the Convertible Notes, the Company may elect to satisfy such conversion by payment of cash in lieu of Shares.</p> <p>If a conversion would result in Jacob Trading holding more than 19.99% of the Company's issued Shares, the conversion cannot take place and the Company must either seek shareholder approval to issue the additional Shares above the 19.99% threshold, or instead redeem the face value of the Convertible Notes that would otherwise be converted.</p>
<b>Conversion Price</b>	<p>The face value of the Convertible Notes are convertible at either (at the sole discretion of holder) Conversion Price A or Conversion Price B, provided no more than 25% of the convertible notes may be converted under Conversion Price B.</p> <p>Conversion Price A is the lesser of \$0.01 and 85% of the VWAP over the five days (on which trading in Shares occurs) before the receipt of a conversion notice.</p> <p>Conversion Price B is the lesser of \$0.005 and 85% of the VWAP over the five days (on which trading in Shares occurs) before the receipt of a conversion notice.</p>
<b>Redemption</b>	<p>Upon the Maturity Date, the Company must pay to the holder the outstanding face value of any outstanding Convertible Notes.</p> <p>Jacob Trading may elect to redeem any of the Convertible Notes into the Shortfall Offer, and the Company must ensure it retains sufficient Shortfall to allow this to occur.</p>
<b>Default Events</b>	<p>The convertible notes are subject to standard default events for an agreement of this nature, plus:</p> <ul style="list-style-type: none"> <li>(i) the Company being suspended from ASX for more than 5 trading days post 15 August 2013.</li> <li>(ii) the Rights Issue not being completed by 15 August 2013;</li> <li>(iii) Celtic Capital failing to redeem at least \$1,200,000 into the Shortfall Offer</li> </ul>
<b>Covenants</b>	<p>Until the Convertible Notes are fully redeemed or converted, the Company must:</p> <ul style="list-style-type: none"> <li>(i) only use the Subscription Amount for working capital;</li> <li>(ii) not incur any indebtedness;</li> <li>(iii) not encumber the Tenements;</li> <li>(ii) not issue, or agree to issue, any Shares or instruments</li> </ul>

	capable of conversion into Shares, other than under the Rights Issue.
<b>Transferability</b>	The convertible notes may be transferred with the consent of the Company, which cannot be unreasonable withheld.
<b>Fee Shares and Options</b>	The Company has issued a nominee of Platinum, in lieu of payment of a fee: (i) 9,000,000 Shares; and (ii) 36 million free quoted Options exercisable at 0.1 cent each and expiring 31 July 2015.
<b>Collateral Shares</b>	The Company has issued a nominee of Platinum \$500,000 worth of Shares (being 125,000,000 Shares at a deemed issue price of \$0.004 per Share) for nil cash consideration as collateral for the convertible notes. If any of the collateral Shares are sold before the maturity date, the proceeds received will be offset against the Company's repayment obligations under the Convertible Notes, in reverse order. The amount at which the outstanding repayments will be offset shall be determined by the cash value that the holder would have received for the sold collateral Shares by reference to the VWAP for Shares over the five days on which trading occurred prior to the sale/ disposal. To the extent Jacob Trading retains collateral Shares at the maturity date, it must pay the Company for those Shares at a price equal to the 85% of the average of the ten day VWAP for Shares prior to the maturity date. If a default event occurs and is not cured by the Company within 5 business days of written notice, Jacob Trading may keep the collateral Shares and is released from the above offset and payment obligations.
<b>No Participation or Voting Rights</b>	There are no participation rights or entitlements inherent in the Convertible Notes and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Convertible Notes without converting the Convertible Notes. The Convertible Notes do not carry any voting rights at Shareholder meetings.
<b>Governing Law</b>	New York