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**ALCYONE RESOURCES LTD**

**ACN 056 776 160**

**NOTICE OF GENERAL MEETING**

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**TIME:** 2:00 PM (WST)

**DATE:** 15 July 2013

**PLACE:** Kings Park Tennis Club  
Lower Pavilion  
21 Kings Park Road  
West Perth WA

***This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.***

***Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact Mr Trevor Harris, Company Secretary on (+61 8) 9476 3000.***

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**IMPORTANT INFORMATION**

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**TIME AND PLACE OF MEETING**

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Notice is given that the meeting of the Shareholders to which this Notice of Meeting relates will be held at 2:00 pm (WST) on 15 July 2013 at:

The Lower Pavilion,  
Kings Park Tennis Club,  
21 Kings Park Road,  
West Perth, Western Australia

**YOUR VOTE IS IMPORTANT**

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The business of the Meeting affects your shareholding and your vote is important.

**VOTING ELIGIBILITY**

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The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 2:00pm (WST) on 13 July 2013.

**VOTING IN PERSON**

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To vote in person, attend the Meeting at the time, date and place set out above.

**VOTING BY PROXY**

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To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, members are advised that:

- each member has a right to appoint a proxy;

- the proxy need not be a member of the Company; and
- a member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, 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.

Further details on these changes is set out below.

#### ***Proxy vote if appointment specifies way to vote***

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does:**

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

#### ***Transfer of non-chair proxy to chair in certain circumstances***

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
  - the proxy is not recorded as attending the meeting;
  - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

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## BUSINESS OF THE MEETING

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### AGENDA

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#### 1. RESOLUTION 1 – RATIFICATION OF ISSUES TO BERGEN GLOBAL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of the First Bergen Global Convertible Security, 16,279,310 Shares and 13,000,000 Options and to Bergen Global on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 2. RESOLUTION 2 – APPROVAL FOR ISSUE OF SECURITIES TO BERGEN GLOBAL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue Bergen Global with the Second Bergen Global Convertible Security and Third Bergen Global Convertible Security and 88,000,000 Options on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 3. RESOLUTION 3 – RATIFICATION OF ISSUES TO YA GLOBAL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of the YA Global Convertible Security, 16,279,310 Shares and 13,000,000 Options on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 4. RESOLUTION 4 – RATIFICATION OF ISSUE OF PLACEMENT SHARES AND OPTIONS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 17,647,059 Shares and 8,823,529 Options on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 5. RESOLUTION 5 – RATIFICATION OF ISSUE OF SHARES TO CELTIC CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 48,591,370 Shares on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 6. RESOLUTION 6 – APPROVAL FOR ISSUE OF SECURITIES TO CELTIC CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue to Celtic Capital 1,800,000 Celtic Capital Convertible Notes, 1,400,000 Celtic Capital Promissory Convertible Notes, 301,879,218 Shares and 36,000,000 Options, Shares calculated in accordance with the terms of the Equity Placement Facility, and Shares in satisfaction of interest repayments calculated in accordance with the terms of the Celtic Capital Promissory Note Agreement, on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**7. RESOLUTION 7 – APPROVAL FOR ISSUE OF SHARES TO POWERLINE**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue to Powerline with that number of Shares necessary to satisfy the initial Powerline Commitment Fee calculated in accordance with the terms of the Off-take Agreement, on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**8. RESOLUTION 8 – APPROVAL OF RIGHTS ISSUE**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, as required by the ASX Waiver, and for all other purposes, approval is given for the Company to offer and issue Shares under a non-renounceable pro rata rights issue in a ratio of two (2) Shares for every one (1) Share held on the record date pursuant to the Offer, plus a one (1) for two (2) free attaching Option, as set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any Substantial Holder, underwriter and any proposed sub-underwriter, broker or manager of the Offer, and their respective Associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**9. RESOLUTION 9 – APPROVAL FOR ISSUE OF BROKER OPTIONS UNDER THE BROKER OFFER**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to Shareholders' approving Resolution 8, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue to Patersons Securities Limited (or their nominees) that number of Options equal to 6% of the total number of Shares issued under the Rights Issue on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**10. RESOLUTION 10 – RE-ELECTION OF DR PAUL D’SYLVA AS DIRECTOR**

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

*“That, for the purposes of clause 13.4 of the Constitution and for all other purposes, Dr Paul D’Sylva, a Director who was appointed on 13 March 2013, retires, and being eligible, is re-elected as a Director.”*

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**11. RESOLUTION 11 – RE-ELECTION OF MR TIMOTHY MORRISON AS DIRECTOR**

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

*“That, for the purposes of clause 13.4 of the Constitution and for all other purposes, Mr Timothy Morrison, a Director who was appointed on 13 March 2013, retires, and being eligible, is re-elected as a Director.”*

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**12. RESOLUTION 12 – RE-ELECTION OF MR MICHAEL REED AS DIRECTOR**

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

*“That, for the purposes of clause 13.4 of the Constitution and for all other purposes, Mr Michael Reed, a Director who was appointed on 15 March 2013, retires, and being eligible, is re-elected as a Director.”*

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**13. RESOLUTION 13 – RE-ADOPTION OF EMPLOYEE PERFORMANCE RIGHTS PLAN**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.2 (Exception 9(b)) and for all other purposes, approval is given for the Company to adopt an employee incentive scheme, being the Alcyone Employee Performance Rights Plan, and for the issue of securities under that Employee Performance Rights Plan, on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any Director, other than any Directors who are ineligible to participate in any employee incentive scheme in relation to the Company, and any associates of those Directors. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - a member of the Key Management Personnel; or
  - a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**14. RESOLUTION 14 – ISSUE OF PERFORMANCE RIGHTS TO RELATED PARTY – MR MICHAEL REED**

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

*“That, for the purposes of section 195(4), ASX Listing Rule 10.14 and for all other purposes, approval is given for the Company to issue up to 126,303,934 Performance Rights as Director incentive remuneration to Mr Michael Reed (or his nominee) under the Employee Performance Rights Plan on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any Director, other than any Directors who are ineligible to participate in any employee incentive scheme in relation to the Company, and any associates of those Directors. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - a member of the Key Management Personnel; or
  - a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**15. RESOLUTION 15 – APPROVAL OF NON EXECUTIVE DIRECTOR PERFORMANCE RIGHTS PLAN**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 7.2 (Exception 9(b)) and for all other purposes, approval is given for the Company to adopt an employee incentive scheme, being the Alcyone Non-Executive Director Performance Rights Plan, and for the issue of securities under that Non-Executive Director Performance Rights Plan, on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any Director, other than any Directors who are ineligible to participate in any employee incentive scheme in relation to the Company, and any associates of those Directors. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - a member of the Key Management Personnel; or
  - a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**16. RESOLUTION 16 – ISSUE OF PERFORMANCE RIGHTS TO RELATED PARTY – DR PAUL D'SYLVA**

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

*“That, for the purposes of section 195(4), ASX Listing Rule 10.14 and for all other purposes, approval is given for the Company to issue up to 126,303,934 Performance Rights as Director incentive remuneration to Dr Paul D'Sylva (or his nominee) under the Non-Executive Director Performance Rights Plan on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any Director, other than any Directors who are ineligible to participate in any employee incentive scheme in relation to the Company, and any associates of those Directors. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - a member of the Key Management Personnel; or
  - a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**17. RESOLUTION 17 – ISSUE OF PERFORMANCE RIGHTS TO RELATED PARTY – MR TIMOTHY MORRISON**

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

*“That, for the purposes of section 195(4), ASX Listing Rule 10.14 and for all other purposes, approval is given for the Company to issue up to 126,303,934 Performance Rights as Director incentive remuneration to Mr Timothy Morrison (or his nominee) under the Non-Executive Director Performance Rights Plan on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any Director, other than any Directors who are ineligible to participate in any employee incentive scheme in relation to the Company, and any associates of those Directors. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - a member of the Key Management Personnel; or
  - a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**DATED: 12 JUNE 2013**

**BY ORDER OF THE BOARD**

**TREVOR HARRIS  
COMPANY SECRETARY**

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## EXPLANATORY STATEMENT

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This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions which are the subject of the business of the Meeting.

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### 1. BACKGROUND

#### 1.1 General

As announced to the ASX, the Company has recently undertaken a number of capital raisings to help secure its financial position, and is now looking to undertake a non-renounceable rights issue to raise sufficient funds to reduce and simplify its debt position and fund key operational improvements at the Texas Silver operations.

Details of these capital raisings are provided below.

#### 1.2 First Bergen Global and YA Global Convertible Securities

The Company initially raised \$2,500,000 in capital on 26 February 2013 through the issue of two convertible securities, on identical terms, to Bergen Global and YA Global, each with a face value of \$1,312,500, maturing 24 February 2015 (the **First Bergen Global Convertible Security** and the **YA Global Convertible Security** respectively).

These two convertible securities were issued under the Bergen Global Convertible Securities Agreement and the YA Global Convertible Securities Agreement respectively.

As part of these arrangements, the Company issued each of Bergen Global and YA Global with:

- (a) 3,879,310 Shares (at a deemed issue price of 2.9 cents each);
- (b) 13,000,000 unlisted Options (exercisable at 4.96 cents each, expiring 26 February 2016) as capital raising fees; and
- (c) 12,400,000 Shares (for nil cash consideration) as collateral for further convertible securities that were to be issued under those two agreements.

On 22 March 2013:

- (a) Bergen Global converted \$250,000 of the First Bergen Global Convertible Security, resulting in the issue to Bergen Global of 17,800,856 Shares, at a deemed issue price of 1.404 cents each, and the reduction of the face value of the First Bergen Global Convertible Security to \$1,062,500; and
- (b) YA Global converted \$200,000 of the YA Global Convertible Security, resulting in the issue to YA Global of 14,240,685 Shares, at a deemed issue price of 1.404 cents each, and the reduction of the face value of the YA Global Convertible Security to \$1,112,500.

The Bergen Global Convertible Securities Agreement and YA Global Convertible Securities Agreement have been terminated by the parties, however the First Bergen Global Convertible Security and the YA Global Convertible Security issued under those agreements remain current.

### 1.3 Further Capital Raisings

As a result of further capital shortfalls, the Board of the Company changed in mid March 2013 and the Company restructured its financing and undertook further capital raisings as detailed below.

On 26 March 2013, the Company:

- (a) raised \$250,000 through the issue of a secured debt security to Bergen Global (face value of \$250,000, maturing on 26 March 2015) (**\$250,000 Bergen Security**) with conversion into Shares being subject to Shareholder approval (which is being sought in this Notice). If Shareholder approval is obtained, the \$250,000 Bergen Security will become, and be deemed to be issued as, a convertible security (**Second Bergen Global Convertible Security**);
- (b) issued Bergen Global with a secured debt security with a face value of \$750,000, maturing on 26 March 2015, with conversion into Shares being subject to shareholder approval (which is being sought in this Notice) (**\$750,000 Bergen Security**) in consideration for forbearance by Bergen Global in relation to the Company's alleged defaults under the Bergen Global Convertible Securities Agreement. If Shareholder approval is obtained, the \$750,000 Bergen Security will become, and be deemed to be issued as, a convertible security (**Third Bergen Global Convertible Security**); and
- (c) raised \$225,000 through the issue to sophisticated investors introduced by Empire Equity Limited of a total of 17,647,059 Shares at an issue price 1.275 cents per Share, and 8,823,529 free attaching quoted AYN Options exercisable at 6 cents each, expiring 14 May 2015 (**Placement Options**).

Under the terms of the \$750,000 Bergen Security, the Company also agreed, subject to Shareholder approval, to issue Bergen Global with 88,000,000 unlisted Options (exercisable at the lower of the VWAP for Shares on 26 March 2013 (being 1.55 cents) and the date before the Options are issued, expiring 60 months after their date of issue) in consideration for forbearance by Bergen Global in relation to the Company's alleged defaults under, and the termination of, the Bergen Global Convertible Securities Agreement. The Company is seeking Shareholder approval to issue these Options in this Notice of Meeting.

On 10 April 2013, the Company entered into the following agreements with Celtic Capital:

- (a) a convertible note agreement (**Celtic Capital Convertible Note Agreement**) under which, on 15 April 2013, the Company issued Celtic Capital with 1,800,000 debt securities, each with a face value of \$1.00, maturing 11 October 2013, with conversion into Shares being subject to shareholder approval (which is being sought in this Notice) (**Celtic Capital Securities**) in consideration for a subscription amount of \$1,200,000. If Shareholder approval is obtained, the Celtic Capital Securities will become, and be deemed to be issued as, 1,800,000 convertible notes) (**Celtic Capital Convertible Notes**); and

- (b) an equity placement facility (**Equity Placement Facility**) under which Celtic Capital agreed to invest up to \$10,000,000 in the Company over 3 years subject to various conditions, including the Company obtaining necessary Shareholder approvals.

As announced on 15 April 2013, the Company entered into the Equity Placement Facility as a stand-by line of credit that the Company may rely upon if needed. The Company previously announced that the Company does not expect to retain the facility after completion of the Right Issue. To clarify this statement, the Company will retain the Equity Placement Facility but does not intend to drawdown on the Equity Placement Facility after completion of the Rights Issue as it believes the Company will have sufficient funds to meet its obligations and expenditure requirements. The Company will retain the Equity Placement Facility as a stand by line of credit that may be available to the Company if other sources of finance cannot be obtained.

Under the Equity Placement Facility and the Celtic Capital Convertible Note Agreement, the Company agreed to issue Celtic Capital (subject to necessary Shareholder approvals), with:

- (a) as a capital raising fee for the Celtic Capital Convertible Notes:
- (i) 9,000,000 Shares for nil cash consideration. These Shares were issued on 15 April 2013 and the Company is seeking Shareholder approval to ratify the issue; and
  - (ii) 36,000,000 listed Options (exercisable at 1 cent each, expiring 31 July 2015) as part of a capital raising fee (**Celtic Capital Options**). The Company is seeking Shareholder approval to issue these Options in this Notice of Meeting;
- (b) as collateral under the Celtic Capital Convertible Note Agreement, 141,176,471 Shares (at a deemed issue price of 0.425 cents each). The Company is seeking Shareholder approval to issue these Shares in this Notice of Meeting; and
- (c) in satisfaction of \$10,000 in legal fees incurred by Celtic Capital in relation to the Celtic Capital Convertible Note Agreement, 2,352,941 Shares (at a deemed issue price of 0.425 cents each). The Company is seeking Shareholder approval to issue these Shares in this Notice of Meeting;
- (d) in satisfaction of a 3% capital raising fee in relation to the execution of the Equity Placement Facility, 70,588,235 Shares (at a deemed issue price of 0.425 cents each). The Company issued 39,591,370 of these Shares on 15 April 2013 and is seeking Shareholder approval in this Notice of Meeting to ratify this issue and to approve the issue of the remaining 30,996,865 Shares; and
- (e) in satisfaction of \$10,000 in legal fees incurred by Celtic Capital in relation to the Equity Placement Facility, 2,352,941 Shares (at a deemed issue price of 0.425 cents each). The Company is seeking Shareholder approval to issue these Shares in this Notice of Meeting.

As announced on 3 May 2013, the Company issued promissory notes with a total face value of \$1,200,000 to Bergen Global, in consideration for an amount of \$700,000 repayable on or before 15 August 2013.

As announced on 6 June 2013, the Company has entered into the following agreements:

- (a) a convertible promissory note agreement (**Celtic Capital Promissory Note Agreement**) with Celtic Capital under which the Company has agreed to issue Celtic Capital with 1,400,000 promissory debt securities, each with a face value of \$1.00, maturing 5 October 2013, with conversion into Shares being subject to shareholder approval (which is being sought in this Notice) (**Celtic Capital Promissory Notes**), in consideration for a subscription amount of \$700,000. If Shareholder approval is obtained, the Celtic Capital Promissory Notes will become, and be deemed to be issued as, 1,400,000 convertible promissory notes) (**Celtic Capital Convertible Promissory Notes**); and
- (b) a silver purchase agreement with Powerline and Texas Silver Mines which documents the terms upon which Powerline may purchase silver bullion (either by pre-payment or sale) up to a maximum of \$10,000,000 at any one time (**Off-take Agreement**). The terms of the Off-take Agreement are set out in more detail at Schedule 4 of this Notice of Meeting.

Under the Celtic Capital Promissory Note Agreement, the Company has agreed to issue Celtic Capital with:

- (a) 125,000,000 Shares as collateral under the Celtic Capital Promissory Note Agreement (at a deemed issue price of 0.4 cents each). The issue of these Shares is subject to Shareholder approval which the Company is seeking under Resolution 6; and
- (b) Shares at the beginning of each calendar month, in satisfaction of interest payments on the outstanding face value of the Celtic Capital Promissory Notes (calculated in accordance with the formula set out at section 7.2 of this Explanatory Statement) (**Interest Repayments**). The issue of these Shares are conditional upon Shareholder approval which the Company is seeking under Resolution 6. If Shareholders approve Resolution 6 then the Company will be able to issue Shares in satisfaction of the Interest Repayments.

Under the Off-take Agreement, the Company has agreed to issue Powerline with \$200,000 worth of Shares at each anniversary of the agreement as a commitment fee (**Powerline Commitment Fee**). The issue of these Shares are conditional upon Shareholder approval, of which the Company is seeking approval under Resolution 7 for the initial \$200,000 fee. The Company will issue the Shares the subject of the initial Powerline Commitment Fee after approval has been obtained.

The issue price of Shares to be issued in satisfaction of the initial Powerline Commitment Fee is (at the election of Powerline) either:

- (a) 81% of the average of three daily VWAPs per Share (as selected by Powerline in its sole discretion) during the 20 consecutive trading days immediately prior to the date of payment of the Powerline Commitment Fee; or
- (b) the average of two daily VWAPs per Share for the 2 consecutive trading days immediately prior to 26 March 2013 (being 1.53 cents).

## 1.4 Rights Issue

The Company lodged a prospectus with ASIC on 29 May 2013, which was subsequently replaced by a prospectus which was lodged with ASIC and ASX on 13 May 2013 (**Prospectus**) for a non-renounceable, pro-rata entitlement issue on the basis of two (2) new Shares for every one (1) Share held at the Record Date at an issue price of 0.5 cents per Share to raise a total of up to approximately A\$16.25 million, with one (1) free attaching quoted Option for every two (2) Shares subscribed for exercisable at 1 cent per Share on or before 31 July 2015 (**Rights Issue**).

The funds raised from the Rights Issue are intended to be used to:

- (a) pay down outstanding debt (including part or all (depending on the amount raised) of the Bergen Global Convertible Securities, the YA Global Convertible Security, the Celtic Capital Convertible Notes and the Celtic Capital Promissory Convertible Notes) and consolidate the Company's funding arrangements;
- (b) fund key operational improvements at the Texas Silver Operations, including:
  - (i) upgrade of the of crushing circuit to allow greater throughput;
  - (ii) construction of a new power line to access cheaper grid power; and
  - (iii) purchase of key mining equipment; and
- (c) to strengthen the Company's overall working capital position.

Further details of the proposed use of funds from the Rights Issue are set out in the Prospectus.

The ASX has granted the Company with waivers to undertake the Rights Issue, conditional on the Company' obtaining shareholder approval for the Rights Issue.

## 1.5 Shareholder approvals for Capital Raisings

This Notice of Meeting seeks the following Shareholder approvals to complete the above capital raisings.

Under Resolution 1, to:

- (a) ratify the issue to Bergen Global of the First Bergen Global Convertible Security; and
- (b) ratify the issue to Bergen Global of a total of 16,279,310 Shares comprising:
  - (i) 3,879,310 Shares (at a deemed issue price of 2.9 cents each) issued as part of the capital raising fee for the First Bergen Global Convertible Security; and

- (ii) 12,400,000 Shares (for nil cash consideration) issued as collateral for further convertible securities that were to be issued under the Bergen Global Convertible Securities Agreement (this agreement has now been terminated); and
- (c) ratify the issue to Bergen Global of 13,000,000 unlisted Options (exercisable at 4.96 cents each, expiring 26 February 2016) granted as part of the capital raising fee under the Bergen Global Convertible Securities Agreement.

Under Resolution 2, to:

- (a) approve the issue to Bergen Global of the Second Bergen Global Convertible Security and Third Bergen Global Convertible Security; and
- (b) approve the grant to Bergen Global of 88,000,000 unlisted Options (exercisable at the lower of the VWAP for Shares on 26 March 2013 (being 1.55 cents) and the date before the Options are issued, expiring 60 months after their date of issue) in consideration for forbearance by Bergen Global in relation to the Company's alleged defaults under, and the termination of, the Bergen Global Convertible Securities Agreement.

Under Resolution 3, to:

- (a) ratify the issue to YA Global of the YA Global Convertible Security; and
- (b) ratify the issue to YA Global of a total of 16,279,310 Shares comprising:
  - (i) 3,879,310 Shares (at a deemed issue price of 2.9 cents each) issued as part of the capital raising fee for the YA Global Convertible Security; and
  - (ii) 12,400,000 Shares (for nil cash consideration) issued as collateral for further convertible securities that were to be issued under the YA Global Convertible Securities Agreement (this agreement has now been terminated); and
- (c) ratify the issue to YA Global of 13,000,000 unlisted Options (exercisable at 4.96 cents each, expiring 26 February 2016) granted as part of the capital raising fee under the YA Global Convertible Securities Agreement.

Under Resolution 4, to ratify the issue to sophisticated investors introduced by Empire Equity Limited of 17,647,059 Shares, at an issue price 1.275 cents per Share to raise \$250,000, and 8,823,529 free attaching quoted Options exercisable at 6 cents each, expiring 14 May 2015.

Under Resolution 5, to ratify the issue to Celtic Capital of a total of 48,591,370 Shares comprising:

- (a) 9,000,000 Shares issued for nil cash consideration as a capital raising fee for the Celtic Capital Convertible Notes; and
- (b) 39,591,370 Shares, at a deemed issue price of 0.51 cents each, in part satisfaction of a 3% capital raising fee in relation to the execution of the Equity Placement Facility.

Under Resolution 6, to:

- (a) approve the issue to Celtic Capital of the Celtic Convertible Notes;
- (b) approve the issue to Celtic Capital (or its nominee) of Shares on drawdown of the Equity Placement Facility as calculated in accordance with its terms;
- (c) approve the issue to Celtic Capital of a total of 301,879,218 Shares comprising:
  - (i) 141,176,471 Shares (at a deemed issue price of 0.425 cents each) as collateral under the Celtic Capital Convertible Note Agreement;
  - (ii) 30,996,865 Shares in final satisfaction of the 3% capital raising fee for the Equity Placement Facility (at a deemed issue price of 0.425 cents each);
  - (iii) 2,352,941 Shares (at a deemed issue price of 0.425 cents each) in satisfaction of \$10,000 in legal fees incurred by Celtic Capital in relation to the Celtic Capital Convertible Note Agreement;
  - (iv) 125,000,000 Shares (at a deemed issue price of 0.4 cents each) as collateral under the Celtic Capital Promissory Note Agreement;
- (d) approve the grant to Celtic Capital of 36,000,000 listed Options (exercisable at 1 cent each, expiring 31 July 2015) as part of the capital raising fee for the Celtic Capital Convertible Notes (**Celtic Capital Options**); and
- (e) approve the issue of Shares to Celtic Capital (or its nominee) of Shares in satisfaction of Interest Repayments to be made in accordance with the Celtic Capital Promissory Note Agreement as calculated in accordance with its terms.

Under Resolution 7, to approve the issue of \$200,000 worth of Shares to Powerline in satisfaction of the initial Powerline Commitment Fee payable to Powerline under the Off-take Agreement, in accordance with its terms.

Under Resolution 8, to approve the Company undertaking, a non-renounceable, pro-rata entitlement issue on the basis of two (2) new Shares for every one (1) Share held at the Record Date at an issue price of 0.5 cents per Share to raise a total of up to A\$16.25 million, with one (1) free attaching quoted Option for every two (2) Shares subscribed for exercisable at 1 cent per Share on or before 31 July 2015 (**Rights Issue**).

Resolution 9 seeks Shareholder approval to issue to Patersons Securities (or nominees) that number of Options equal to 6% of the total number of Shares issued under the Rights Issue in consideration for acting as Lead Broker to the Rights Issue.

The table below sets out the total possible dilution effect that the issue of the securities, of which Shareholder approval is sought under this Notice of Meeting, may have on Shareholders current Share holdings (this assumes a current market price for Shares of \$0.005, being the price that Shares are being offered under the Rights Issue).

Event	Maximum number of Shares	Current Shares on issue	Total Shares on issue post Event	Dilution effect
Shares to be issued under the Rights Issue	3,250,185,432	1,625,092,716	4,875,278,148	200%
Conversion of YA Global Convertible Security <sup>1</sup>	247,222,222	1,625,092,716	1,872,314,938	15.21%
Conversion of First Bergen Global Convertible Security <sup>2</sup>	236,111,111	1,625,092,716	1,861,203,827	14.53%
Conversion of Second Bergen Global Convertible Security <sup>3</sup>	61,728,395	1,625,092,716	1,686,821,111	3.80%
Conversion of Third Bergen Global Convertible Security <sup>4</sup>	185,185,185	1,625,092,716	1,810,277,901	11.40%
Conversion of Celtic Capital Convertible Notes <sup>5</sup>	423,529,411	1,625,092,716	2,048,622,127	26.06%
Conversion of Equity Placement Facility <sup>6</sup>	2,352,941,176	1,625,092,716	3,978,033,892	144.79%
Conversion of the Celtic Capital Convertible Promissory Notes <sup>7</sup>	350,000,000	1,625,092,716	1,975,092,716	21.54%
Issue of collateral Shares under the Celtic Capital Convertible Note Agreement	141,176,471	1,625,092,716	1,766,269,187	8.69%
Issue of remaining Shares to Celtic Capital in final satisfaction of capital raising fee	30,996,865	1,625,092,716	1,656,089,581	1.91%
Issue of Shares to Celtic Capital in satisfaction of legal fees <sup>8</sup>	4,705,882	1,625,092,716	1,629,798,598	0.29%
Issue of collateral Shares under the Celtic Capital Promissory Note Agreement	125,000,000	1,625,092,716	1,750,092,716	7.69%
Shares issued in satisfaction of 3 months of Interest Payments under the Celtic Capital Convertible Promissory Notes <sup>9</sup>	10,500,000	1,625,092,716	1,635,592,716	0.65%
Shares issued in satisfaction of the Powerline Commitment Fee <sup>10</sup>	49,382,716	1,625,092,716	1,674,475,432	3.04%
<b>Total</b>	<b>7,468,664,866</b>	<b>1,625,092,716</b>	<b>9,093,757,582</b>	<b>459.58%</b>

Notes

1. Assuming, the YA Global Convertible Security is convertible at a conversion price of 0.45 cents per Share, being 90% of the Share price. Refer to section 4.3 of this Explanatory Statement for further disclosure regarding the potential dilution effect.
2. Assuming, the First Bergen Global Convertible Security is convertible at a conversion price of 0.45 cents per Share, being 90% of the Share price. Refer to section 3.3 of this Explanatory Statement for further disclosure regarding the potential dilution effect.
3. Assuming, the Second Bergen Global Convertible Security is convertible at a conversion price of 0.405 cents per Share, being 81% of the Share price. Refer to section 3.3 of this Explanatory Statement for further disclosure regarding the potential dilution effect.

4. Assuming, the Third Bergen Global Convertible Security is convertible at a conversion price of 0.405 cents per Share, being 81% of the Share price. Refer to section 3.3 of this Explanatory Statement for further disclosure regarding the potential dilution effect.
5. Assuming, the Celtic Capital Convertible Notes are convertible at a conversion price of 0.425 cents per Share, being 85% of the Share price. Refer to section 7.3 of this Explanatory Statement for further disclosure regarding the potential dilution effect.
6. Assuming, the Equity Placement facility is convertible at a conversion price of 0.425 cents per Share, being 85% of the Share price. Refer to section 7.3 of this Explanatory Statement for further disclosure regarding the potential dilution effect.
7. Assuming, the Celtic Capital Convertible Notes are convertible at a conversion price of 0.4 cents per Share, being 80% of the Share price. Refer to section 7.3 of this Explanatory Statement for further disclosure regarding the potential dilution effect.
8. This refers to the satisfaction of \$20,000 in legal fees incurred by Celtic Capital in relation to the Celtic Capital Convertible Note Agreement and the Equity Placement Facility.
9. This assumes a conversion price of 0.4 cents per Share, being 80% of the Share price, and assumes a face value of \$1,400,000 in respect of the Celtic Capital Convertible Promissory Notes.
10. Assuming, the Powerline Commitment Fee is convertible at a conversion price of 0.405 cents per Share, being 81% of the Share price. Refer to section 8.2 of this Explanatory Statement for further detail regarding the conversion formula.

If Shareholders do not approve the above Resolutions contained in this Notice of Meeting, the Company will not be able to proceed with the Rights Issue as intended, or issue Securities to Bergen Global, YA Global, Celtic Capital and Powerline, which is likely to result in the Company defaulting under its agreements with those parties and could lead to the Company becoming insolvent.

This Notice of Meeting also seeks Shareholder approval for:

- (a) Director re-elections (see Resolutions 10-12);
- (b) re-adoption of an employee performance rights plan and approval of a non-executive Director performance rights plan (see Resolutions 13 and 15);
- (c) the issue of performance rights to the Directors, subject to satisfaction of performance hurdles, as part of their remuneration (see Resolutions 14, 16 and 17).

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## **2. RESOLUTION 1 – RATIFICATION OF ISSUES TO BERGEN GLOBAL**

### **2.1 General**

Resolution 1 seeks Shareholder ratification under ASX Listing Rule 7.4 for the issue to Bergen Global of:

- (a) the First Bergen Global Convertible Security;
- (b) a total of 16,279,310 Shares as detailed in Section 1.5 of this Explanatory Statement; and
- (c) 13,000,000 unlisted Options as detailed in Section 1.5 of this Explanatory Statement,

(together the **Ratification**).

The Company issued the First Bergen Global Convertible Security and the above Shares and unlisted Options without prior Shareholder approval under its 15% annual placement capacity.

As a result, the First Bergen Global Convertible Security can be converted into Shares, in accordance with its terms, which are summarised in Schedule 1 of this Notice, without using the Company's placement capacity, in reliance on the exception in ASX Listing Rule 7.2(4). On 22 March 2013 the Company issued 17,800,856 Shares to Bergen Global upon conversion of \$250,000 under the First Bergen Global Convertible Security which relied upon this exception. The current face value of the First Bergen Global Convertible Security is \$1,062,500.

To assist Shareholders, an estimate of the maximum number of Shares that may be issued to Bergen Global (or its nominee) on conversion of the First Bergen Global Convertible Securities is set out in Section 3.3 of this Explanatory Memorandum.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rule 7.1.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

## **2.2 Technical information required by ASX Listing Rule 7.4**

In accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Ratification:

- (a) the Company has issued Bergen Global with:
  - (i) the First Bergen Global Convertible Security (issued for cash subscription of \$1,250,000);
  - (ii) a total of 16,279,310 Shares comprising 3,879,310 Shares issued at a deemed issue price of 2.9 cents per Share and 12,400,000 Shares for nil consideration as collateral under the Bergen Global Convertible Securities Agreement; and
  - (iii) 13,000,000 unlisted Options, for nil cash consideration, in accordance with the Bergen Global Convertible Securities Agreement;
- (b) the terms of the First Bergen Global Convertible Security are set out in Schedule 1 of this Notice;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;

- (d) the Options are exercisable at 4.96 cents each, expire on 26 February 2016 and are otherwise on the terms and conditions set out in Schedule 2, Part A of this Notice of Meeting;
- (e) Bergen Global is not a related party of the Company; and
- (f) the funds raised from these issues were used to reduce the Company's debts and provide additional working capital to support the continued development of the Company's Texas Silver Mine Operations in south-east Queensland.

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### 3. RESOLUTION 2 – APPROVAL FOR ISSUE OF SECURITIES TO BERGEN GLOBAL

#### 3.1 General

Resolution 2 seeks Shareholder approval, for the purpose of ASX Listing Rule 7.1 and for all other purposes, for:

- (a) the issue to Bergen Global of the Second Bergen Global Convertible Security and Third Bergen Global Convertible Security; and
- (b) for the issue of 88,000,000 unlisted Options (exercisable at the lower of the VWAP for Shares on 26 March 2013 (being 1.55 cents) and the date before the Options are issued, expiring 60 months after their date of issue) in accordance with the terms of the \$750,000 Bergen Security.

The Company has issued Bergen Global with the \$250,000 Bergen Security and the \$750,000 Bergen Security, being debt securities, which are convertible into Shares subject to Shareholder approval.

The Company is seeking this Shareholder approval in Resolution 2. If Shareholders approve Resolution 2:

- (a) the \$250,000 Bergen Security will become, and be deemed to be issued as, a convertible security on the same terms as the \$250,000 Bergen Security (**Second Bergen Global Convertible Security**); and
- (b) the \$750,000 Bergen Security will become, and be deemed to be issued as, a convertible security on the same terms as the 750,000 Bergen Security (**Third Bergen Global Convertible Security**).

The Second Bergen Global Convertible Security and the Third Bergen Global Convertible Security will be convertible in whole or in part, into Shares, at the election of Bergen Global at any time prior to the maturity date (being 26 March 2015) at a conversion price equal to, at Bergen's election, either:

- (a) 81% of the average of three daily VWAPs per Share during the twenty consecutive actual trading days immediately prior to the date a conversion notice is given to the Company; or
- (b) the average of the two daily VWAPs per Share for the 2 trading days prior to 26 March 2013 (being 1.53 cents).

An estimate of the maximum number of Shares that may be issued to Bergen Global (or its nominee) on conversion of the Second and Third Bergen Global Convertible Securities is set out in Section 3.3 of this Explanatory Memorandum.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 2 will be to allow the Company to issue Bergen Global the Second and Third Bergen Global Convertible Securities as convertible equity securities, and the 88,000,000 Options, during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

In addition, if Shareholders approve Resolution 2, the Second and Third Bergen Global Convertible Securities will be convertible into Shares, in accordance with their terms, without using the Company's placement capacity, in reliance on the exception in ASX Listing Rule 7.2(4).

### **3.2 Technical information required by ASX Listing Rule 7.1**

In accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of the Second and Third Bergen Global Convertible Securities and the 88,000,000 unlisted Options:

- (a) a maximum of two convertible securities will be issued, being the Second Bergen Global Convertible Security and the Third Bergen Global Convertible Security;
- (b) the Second Bergen Global Convertible Security and the Third Bergen Global Convertible Security are convertible into that number of Shares calculated by the following formula:

$$A = B / P$$

Where:

- A is the number of Shares issued on conversion;
  - B means the face value of the Second Bergen Global Convertible Security or the Third Bergen Global Convertible Security being converted, as applicable; and
  - P means either (at the election of Bergen Global) 81% of the average of three daily VWAPs per Share (as selected by Bergen Global) during the 20 consecutive trading days immediately prior to the date that a conversion notice is given to the Company; or the average of two daily VWAPs per Share for the 2 consecutive trading days immediately prior to 26 March 2013 (being 1.53 cents);
- (c) the maximum number of Shares to be issued to Bergen Global (or its nominee) on conversion of the Second and Third Bergen Global Convertible Securities is calculated as set out in Section 3.3 of this Explanatory Memorandum;
  - (d) the maximum number of Options to be granted to Bergen Global (or its nominee) is 88,000,000 Options;

- (e) the Second and Third Bergen Global Convertible Securities and 88,000,000 Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
- (f) the terms of the Second and Third Bergen Global Convertible Securities are set out in Schedule 1 of this Notice;
- (g) the Options will be granted on the terms and conditions set out in Schedule 1, Part B of this Notice of Meeting;
- (h) the Second and Third Bergen Global Convertible Securities and Options will be issued to Bergen Global. Bergen Global is not a related party of the Company; and
- (i) no funds will be raised from these issues as the Second and Third Bergen Global Convertible Securities are being issued on conversion of the \$250,000 Bergen Security and the \$750,000 Bergen Security, and the Options are being issued as consideration for forbearance by Bergen Global in relation to the Company's alleged defaults under, and the termination of, the Bergen Global Convertible Securities Agreement. The \$250,000 raised from the \$250,000 Bergen Security was used for working capital to pay suppliers. No funds were raised from the issue of the \$750,000 Bergen Security as it was issued in consideration for forbearance by Bergen Global in relation to the Company's alleged defaults under, and the termination of, the Bergen Global Convertible Securities Agreement.

### 3.3 Maximum Number of Shares and Dilution on conversion of Bergen Global Convertible Securities

The maximum number of Shares that may be issued on conversion of the First, Second and Third Bergen Global Convertible Securities (together the **Bergen Global Convertible Securities**) depends on the VWAP price of Shares prior to the conversion date and so cannot be determined at the date of this Notice of Meeting.

The last closing price of the Company's Shares before its Shares were suspended from trading on the ASX was 1.2 cents per Share.

Set out below is a worked example of the potential maximum number of Shares that may be issued on conversion of the Bergen Global Convertible Securities (assuming face values of \$1,062,500, \$250,000 and \$750,000 respectively) based on an assumed Share price of 0.3 cents, 0.5 cents and 1.2 cents per Share (assuming no other Shares are issued or Options exercised).

Share Price	Maximum number of Shares	Current Shares on issue	Total Shares on issue	Dilution of existing Shareholders
0.3 cents	805,041,152 <sup>1</sup>	1,625,092,716	2,430,133,868	49.54%
0.5 cents	483,024,691 <sup>2</sup>	1,625,092,716	2,108,117,407	29.72%
1.2 cents	201,260,288 <sup>3</sup>	1,625,092,716	1,826,353,004	12.38%

#### Notes

1. Comprising 393,518,518 Shares issued under the First Bergen Global Convertible Security (at a conversion price of 0.27 cents per Share, being 90% of the Share price; and 102,880,658 Shares and 308,641,975 Shares issued under the Second Bergen

- Global Convertible Security and the Third Bergen Global Convertible Security respectively (at a conversion price of 0.243 cents per Share, being 81% of the Share price.
2. Comprising 236,111,111 Shares issued under the First Bergen Global Convertible Security (at a conversion price of 0.45 cents per Share, being 90% of the Share price; and 61,728,395 Shares and 185,185,185 Shares issued under the Second Bergen Global Convertible Security and the Third Bergen Global Convertible Security respectively (at a conversion price of 0.405 cents per Share, being 81% of the Share price.
  3. Comprising 98,379,629 Shares issued under the First Bergen Global Convertible Security (at a conversion price of 1.08 cents per Share, being 90% of the Share price; and 25,720,164 Shares and 77,160,493 Shares issued under the Second Bergen Global Convertible Security and the Third Bergen Global Convertible Security respectively (at a conversion price of 0.972 cents per Share, being 81% of the Share price.

The above workings are an example only and the actual conversion price may differ. This will result in the maximum number of Shares to be issued and the dilution percentage to also differ.

As at the date of this Notice of Meeting, Bergen Global holds 34,080,166 Shares representing a shareholding of 2.10%.

Under the terms of the Bergen Global Convertible Securities, if the conversion would result in Bergen Global holding more than 19.99% of the Company's issued Shares, the conversion cannot take place and the Company must instead redeem the face value of the Convertible Security that would otherwise be converted.

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#### **4. RESOLUTION 3 – RATIFICATION OF ISSUES TO YA GLOBAL**

##### **4.1 General**

As noted in Section 1 above, the Company has issued YA Global with:

- (a) the YA Global Convertible Security;
- (b) a total of 16,279,310 Shares comprising:
  - (i) 3,879,310 Shares (at a deemed issue price of 2.9 cents each) as part of the capital raising fee for the YA Global Convertible Security; and
  - (ii) 12,400,000 Shares (for nil cash consideration) as collateral for further convertible securities that were to be issued under the YA Global Convertible Securities Agreement (this agreement has now been terminated); and
- (c) 13,000,000 unlisted Options (exercisable at 4.96 cents each, expiring 26 February 2016) as part of the capital raising fee for the YA Global Convertible Securities Agreement.

The Company issued the YA Global Convertible Security and the above Shares and unlisted Options without prior Shareholder approval out of its 15% annual placement capacity.

As a result, the YA Global Convertible Security can be converted into Shares, in accordance with its terms, which are summarised in Schedule 1 of this Notice, without using the Company's placement capacity, in reliance on the exception in ASX Listing Rule 7.2(4). On 22 March 2013 the Company issued 14,240,685

Shares to YA Global upon conversion of \$200,000 under the YA Global Convertible Security which relied upon this exception. The current face value of the YA Global Convertible Security is \$1,112,500.

To assist Shareholders, an estimate of the maximum number of Shares that may be issued to YA Global (or its nominee) on conversion of the YA Global Convertible Security is set out in Section 4.3 of this Explanatory Memorandum.

Resolution 3 seeks Shareholder ratification under ASX Listing Rule 7.4 for the issue of the YA Global Convertible Security and the above Shares and unlisted Options (**Ratification**).

A summary of ASX Listing Rules 7.1 and 7.4 is set out in section 2.1 above.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

#### **4.2 Technical information required by ASX Listing Rule 7.4**

In accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Ratification:

- (a) the Company has issued YA Global with:
  - (i) one convertible security, being the YA Global Convertible Security, for a cash subscription of \$1,250,000;
  - (ii) a total of 16,279,310 Shares, comprising 3,879,310 Shares issued at a deemed issue price of 2.9 cents per Share and 12,400,000 Shares issued for nil consideration as collateral under the YA Global Convertible Security Agreement; and
  - (iii) 13,000,000 unlisted Options, for nil cash consideration;
- (b) the terms of the YA Global Convertible Security are set out in Schedule 1 of this Notice;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Options are exercisable at 4.96 cents each, expire on 26 February 2016 and are otherwise on the terms and conditions set out in Schedule 2, Part A;
- (e) YA Global is not a related party of the Company; and
- (f) the funds raised from these issues were used to reduce the Company's debts and provide additional working capital to support the continued development of the Company's Texas Silver Mine Operations in south-east Queensland.

### 4.3 Maximum Number of Shares and Dilution on conversion of YA Global Convertible Security

The maximum number of Shares that may be issued on conversion of the YA Global Convertible Security depends on the VWAP price of Shares prior to the conversion date and so cannot be determined at the date of this Notice of Meeting.

The last closing price of the Company's Shares before its Shares were suspended from trading on the ASX was 1.2 cents per Share.

Set out below is a worked example of the potential maximum number of Shares that may be issued on conversion of the YA Global Convertible Security (assuming face value of \$1,112,500) based on an assumed Share price of 0.3 cents, 0.5 cents and 1.2 cents per Share (assuming no other Shares are issued or Options exercised).

Share Price	Maximum number of Shares	Current Shares on issue	Total Shares on issue	Dilution of existing Shareholders
0.3 cents	412,037,037	1,625,092,716	2,037,129,753	25.35%
0.5 cents	247,222,222	1,625,092,716	1,861,203,827	14.53%
1.2 cents	103,009,259	1,625,092,716	1,723,472,346	6.05%

Notes

1. At a conversion price of 0.27 cents per Share, being 90% of the Share price.
2. At a conversion price of 0.45 cents per Share, being 90% of the Share price.
3. At a conversion price of 1.08 cents per Share, being 90% of the Share price.

The above workings are an example only and the actual conversion price may differ. This will result in the maximum number of Shares to be issued and the dilution percentage to also differ.

As at the date of this Notice of Meeting, YA Global holds 30,519,995 Shares representing a shareholding of 1.88%.

Under the terms of the YA Global Convertible Security, if the conversion would result in YA Global holding more than 19.99% of the Company's issued Shares, the conversion cannot take place and the Company must instead redeem the face value of the YA Global Convertible Security that would otherwise be converted.

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## 5. RESOLUTION 4 – RATIFICATION OF ISSUE OF PLACEMENT SHARES AND OPTIONS

### 5.1 General

On 27 March 2013, the Company announced the completion of a capital raising of A\$225,000 through the issue of 17,647,059 Shares at an issue price of 1.275 cents per Share, together with one (1) free attaching quoted Option for every two (2) Shares subscribed for and issued for a total of 8,823,529 quoted AYN Options (**Placement**).

The Company issued the Shares and Options the subject of the Placement without prior Shareholder approval out of its 15% annual placement capacity.

Resolution 4 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Shares and Options (**Ratification**).

A summary of ASX Listing Rules 7.1 and 7.4 is set out in section 2.1 above.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

## **5.2 Technical information required by ASX Listing Rule 7.4**

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Ratification:

- (a) 17,647,059 Shares and 8,823,529 quoted Options were issued and granted;
- (b) the issue price per Share was 1.275 cents per Share. The Options were issued free attaching with the Shares on a 1:2 basis;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Options were issued on the terms and conditions set out in Schedule 2, Part C, being AYN0 Options;
- (e) the Shares and Options were issued to Chimaera Capital Limited, a client of Empire Equity Limited, who is not a related party of the Company; and
- (f) the funds raised from this issue were used to reduce the Company's creditors.

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## **6. RESOLUTION 5 – RATIFICATION OF ISSUE OF SHARES TO CELTIC CAPITAL**

### **6.1 General**

As noted in Section 1 of this Explanatory Statement, the Company has issued Celtic Capital a total of 48,591,370 Shares comprising:

- (a) 9,000,000 Shares for nil cash consideration as part of a capital raising fee in relation to the Celtic Capital Convertible Notes; and
- (b) 39,591,370 Shares (at a deemed issue price of 0.425 cents each) as part satisfaction of a 3% capital raising fee in relation to the Equity Placement Facility between the Company and Celtic Capital.

The Company issued the above Shares without prior Shareholder approval out of its 15% annual placement capacity.

Resolution 5 seeks Shareholder ratification under ASX Listing Rule 7.4 of the issue of the Celtic above Shares (**Ratification**).

A summary of ASX Listing Rule 7.1 and 7.4 is set out in section 2.1 above.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

## **6.2 Technical information required by ASX Listing Rule 7.4**

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Ratification:

- (a) the Company has issued Celtic Capital with 48,591,370 Shares comprising:
  - (i) 9,000,000 Shares issued for nil cash consideration as part of a capital raising fee in relation to the Celtic Capital Convertible Notes; and
  - (ii) 39,591,370 Shares at a deemed issue price of 0.425 cents each as part satisfaction of a 3% capital raising fee in relation to the Equity Placement Facility;
- (b) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (c) Celtic Capital is not a related party of the Company; and
- (d) no funds were raised from the issue of these Shares.

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## **7. RESOLUTION 6 – APPROVAL FOR ISSUES OF SECURITIES TO CELTIC CAPITAL**

### **7.1 General**

Resolution 6 seeks Shareholder approval, for the purposes of ASX Listing Rule 7.1, and for all other purposes, for:

- (a) the issue to Celtic Capital of the Celtic Capital Convertible Notes;
- (b) the issue to Celtic Capital (or its nominee) of Shares on drawdown of the Equity Placement Facility as calculated in accordance with its terms;
- (c) the issue to Celtic Capital of a total of 301,879,218 Shares comprising:
  - (i) 141,176,471 Shares (at a deemed issue price of 0.425 cents each) as collateral under the Celtic Capital Convertible Note Agreement;
  - (ii) 30,996,865 Shares in final satisfaction of the 3% capital raising fee for the Equity Placement Facility (at a deemed issue price of 0.425 cents each);
  - (iii) 2,352,941 Shares (at a deemed issue price of 0.425 cents each) in satisfaction of \$10,000 in legal fees incurred by Celtic Capital in relation to the Celtic Capital Convertible Note Agreement;
  - (iv) 2,352,941 Shares (at a deemed issue price of 0.425 cents each) in satisfaction of \$10,000 in legal fees incurred by Celtic Capital in relation to the Equity Placement Facility; and

- (v) 125,000,000 Shares (at a deemed issue price of 0.4 cents each) as collateral under the Celtic Capital Promissory Note Agreement;
- (d) the issue to Celtic Capital of 36,000,000 listed Options (exercisable at 1 cent each, expiring 31 July 2015) as part of the capital raising fee for the Celtic Capital Convertible Notes (**Celtic Capital Options**); and
- (e) the issue of Shares to Celtic Capital (or its nominee) of Shares in satisfaction of Interest Repayments to be made in accordance with the Celtic Capital Promissory Note Agreement as calculated in accordance with its terms.

The Company has issued Celtic Capital with the Celtic Capital Securities and the Celtic Capital Promissory Notes, being convertible debt securities, which are convertible into Shares subject to Shareholder approval. The Company is seeking this Shareholder approval in Resolution 6.

If Shareholders approve Resolution 6, the Celtic Capital Securities will become, and be deemed to be issued as, the Celtic Capital Convertible Notes, on the same terms as the 1,800,000 Celtic Capital Securities.

If Shareholders approve Resolution 6, the Celtic Capital Promissory Notes will become, and be deemed to be issued as, the Celtic Capital Convertible Promissory Notes, on the same terms as the 1,400,000 Celtic Capital Promissory Notes.

The Celtic Capital Convertible Notes will be convertible into Shares at a conversion price equal to the lesser of \$0.01 or 85% of the VWAP over the five days (on which trading in Shares occurs) before the receipt of a conversion notice.

The face value of the Celtic Capital Convertible Promissory Notes will be convertible into Shares at either (at the sole discretion of holder) \$0.004 or 80% of the VWAP over the ten days (on which trading in Shares occurs) before the receipt of a conversion notice.

Shares issued on drawdown under the Equity Placement Facility must be issued at 85% of the VWAP of Shares over the 5 consecutive trading days immediately after the Company issues a drawdown notice.

The number of Shares to be issued in satisfaction of the Interest Repayments under the Capital Convertible Promissory Notes is calculated by dividing the monthly interest repayment by either (at the sole discretion of holder) \$0.004 or 80% of the VWAP over the ten days (on which trading in Shares occurs) before the interest payment date.

An estimate of the maximum number of Shares that may be issued to Celtic Capital (or its nominee) on conversion of the Celtic Capital Convertible Notes, on conversion of the Celtic Capital Convertible Promissory Notes, on drawdown under the Equity Placement Facility, and in satisfaction of the monthly Interest Repayments under the Capital Convertible Promissory Notes is set out in Section 7.3 of this Explanatory Memorandum.

A summary of ASX Listing Rule 7.1 is set out in section 2.1 above.

The effect of Resolution 6 will be to allow the Company to issue the Celtic Capital Convertible Notes, Celtic Capital Convertible Promissory Notes, Shares on drawdown of the Equity Placement Facility in accordance with its terms, Shares in satisfaction of 3 months of Interest Repayments payable under the Celtic Capital Convertible Promissory Notes, 301,879,218 Shares and 36,000,000 Celtic Capital Options during the period of 3 months after the Meeting (or a longer period, if allowed by the ASX), without using the Company's 15% annual placement capacity.

In addition, if Shareholders approve Resolution 6, the 1,800,000 Celtic Capital Convertible Notes and the 1,400,000 Celtic Capital Convertible Promissory Notes will be convertible into Shares, in accordance with their terms, without using the Company's placement capacity, in reliance on the exception in ASX Listing Rule 7.2(4).

## **7.2 Technical information required by ASX Listing Rule 7.1**

In accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Placement:

- (a) a maximum of 1,800,000 Celtic Capital Convertible Notes will be issued to Celtic Capital;
- (b) a maximum of 1,400,000 Celtic Capital Convertible Promissory Notes will be issued to Celtic Capital;
- (c) the Celtic Capital Convertible Notes are convertible into that number of Shares calculated by the following formula:

$$A = B / P$$

Where:

A is the number of Shares issued on conversion;

B means the face value of each of the Celtic Capital Convertible Notes being converted (each Celtic Capital Convertible Note has a face value of \$1.00); and

P means the lesser of \$0.01 or 85% of the VWAP for Shares over the five days (on which trading in Shares occurs) before the receipt of a conversion notice;

- (d) the Celtic Capital Convertible Promissory Notes are convertible into that number of Shares calculated by the following formula:

$$A = B / P$$

Where:

A is the number of Shares issued on conversion;

B means the face value of each of the Celtic Capital Promissory Convertible Notes being converted (each Celtic Capital Promissory Convertible Note has a face value of \$1.00); and

P means the lesser of \$0.004 or 80% of the VWAP for Shares over the ten days (on which trading in Shares occurs) before the receipt of a conversion notice;

(e) the number of Shares to be issued to Celtic Capital on drawdown on the Equity Placement Facility is calculated according to the following formula:

$$A = B / P$$

Where:

A is the number of Shares issued on drawdown;

B means the dollar amount drawn down on by the Company (up to a maximum of \$10,000,000); and

P means 85% of the VWAP of Shares over the 5 consecutive trading days immediately after the Company issues a drawdown notice;

(f) the number of Shares to be issued to Celtic Capital at the start of each month (until maturity of the Celtic Capital Convertible Promissory Notes) in satisfaction of the Interest Repayments to be made in accordance with the Celtic Capital Promissory Note Agreement is calculated according to the following formula:

$$S = (N \times I) / P$$

Where:

S is the number of Shares issued;

N means the face value of the Celtic Capital Promissory Convertible Notes then outstanding at the beginning of each month;

I means the interest rate of 12% per annum (being 1% at the beginning of every month); and

P means the lesser of \$0.004 or 80% of the VWAP for Shares over the ten days (on which trading in Shares occurs) before the interest payment date;

(g) the maximum number of Shares to be issued to Celtic Capital (or its nominee):

(i) as collateral under the Celtic Capital Convertible Note Agreement is 141,176,471, Shares (at a deemed issue price of 0.425 cents each);

(ii) in final satisfaction of the 3% capital raising fee for the Equity Placement Facility is 30,996,865 Shares (at a deemed issue price of 0.425 cents each);

(iii) in satisfaction of \$10,000 in legal fees incurred by Celtic Capital in relation to the Celtic Capital Convertible Notes is 2,352,941 Shares (at a deemed issue price of 0.425 cents each);

- (iv) in satisfaction of \$10,000 in legal fees incurred by Celtic Capital in relation to the Equity Placement Facility is 2,352,941 Shares (at a deemed issue price of 0.425 cents each); and
- (v) as collateral under the Celtic Capital Promissory Note Agreement is 125,000,000 Shares (at a deemed issue price of 0.4 cents each);
- (h) the maximum number of Options to be granted as part of the capital raising fee for the Celtic Capital Convertible Notes is 36,000,000 listed Options (exercisable at 1 cent each, expiring 31 July 2015) (**Celtic Capital Options**), issued for nil cash consideration;
- (i) the Celtic Capital Convertible Notes, Celtic Capital Convertible Promissory Notes, the Shares and Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (j) the terms of the Celtic Capital Convertible Notes and Celtic Capital Convertible Promissory Notes are summarised in Schedule 1 of this Explanatory Statement;
- (k) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (l) the Options will be issued on the terms and conditions set out in Schedule 2, Part D;
- (m) the Celtic Capital Convertible Notes, Celtic Capital Convertible Promissory Notes, the Shares and Options will be issued to Celtic Capital (or its nominee). Celtic Capital is not a related party of the Company; and
- (n) no funds will be raised from the issue of the above securities, other than Shares issued on drawdown of the Equity Placement Facility, which will be used to provide additional working capital to support the continued development of the Company's Texas Silver Mine Operations in south-east Queensland.

### 7.3 Maximum Number of Shares and Dilution

The maximum number of Shares that may be issued on conversion of the Celtic Capital Convertible Notes and Celtic Capital Convertible Promissory Notes, in satisfaction of the Interest Payments, or on a drawdown under the Equity Placement Facility, depends on the VWAP price of Shares prior to the conversion date or drawdown date, as applicable, and so cannot be determined at the date of this Notice of Meeting.

The last closing price of the Company's Shares before its Shares were suspended from trading on the ASX was 1.2 cents per Share.

Set out below is a worked example of the potential maximum number of Shares that may be issued on conversion of the Celtic Capital Convertible Notes (assuming a total face value of \$1,800,000) and the Celtic Capital Convertible Promissory Notes (assuming a total face value of \$1,400,000), in satisfaction of the Interest Repayments, and issued on drawdown of the Equity Placement

Facility (assuming a total drawdown of \$10,000,000) if Resolution 6 is approved based on an assumed Share price of 0.3 cents, 0.5 cents and 1.2 cents per Share (assuming no other Shares are issued or Options exercised).

Share Price	Maximum number of Shares	Current Shares on issue <sup>1</sup>	Total Shares on issue	Dilution of existing Shareholders <sup>2</sup>
0.3 cents	5,502,450,979	1,625,092,716	7,127,543,695	338.59%
0.5 cents	3,301,470,587 <sup>2</sup>	1,625,092,716	4,926,563,303	203.16%
1.2 cents	1,685,392,157 <sup>3</sup>	1,625,092,716	3,310,484,873	103.71%

#### Notes

1. Comprising 705,882,353 Shares issued under the Celtic Capital Convertible Notes and 3,921,568,627 Shares issued under the Equity Placement Facility (at a conversion price/issue price of 0.255 cents per Share, being 85% of the Share price); 583,333,333 Shares issued under the Celtic Capital Convertible Promissory Notes (at a conversion price of 0.24 cents per Share, being 80% of the Share price); and 291,666,666 Shares issued in satisfaction of the Interest Repayments assuming the Celtic Capital Convertible Promissory Notes retain a face value of \$1,400,000 until maturity (at a conversion price of 0.24 cents per Share, being 80% of the Share price).
2. Comprising 423,529,411 Shares issued under the Celtic Capital Convertible Notes and 2,352,941,176 Shares issued under the Equity Placement Facility (at a conversion price/issue price of 0.425 cents per Share, being 85% of the Share price); 350,000,000 Shares issued under the Celtic Capital Convertible Promissory Notes (at a conversion price of 0.4 cents per Share, being 80% of the Share price); and 175,000,000 Shares issued in satisfaction of the Interest Repayments assuming the Celtic Capital Convertible Promissory Notes retain a face value of \$1,400,000 until maturity (at a conversion price of 0.4 cents per Share, being 80% of the Share price).
3. Comprising 180,000,000 Shares issued under the Celtic Capital Convertible Notes (at a conversion price of 1.0 cents per Share, being the maximum conversion price) ; 980,392,157 Shares issued under the Equity Placement Facility (at an issue price of 1.02 cents per Share, being 85% of the Share price); 350,000,000 Shares issued under the Celtic Capital Convertible Promissory Notes (at a conversion price of 0.4 cents per Share, being 80% of the Right Issue Share price); and 175,000,000 Shares issued in satisfaction of the Interest Repayments assuming the Celtic Capital Convertible Promissory Notes retain a face value of \$1,400,000 until maturity (at a conversion price of 0.4 cents per Share, being 80% of the Rights Issue Share price).

The above workings are an example only and the actual conversion price may differ. This will result in the maximum number of Shares to be issued and the dilution percentage to also differ.

As at the date of this Notice of Meeting, Celtic Capital holds 48,591,370 Shares representing a shareholding of 2.99%.

Under the terms of the Celtic Capital Convertible Notes and the Celtic Capital Convertible Promissory Notes, if the conversion would result in Celtic Capital holding more than 19.99% of the Company's issued Shares, the conversion cannot take place and the Company must instead redeem the face value that would otherwise be converted.

The Company will manage any drawdown under the Equity Placement Facility to avoid Celtic Capital holding above 19.99%. The Company intends to repay the Celtic Capital Convertible Notes and Celtic Capital Convertible Promissory Notes if the minimum subscription of \$6,000,000 is raised under the Rights Issue.

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## **8. RESOLUTION 7 – APPROVAL FOR ISSUE OF SHARES TO POWERLINE**

### **8.1 General**

Resolution 7 seeks Shareholder approval, for the purposes of ASX Listing Rule 7.1, and for all other purposes, for the issue of that number of Shares necessary to satisfy the payment of the initial Powerline Commitment Fee calculated in accordance with the terms of the Off-take Agreement.

A summary of the material terms of the Off-take Agreement is included at Schedule 4.

A summary of ASX Listing Rule 7.1 is set out in section 2.1 above.

If Shareholders approve Resolution 7, the Company will issue to Powerline \$200,000 worth of Shares calculated at either (at the election of Powerline):

- (a) 81% of the average of three daily VWAPs per Share (as selected by Powerline in its sole discretion) during the 20 consecutive trading days immediately prior to the date of payment of the Powerline Commitment Fee; or
- (b) the average of two daily VWAPs per Share for the 2 consecutive trading days immediately prior to 26 March 2013 (being 1.53 cents).

The effect of Resolution 7 will be to allow the Company to issue the Shares necessary to satisfy the initial \$200,000 Powerline Commitment Fee during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

### **8.2 Technical information required by ASX Listing Rule 7.1**

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 7:

- (a) the maximum number of Shares to be issued is unknown, however the Powerline Commitment Fee will be satisfied by the issue of that number of Shares calculated by the following formula:

$$A = B / P$$

Where:

- A is the number of Shares issued on in satisfaction of the fee;
- B \$200,000; and
- P means either (at the election of Powerline) 81% of the average of three daily VWAPs per Share (as selected by Powerline in its sole discretion) during the 20 consecutive trading days immediately prior to the date of payment of the Powerline Commitment Fee, or 1.53 cents.

- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that the issue of Shares will occur on the same day;

- (c) the Shares will be issued for nil cash consideration in satisfaction of the Powerline Commitment Fee under the Off-take Agreement;
- (d) the Shares will be issued to Powerline Value Fund II LLC, who is not a related party of the Company;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) no funds will be raised from the issue of the Shares are being issued in satisfaction of the Powerline Commitment Fee.

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## **9. RESOLUTION 8 - APPROVAL OF RIGHTS ISSUE**

### **9.1 General**

Resolution 8 seeks Shareholder approval to undertake the Rights Issue. The Company is seeking this approval to satisfy a condition of the ASX Waiver granted to the Company in relation to the Rights Issue.

Listing Rule 7.11.3 provides that the ratio of securities offered by a listed entity for a pro rata issue must not be greater than one security for each security held, unless the offer is renounceable and the issue price is not more than the average market price for the securities in that class, calculated over the last 5 days on which the sales in securities were recorded before the day on which the pro rata issue was announced.

The Company has obtained the ASX Waiver to allow the Rights Issue to be non-renounceable despite the offer being at a ratio of greater than one Share for every one Share held at the Record Date. The waiver is conditional on Shareholders approving the Rights Issue (which is sought in this Resolution 8).

### **9.2 Offer Terms**

The Company proposes to conduct a non-renounceable rights issue to raise up to approximately \$16.25 million, at an offer price of \$0.005 per Share, on a two for one (2:1) basis, plus a one for two (1:2) free attaching quoted Option, exercisable at \$0.01 each and expiring 31 July 2015 (**Rights Issue** or **Offer**).

The terms of the Rights Issue are contained in a prospectus lodged with ASIC and ASX on 29 May 2013 and replaced by a replacement prospectus lodged with ASIC and ASX on 13 May 2013 (**Prospectus**). The Offer under the Prospectus is conditional on Shareholders' approving the Rights Issue under this Resolution 8. If Shareholders do not approve the Resolution, the Company will not be able to proceed with the Rights Issue as intended.

Proceeds raised under the Rights Issue will be used to:

- (a) pay down outstanding debt (including part or all (depending on the amount raised) of the Bergen Global Convertible Securities, the YA Global Convertible Security, the Celtic Capital Convertible Notes and the Celtic Capital Promissory Convertible Notes) and consolidate the Company's funding arrangements;
- (b) fund key operational improvements at the Texas Silver Operations, including:

- (i) upgrade of the of crushing circuit to allow greater throughput;
  - (ii) construction of a new power line to access cheaper grid power; and
  - (iii) purchase of key mining equipment; and
- (c) to strengthen the Company's overall working capital position.

Further details of the proposed use of funds from the Rights Issue are set out in the Prospectus issued by the Company.

AYN's Board is of the view that the Rights Issue will provide the most certain outcome for AYN in the present circumstances and is preferable because it allows existing Shareholders the opportunity to participate in the recapitalisation of the Company at the substantial discount the Company must offer to attract sufficient funding.

The Company considers that the Offer must be on a 2:1 basis to enable sufficient funds to be raised to stabilise the Company's financial position. A raising on a one for one (1:1) basis or less is considered insufficient to achieve this objective.

The Company has appointed Patersons as lead broker for the Offer. For further details in relation to the fees payable to Patersons in consideration for their services, please refer to Section 10 of the Explanatory Statement.

Eligible Shareholders who do not take their full entitlement under the Offer will not receive any value in respect of entitlements they do not take up. Shareholders who are not eligible to receive entitlements under the Offer will not receive any value in respect of entitlements they would have received had they been eligible.

### **9.3 Conditions of the Offer**

The Rights Issue is conditional upon:

- (a) Shareholders approving the Rights Issue at this General Meeting;
- (b) the Company obtaining \$2,500,000 in additional financing prior to the closing date of the Rights Issue (the Company has at the date of this Notice secured \$700,000 under the Celtic Capital Promissory Note Agreement); and
- (c) the Company entering into a \$10,000,000 off-take agreement or silver streaming agreement (details of which have been recently announced) and having at least \$2,000,000 of funding drawn down or unconditionally available under one of those agreements at the closing date of the Rights Issue. The Company has entered into the Off-take agreement under which \$2,000,000 is conditionally available. In order for the \$2,000,000 to become unconditional, the Company must satisfy the condition precedents set out in Schedule 4.

If these conditions are not met then the Rights Issue will not proceed and the Company will refund all application money received (without interest) in accordance with the Corporations Act.

For the Company's Shares to be reinstated to official quotation following the Rights Issue, the ASX will need to be satisfied that the Company's financial position is adequate to warrant continued quotation under Listing Rule 12.2.

The Company has set a minimum subscription of \$6,000,000 under the Rights Issue.

#### **9.4 Offer timetable**

The indicative timetable for the Offer is set out below.

Lodgement of Prospectus with the ASIC	29 May 2013
Lodgement of Prospectus & Appendix 3B with ASX	29 May 2013
Notice sent to Optionholders	29 May 2013
Notice sent to Eligible and Ineligible Shareholders	31 May 2013
Ex date	3 June 2013
Record Date for determining Entitlements	7 June 2013
Replacement Prospectus lodged with ASIC and ASX	13 June 2013
Prospectus despatched to Shareholders and Offer opens	14 June 2013
Notice of Meeting dispatched to Shareholders	15 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 is lifted 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 other dates without prior notice. As such the date the Securities are expected to commence trading on ASX may vary.

#### **9.5 Maximum number of Shares and Options to be issued**

The maximum number of Shares to be issued pursuant to the Offer is 3,250,185,432 and the maximum number of Options to be issued pursuant to the Offer is 1,625,092,716 Options (based on there being 1,625,092,716 Shares on issue on the date of this Notice of Meeting and assuming no other Options or Convertible Securities are exercised or Shares issued).

#### **9.6 Date by which the Company will issue the new Shares and Options under the Offer**

Subject to completion of the Offer, the Company expects to issue the new Shares and Options to applicants under the Offer on or about 2 August 2013.

#### **9.7 Issue price of the new Shares and Options**

The issue price of the new Shares under the Offer will be \$0.005 per Share.

The Options have a nil issue price as they are free attaching Options.

## 9.8 Persons to whom the new Shares and Options will be issued

New Shares and Options will be issued to:

- (a) Shareholders who take up their Entitlement in the Offer (either fully or in part);
- (b) Shareholders who apply for additional Shares (in the event of a shortfall in applications due to other Shareholders not taking up their entitlement); and
- (c) other investors identified by the Company (also in the event of a shortfall in applications due to other Shareholders not taking up their entitlement).

## 9.9 Terms of the new Shares

The Shares issued pursuant to the Offer will rank equally with the Shares with all existing Shares.

The Options will be a new class of Option exercisable at \$0.01 each and expiring 31 July 2015 and otherwise on the terms and conditions set out in Schedule 2, Part D of this Notice of Meeting (**Rights Issue Options**). The Company will apply for the Rights Issue Options to be quoted on the ASX.

## 9.10 Intended use of the funds raised

The funds raised from the Offer are planned to be used in 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 Promissory Notes <sup>1</sup>	3.0	3.0	3.0
Redeem outstanding Convertible Securities <sup>2</sup>	-	-	3.20
Plant and Equipment upgrades <sup>3</sup>	0.50	3.00	3.00
Creditor Payments <sup>4</sup>	-	0.22	2.89
Costs of the Offer	0.53	0.78	1.16
Working Capital	1.97	3.00	3.00
<b>TOTAL</b>	<b>6.00</b>	<b>10.00</b>	<b>16.25</b>

### Notes:

1. This refers to the repayment/redemption of a \$1,200,000 debt security issued to Bergen Global in May 2013 and the Celtic Capital Securities with total face values of \$1,800,000. The Company intends repaying/redeeming the \$1,400,000 Celtic Convertible Promissory Notes from its cash reserves rather than from proceeds of the Offer.
2. This refers to redemption of the remaining outstanding Convertible Securities (being the First Bergen Convertible Security, Second Bergen Convertible Security, Third Bergen Convertible Security, and YA Global Convertible Securities). The outstanding Convertible Securities will be redeemed if the maximum subscription (\$16.25 million) is raised under the Offer.

3. The Company intends to spend a minimum of \$500,000 towards increasing the crushing circuit capacity at the Texas Silver Project, with any additional funds for plant and equipment upgrades being applied towards cost saving initiatives.
4. These funds will be used to reduce existing royalty and trade creditor liabilities and improve the Company's payment terms.

The above table is a statement of current intentions as of the date of this Notice of Meeting. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

On completion of the Rights Issue, the Board believes the Company will have sufficient working capital to meet its objectives and expenditure obligations.

However, if only the minimum subscription is raised (\$6,000,000) under the Rights Issue then the Company will be reliant upon additional funding. The Rights Issue is therefore conditional on:

- (a) the Company obtaining \$2,500,000 in additional financing prior to the closing date of the Rights Issue (of which \$700,000 has been secured at the date of this Notice of Meeting); and
- (b) the Company entering into a \$10,000,000 off-take agreement or silver streaming agreement (details of which have been recently announced) and having at least \$2,000,000 of funding drawn down or unconditionally available under one of those agreements at the closing date of the Rights Issue (\$2,000,000 under the Off-take is not yet unconditional available as it is subject to the conditions set out in Schedule 4).

#### **9.11 Directors' recommendation and intention**

Having regard to all the considerations discussed in this document, your Directors consider that, in the absence of superior proposal, the expected advantages of the Rights Issue outweigh its potential disadvantages and risks.

After considering all of these factors, in the absence of a superior proposal:

- (a) your Directors recommend that Shareholders **VOTE IN FAVOUR** of Resolution 8 to approve the Rights Issue; and
- (b) the Directors entitled to vote intend to **VOTE IN FAVOUR** of Resolution 8 with respect to all the Shares they personally hold.

Shareholders should be advised that if Resolution 8 is not passed by the required majority and the Rights Issue does not proceed, AYN is likely to be unable to meet its payment obligations to its creditors. The failure to implement the Rights Issue and pay creditors may have significant implications for AYN, empowering creditors to take enforcement action, including appointing an administrator and the Company may become insolvent. The implementation of the Rights Issue significantly reduces this risk for AYN.

## **9.12 Possible advantages of the Rights Issue and reasons to vote in favour of the Rights Issue**

### **9.12.1 Necessity to raise equity otherwise AYN is at risk of insolvency**

The Board considers it necessary that AYN raise additional equity to stabilise AYN's financial position and pay its existing creditors and to meet the Company's short-term working capital requirements. Shareholders should note that, in the absence of implementing the Rights Issue, AYN's ability to remain a going concern is likely to be dependent on its ability to pay its creditors and meet short-term working capital requirements.

The Board is of the view that the Rights Issue will provide the most certain outcome for Shareholders in the circumstances.

### **9.12.2 Reduce AYN current debt and provide working capital**

The Rights Issue, when implemented, will result in the raising of equity totalling up to approximately \$16.25 million (before costs) which will fund a reduction in the amount owed to creditors and, depending on the amounts raised, provide AYN with funds required for the ongoing care and maintenance of the Company's ongoing production and further development of AYN's Twin Hills silver mine and general working capital. See paragraph 9.10 for further details.

Shareholders should be advised that if Resolution 8 is not passed by the required majority and the Rights Issue does not proceed, it is possible that AYN will be unable to meet its payment obligations to its creditors. The failure to implement the Rights Issue and pay creditors is likely to have significant implications for AYN, empowering creditors to take enforcement action, including appointing an administrator, and the Company may become insolvent. The implementation of the Rights Issue significantly reduces this risk for AYN.

### **9.12.3 Opportunity to make a further investment in Shares and share in AYN's future**

The proposed Rights Issue provides Shareholders an opportunity to acquire further Shares, at an issue price of \$0.005 per Share, along with free attaching Options. The Rights Issue is conditional upon Shareholders approving Resolution 8.

The Board believes that the capital injection from the Rights Issue will result in AYN being in a stronger position to meet its obligations to creditors and will stabilise the Company's financial position. The Company will also have sufficient working capital going forward to maintain the Company's ongoing production of the Company's Twin Hills silver mine.

By taking up their Entitlements under the Rights Issue, Shareholders will be able to maintain or increase the extent of their participation in any upside in AYN's performance in the future and will avoid or reduce the extent of dilution that may occur to their Shareholding following implementation of the Rights Issue.

However, AYN and the Directors cannot make any assurance as to the price at which Shares will trade after the Rights Issue is completed and consider that the last recorded trading price on ASX (at \$0.012 per Share) is not an accurate reflection of the likely trading price of Shares after implementation of the Rights Issue.

#### **9.12.4 Re-quotations of Shares on ASX**

It is expected that if the Rights Issue is implemented, trading in the Shares on ASX is anticipated to recommence on 7 August 2013. If the Rights Issue is not implemented, the Directors are unsure as to when trading in the Shares on ASX will recommence. In order for trading of Shares on ASX to recommence, ASX will need to be satisfied that the Company's financial position is adequate to warrant continued quotation under Listing Rule 12.2.

#### **9.13 Possible disadvantages and risks of the Rights Issue and reasons to vote against the proposed resolution**

##### **9.13.1 Potential for significant dilution**

If the Rights Issue is fully subscribed, the number of Shares on issue will increase from 1,625,092,716 to 4,875,278,148, and the number of Options on issue will increase from 88,839,105 to 1,713,931,821. This means that each Share will represent a significantly lower proportion of the ownership of AYN and Shareholders who do not take up their full entitlement in the Rights issue will have a substantially diluted percentage Shareholding in AYN.

Shareholders should note that their Share holdings may be further diluted by the securities to be issued by the Company under other Resolutions in this Notice of Meeting. Please refer to section 1.5 of this Explanatory Memorandum for further details in relation to the possible dilution effect of all these securities.

#### **9.14 Risks associated with an investment in AYN**

If Resolution 8 is passed, Shareholders will have to consider whether to take up their Entitlements under the Rights Issue. Further details of the risks associated with an investment in AYN are detailed in the Prospectus for the Rights Issue.

#### **9.15 Other material information**

Except as set out in this Explanatory Statement, in the opinion of Directors, there is no other information material to the making of a decision in relation to the Rights Issue, being information that is within the knowledge of any Director, which has not been previously disclosed to Shareholders.

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### **10. RESOLUTION 9 – APPROVAL FOR ISSUE OF BROKER OPTIONS UNDER THE BROKER OFFER**

#### **10.1 General**

Resolution 9 seeks Shareholder approval for the issue to Patersons Securities Limited (or its nominees) of that number of Options equal to 6% of the total number of Shares issued under the Rights Issue in consideration for broker services provided by Patersons in relation to the Rights Issue (**Broker Offer**).

On top of the Broker Offer, the Company as agreed to pay Patersons \$80,000, plus 6% of the gross dollar amount raised under the Rights Issue and any shortfall to the Rights Issue (being up to \$1,055,056 assuming maximum subscription).

A summary of ASX Listing Rule 7.1 is set out in section 1.2.

The effect of Resolution 9 will be to allow the Company to issue the Options under the Broker Offer during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

Resolution 9 is conditional on Shareholders approving the Rights Issue under Resolution 8.

## **10.2 Technical information required by ASX Listing Rule 7.1**

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Broker Offer:

- (a) the maximum number of Options to be issued is that number of Options equal to 6% of the total number of Shares issued under the proposed Rights Issue, which will equal 195,011,126 Options if the Rights Issue is fully subscribed;
- (b) the Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules). It is anticipated the Options will be issued when the Rights Issue is completed, which is currently scheduled for 2 August 2013;
- (c) the Options will be issued for nil cash consideration in satisfaction of services provided by Patersons (and its nominees);
- (d) the Options will be issued to Patersons (or its nominees), who is not a related party of the Company;
- (e) the Options will be issued on the terms and conditions set out in 2 Part D of this Notice of Meeting; and
- (f) no funds will be raised from the Broker Offer as the Options are being issued in consideration for services provided by Patersons (and its nominees).

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## **11. RESOLUTION 10 – RE-ELECTION OF DR PAUL D'SYLVA AS DIRECTOR**

Clause 13.4 of the Constitution allows the Directors to appoint at any time a person to be a Director as an addition to the existing Directors, but only where the total number of Directors does not at any time exceed the maximum number specified by the Constitution.

Any Director so appointed holds office only until the next following general meeting and is then eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation (if any) at that meeting.

Dr Paul D'Sylva was appointed a Director on 13 March 2013 after the retirement of former Directors Messrs Charles Morgan and Ian McCubbing on 8 March 2013. Dr D'Sylva has substantial mining and energy capital market experience through his employment at independent advisory firm, Empire Equity Limited. Dr D'Sylva has helped fund a diverse range of resource companies in equity, debt and structured financing arrangements.

Dr Paul D'Sylva will retire in accordance with clause 13.4 of the Constitution and being eligible seeks re-election.

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## 12. RESOLUTION 11 – RE-ELECTION OF MR TIMOTHY MORRISON AS DIRECTOR

Clause 13.4 of the Constitution allows the Directors to appoint at any time a person to be a Director as an addition to the existing Directors, but only where the total number of Directors does not at any time exceed the maximum number specified by the Constitution.

Any Director so appointed holds office only until the next following general meeting and is then eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation (if any) at that meeting.

Mr Timothy Morrison was appointed a Director on 13 March 2013 after the retirement of former Directors Messrs Charles Morgan and Ian McCubbing on 8 March 2013. Mr Timothy Morrison has substantial mining and energy capital market experience through his employment at independent advisory firm, Empire Equity Limited. Mr Timothy Morrison has helped fund a diverse range of resource companies in equity, debt and structured financing arrangements.

Mr Timothy Morrison will retire in accordance with clause 13.4 of the Constitution and being eligible seeks re-election.

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## 13. RESOLUTION 12 – RE-ELECTION OF MR MICHAEL REED AS DIRECTOR

Clause 13.4 of the Constitution allows the Directors to appoint at any time a person to be a Director as an addition to the existing Directors, but only where the total number of Directors does not at any time exceed the maximum number specified by the Constitution.

Any Director so appointed holds office only until the next following general meeting and is then eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation (if any) at that meeting.

Mr Michael Reed was appointed an executive Director on 15 March 2013 following the retirement of former managing Director Mr Andrew King on 13 March 2013. Mr Reed formerly held the position of Company Operations Manager and has managed the Company's Texas Silver Mine for the last two years. Mr Reed is a metallurgist with over 20 years experience within the Australian mining industry.

Mr Michael Reed will retire in accordance with clause 13.4 of the Constitution and being eligible seeks re-election.

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## 14. RESOLUTIONS 13 AND 15 – PERFORMANCE RIGHTS PLANS

The Company adopted an employee and executive director performance rights plan (**Employee Performance Rights Plan**) at its AGM on 25 November 2010.

Resolution 13 seeks Shareholders approval for the re-adoption of the Employee Performance Rights Plan in accordance with ASX Listing Rule 7.2 (Exception 9(b)).

Resolution 15 seeks Shareholder approval to adopt a non-executive Director performance rights plan (**Non-Executive Director Performance Rights Plan**) on materially the same terms as the Employee Performance Rights Plan.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

ASX Listing Rule 7.2 (Exception 9(b)) sets out an exception to ASX Listing Rule 7.1 which provides that issues under an employee incentive scheme are exempt for a period of 3 years from the date on which shareholders approve the issue of securities under the scheme as an exception to ASX Listing Rule 7.1.

If Resolution 13 is passed, the Company will be able to issue Performance Rights under the Employee Performance Rights Plan to eligible participants over a period of 3 years without impacting on the Company's ability to issue up to 15% of its total ordinary securities without Shareholder approval in any 12 month period.

A total of 1,000,000 Performance Rights have been issued under the Employee Performance Rights Plan since it was last approved by Shareholders on 25 November 2010. These Performance Rights were issued to Mr Ian McCubbing on 4 July 2012.

If Resolution 15 is passed, the Company will be able to issue Performance Rights under the Non-Executive Director Performance Rights Plan to eligible participants over a period of 3 years without impacting on the Company's ability to issue up to 15% of its total ordinary securities without Shareholder approval in any 12 month period.

No Performance Rights have previously been issued under the Non-Executive Director Performance Rights Plan.

It is considered by the Directors that the re-adoption of the Employee Performance Rights Plan, and the adoption of the Non-Executive Director Performance Rights Plan (together the **Performance Rights Plans**), and the future issue of Performance Rights under the Performance Rights Plans will provide selected employees and directors with the opportunity to participate in the future growth of the Company.

A summary of the terms and conditions of the Performance Rights Plans is set out in Schedule 5. In addition, copies of the Performance Rights Plans are available for review by Shareholders at the registered office of the Company until the date of the Meeting. Shareholders are invited to contact the Company if they have any queries or concerns.

Any future issues of Performance Rights under the Performance Rights Plans to a related party or a person whose relation with the company or the related party is, in ASX's opinion, such that approval should be obtained will require additional Shareholder approval under ASX Listing Rule 10.14 at the relevant time.

For this reason, the Company is also seeking approval under Resolution 14 for the issue of Performance Rights to Mr Michael Reed, the Managing Director under the Employee Performance Rights Plan, and approval under Resolutions 16 and 17 for Dr Paul D'Sylva and Mr Tim Morrison, under the Non-Executive Director Performance Rights Plan.

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## **15. RESOLUTIONS 14, 16 AND 17 – ISSUE OF PERFORMANCE RIGHTS TO RELATED PARTIES**

### **15.1 General**

The Company has agreed, subject to obtaining Shareholder approval, to grant Performance Rights to each of Messrs Michael Reed, Paul D'Sylva and Timothy Morrison (**Eligible Participants**) under the Performance Rights Plans in accordance with the terms and conditions set out below.

Resolutions 14, 16 and 17 seek Shareholder approval for the Company to issue each of the Eligible Participants with that number of Performance Rights equal to 2.5% of the number of Shares on issue on completion of the Rights Issue that will vest and convert into Shares (on the basis of 1 Share for every 1 Performance Right) subject to the following performance hurdles:

- (a) 50% of the Performance Rights will vest and be convertible into Shares on completion of the Rights Issue;
- (b) 25% of the Performance Rights will vest and be convertible into Shares upon the Company achieving production of 100,000oz of silver in any 1 month, at any time up to 12 months after Shareholder approval is obtained; and
- (c) 25% of the Performance Rights will vest and be convertible into Shares upon the Company achieving production of 500,000oz of silver in any 6 month period, at any time up to 12 months after Shareholder approval is obtained.

### **15.2 ASX Listing Rule 10.14**

Resolutions 14, 16 and 17 are being put to Shareholders to seek approval for the issue of Performance Rights to the Eligible Participants at any time up to 12 months after Shareholder approval is obtained pursuant to ASX Listing Rule 10.14.

ASX Listing Rule 10.14 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities under an employee incentive scheme to a director of the entity, an associate of the director, or a person whose relationship with the entity, director or associate of the director is, in ASX's opinion, such that approval should be obtained.

### **15.3 Chapter 2E**

Chapter 2E of the Corporations Act requires that for a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The issue of Performance Rights constitutes giving a financial benefit as the Eligible Participants are related parties of the Company by virtue of being Directors.

The Board has considered the application of Chapter 2E of the Corporations Act and has resolved that the reasonable remuneration exception provided by Section 211 of the Corporations Act is relevant in the circumstances and accordingly, the Company will not seek approval for the issue of Performance Rights pursuant to Section 208 of the Corporations Act.

#### **15.4 Technical information required ASX Listing Rule 10.15**

Pursuant to and in accordance with ASX Listing Rule 10.15, the following information is provided in relation to the proposed issue of Shares to the Eligible Participants:

- (a) the related parties are Messrs Reed, D'Sylva and Morrison and they are related parties by virtue of being Directors;
- (b) the Company intends to issue the Performance Rights to the Related Parties. Each of the Related Parties will be issued 2.5% of the number of Shares on issue on completion of the Rights Issue, with the Performance Rights vesting in accordance with the performance hurdles outlined at 15.1 above;
- (c) the maximum number of Performance Rights to be issued to each of the Eligible Participants (or their nominees) is 126,303,934 (assuming full subscription under the Rights Issue and Shares to be issued to Celtic Capital pursuant to Resolution 6 (excluding the issue of the 125,000,000 Shares to be issued as collateral under the Celtic Promissory Note) are issued prior to completion of the Rights Issue). The maximum will not increase in the event any additional Shares are issued prior to the completion of the Rights Issue;
- (d) the Performance Rights will be issued for nil cash consideration;
- (e) a total of 1,000,000 Performance Rights have been issued under the Employee Performance Rights Plan since it was last approved on 25 November 2010 as follows:
  - (i) 500,000 Performance Rights issued to Mr Ian McCubbing, of which 166,666 Performance Rights have vested. 333,334 of these Performance Shares lapsed upon Mr Ian McCubbing resigning as a Director; and
  - (ii) 500,000 Performance Rights issued to Mr Andrew Richards. These have now lapsed;
- (f) no Performance Rights have previously been issued under the Non-Executive Director Performance Rights Plan;
- (g) no loans have been provided to Messrs Reed, D'Sylva and Morrison in relation to the acquisition of the Performance Rights;

- (h) the Performance Rights will be issued to the Eligible Participants no later than 12 months after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules); and
- (i) all executive Directors of the Company (being currently the Managing Director) are eligible to participate in the Employee Performance Rights Plan. All non-executive Directors of the Company (being currently Dr Paul D'Sylva and Mr Tim Morrison) are eligible to participate in the Non-Executive Director Performance Rights Plan.

## SCHEDULE 1 – TERMS AND CONDITIONS OF CONVERTIBLE SECURITIES

### PART A – FIRST BERGEN GLOBAL CONVERTIBLE SECURITY AND YA GLOBAL CONVERTIBLE SECURITY

The terms and conditions of each of the First Bergen Global Convertible Security and the YA Global Convertible Security are as follows.

Term	Details
<b>Subscription Amount</b>	\$1,250,000 each
<b>Face Value</b>	Initially: \$1,312,500 each At date of this Notice of Meeting: Bergen Global: \$1,062,500; YA Global: \$1,112,500.
<b>Maturity Date</b>	24 February 2015
<b>Interest</b>	Nil, but interest is payable on a default event occurring at the interest rate prescribed by section 101 of the Civil Procedure Act 2005 (NSW) (as at the date of this Notice of Meeting, the prescribed rate is 6% above the cash rate last published by the Reserve Bank of Australia)
<b>Secured / Unsecured</b>	The First Bergen Global Convertible Security was initially unsecured, but is now secured (as a past advance) by the general security deed granted to Bergen Global on 26 March 2013 ( <b>General Security Deed</b> ). The YA Global Convertible Note is not secured.
<b>Conversion</b>	Each convertible security is convertible in whole or part, at the holder's election, before the maturity date, conditional on approval under ASX Listing Rule 7.1 being obtained where necessary to avoid a breach of the ASX Listing Rules. Any unconverted part of the Face Value must be converted at the maturity date. If the Company has not obtained any necessary Shareholder approval by the required issue date, the Company must pay the holder 110% of the face value that was to be converted in lieu of converting that amount into Shares. Where the issue of Share upon conversion would result in the holder having a relevant interest in Shares in excess of 19.99%, the Company must not effect such conversion by issuance of Shares but must instead pay to the holder the amount equal to the conversion amount that would increase the holder's relevant interest in Shares above 19.99%.
<b>Conversion Price</b>	At the holder's election, either: <ul style="list-style-type: none"> <li>• 90% of one daily VWAP per Share during the twenty consecutive actual trading days immediately prior to the date a conversion notice is given to the Company; or</li> <li>• 135% of the average of the daily VWAPs per Share for the 10 consecutive actual trading days immediately prior to 24 February 2013 (being 0.467 cents), up to a maximum face value amount of \$1,250,000.</li> </ul>
<b>Redemption</b>	The Company does not have a right under the convertible securities to redeem the First Bergen Global Convertible Security

	or the YA Global Convertible Security before the Maturity Date. However, Bergen and YA Global have subsequently agreed to early redemption if requested by the Company following completion of the Rights Issue.
<b>Transferability</b>	Each convertible security is freely transferrable and assignable.
<b>Options</b>	In lieu of a capital raising fee for providing the convertible security, the Company must grant (and has granted), for nil cash consideration, 13,000,000 unlisted Options (exercisable at 4.96 cents each, expiring 26 February 2016) and otherwise on the terms and conditions set out in Schedule 2, Part A to each of Bergen Global and YA Global.
<b>Collateral Shares</b>	The Company has issued 12,400,000 Shares for nil cash consideration as collateral for the convertible security to each of Bergen Global and YA Global. As a default event has occurred, Bergen Global and YA Global are entitled to keep these collateral Shares without further payment.
<b>No Participation or Voting Rights</b>	There are no participation rights or entitlements inherent in the convertible securities and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the convertible security without converting the convertible notes. The convertible notes do not carry any voting rights at Shareholder meetings.
<b>Governing Law</b>	New South Wales

#### **PART B – \$250,000 BERGEN SECURITY / SECOND BERGEN GLOBAL CONVERTIBLE SECURITY**

The terms and conditions of the \$250,000 Bergen Security / Second Bergen Global Convertible Security are as follows.

<b>Term</b>	<b>Details</b>
<b>Subscription Amount</b>	\$250,000
<b>Face Value</b>	\$250,000
<b>Face Value on Change of Control</b>	The face value of the convertible security will increase by \$250,000 if, at any time: <ul style="list-style-type: none"> <li>• a person (other than the holder), either directly or indirectly, acquires a relevant interest in more than 15% of Shares in the Company or Company's subsidiaries;</li> <li>• a person (other than the holder), either directly or indirectly, acquires the whole or a material part of the Company's business or property;</li> <li>• a person acquires control (within the meaning of section 50AA of the Corporations Act) of the Company or any subsidiary;</li> <li>• a person acquires or merges with the Company or subsidiary;</li> <li>• a person is in a position of control of the Company's Board; or</li> <li>• there is an appointment, removal, or resignation of a Director of the Company.</li> </ul>
<b>Maturity Date</b>	26 March 2015

<b>Interest</b>	Nil, but an interest is payable on a default event occurring at the interest rate prescribed by section 101 of the Civil Procedure Act 2005 (NSW) (as at the Date of this Notice, the prescribed rate is 6% above the cash rate last published by the Reserve Bank of Australia)
<b>Secured</b>	Secured under the General Security Deed granted on 26 March 2013.
<b>Conversion</b>	<p>Conditional on Shareholder approval being obtained where necessary to avoid a breach of the ASX Listing Rules.</p> <p>Any unconverted part of the Face Value must be converted at the maturity date.</p> <p>If the Company has not obtained any necessary Shareholder approval by the required issue date, the Company must pay the holder the 119% of the face value that would of otherwise been converted into Shares.</p> <p>Where the issue of Shares upon conversion would result in the holder having a relevant interest in Shares in excess of 19.99%, the Company must not effect such conversion by issuance of Shares but must instead pay to the holder the amount equal to the conversion amount that would increase the holder's relevant interest in Shares above 19.99%.</p>
<b>Conversion Price</b>	<p>At the holder's election, either:</p> <ul style="list-style-type: none"> <li>• 81% of the average of three daily VWAPs per Share (as selected by the Investor in its sole discretion) during the 20 consecutive trading days immediately prior to the date a conversion notice is given to the Company; or</li> <li>• the average of two daily VWAPs per Share for the 2 consecutive trading days immediately prior to 26 March 2013 (being 1.53 cents).</li> </ul>
<b>Redemption</b>	The Company does not have a right to repay the convertible security before the maturity date. However, Bergen has agreed to early redemption if requested by the Company following completion of the Rights Issue.
<b>Default Events</b>	<p>Each convertible security is subject to default events relating to:</p> <ul style="list-style-type: none"> <li>• insolvency and appointment of administrators;</li> <li>• breach by the Company of any obligations owed to the holder;</li> <li>• the Company Group suspending or selling a substantial part of its business or assets;</li> <li>• a reduction of capital;</li> <li>• removal of the Company from the ASX;</li> <li>• the holder's Shares not being quoted on ASX,</li> <li>• a security interest over the Company Group being enforced;</li> <li>• the Group Company being in default under a debt agreement;</li> <li>• the Company not obtaining shareholder approval so that the Company may issue Shares upon conversion;</li> <li>• a change of control in respect of the Company occurring; or</li> <li>• a material adverse event occurring in respect of the Company's business or price of Shares.</li> </ul> <p>Upon an event of default occurring, the holder may declare that any outstanding face value, or any other amount payable by the</p>

	Company to the holder, immediately becomes due and payable.
<b>Negative Covenants</b>	<p>Under the terms of issue of the convertible security, the Company must not:</p> <ul style="list-style-type: none"> <li>• issue or sell any debt, equity or equity linked securities that are convertible into, or have a right to receive, Shares at a conversion, exercise or exchange rate or other price based on (or varying with) the trading price of Shares or which can be reset at a future date in specific circumstances. This is deemed to include an equity line of credit, convertible security or loan, or similar debt arrangement, excluding the YA Global Convertible Security and the Celtic Capital Convertible Notes, but does not prohibit rights issues, shareholder purchase plans, convertible securities, or equity issuances, each at a fixed price per Share.</li> <li>• issue or sell any securities in a capital or debt raising transaction which grant the investor the right to receive additional securities upon future transactions of the Company on terms more favourable than those granted to that investor in such first transaction;</li> <li>• without the consent of holder, dispose of all or part of its assets unless in the ordinary course of business or, if at least \$400,000 is raised from the sale, at least 50% of net proceeds are applied towards repayment of the convertible security;</li> <li>• without the consent of the holder, make an announcement in relation to the holder;</li> <li>• reduce its Share capital;</li> <li>• undertake a consolidation of its Share capital;</li> <li>• incur indebtedness that is senior to, or pari passu with, the Company's obligations under this convertible security in right of payment;</li> <li>• change the nature of the Company's business;</li> <li>• make an application under section 411 of the Corporations Act; or</li> <li>• list on any other stock exchange other than ASX and the Deutsche Bourse without the holders consent.</li> </ul>
<b>No Participation or Voting Rights</b>	There are no participation rights or entitlements inherent in the convertible security and the holder will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the convertible security without converting the convertible security.
<b>Governing Law</b>	New South Wales

### **PART C – \$750,000 BERGEN SECURITY / THIRD BERGEN GLOBAL CONVERTIBLE SECURITY**

The terms and conditions of the \$750,000 Bergen Security / Third Bergen Global Convertible Security are as follows.

<b>Term</b>	<b>Details</b>
<b>Subscription Amount</b>	Nil, the convertible security was issued in consideration of the holder waiving obligations owed by the Company under the Bergen Global Convertible Securities Agreement.

<b>Face Value</b>	\$750,000
<b>Maturity Date</b>	26 March 2015
<b>Interest</b>	Nil, but an interest is payable on a default event occurring at the interest rate prescribed by section 101 of the Civil Procedure Act 2005 (NSW) (as at the Date of this Notice, the prescribed rate is 6% above the cash rate last published by the Reserve Bank of Australia)
<b>Secured</b>	Secured pursuant to the General Security Deed.
<b>Conversion</b>	As per the Second Bergen Global Convertible Security
<b>Conversion Price</b>	As per the Second Bergen Global Convertible Security
<b>Redemption</b>	As per the Second Bergen Global Convertible Security
<b>Default Events</b>	As per the Second Bergen Global Convertible Security
<b>Negative Covenants</b>	As per the Second Bergen Global Convertible Security. In addition, until 26 March 2018, Bergen has a first right of refusal to provide any debt financing (including by issuing debentures, convertible notes, instruments convertible into shares or debentures, or options) to the AYN Group, for an amount greater than \$500,000 or that involves the grant of security over any of the AYN Group's asset.
<b>Options</b>	The Company must grant, for nil cash consideration, 88,000,000 unlisted Options on the terms and conditions set out in Schedule 2, Part B. These Options must be issued by no later than 31 July 2013.
<b>No Participation or Voting Rights</b>	There are no participation rights or entitlements inherent in the convertible security and the holder will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the convertible security without converting the convertible security.
<b>Governing Law</b>	New South Wales

#### **PART D – CELTIC CAPITAL SECURITY / CELTIC CAPITAL CONVERTIBLE NOTES**

The terms and conditions of the 1,800,000 Celtic Capital debt securities / Celtic Capital Convertible Notes are as follows.

<b>Term</b>	<b>Details</b>
<b>Subscription Amount</b>	\$1,200,000
<b>Face Value</b>	\$1.00 per convertible note (a total of \$1,800,000)
<b>Maturity Date</b>	120 business days after issue (being 11 October 2013)
<b>Interest</b>	Nil, but default interest of 15% pa is payable on a default event or a failure by the Company to convert the convertible notes as and when required.
<b>Unsecured</b>	The convertible notes are unsecured, but are to rank in priority to all other unsecured creditors of the Company.
<b>Conversion</b>	Each convertible note is convertible in whole, and not part, at Celtic Capital's election before the maturity date. Conversion is conditional on the Company obtaining Shareholder approval, which is being sought at this Meeting.

	<p>Where Celtic Capital provides a conversion notice, the Company may instead of converting those convertible notes, elect to repay some or all of those convertible notes at a price equal to the opening price of Shares on the conversion date, provided the total cash payment does not exceed 50% of the value of the convertible notes on issue.</p> <p>If a conversion would result in Celtic Capital holding more than 19.99% of the Company's issued Shares, the conversion cannot take place and the Company must instead redeem the face value of the Convertible Notes that would otherwise be converted.</p>
<b>Conversion Price</b>	Lesser of \$0.01 and 85% of the VWAP for Shares over the five days (on which trading in Shares occurs) before the receipt of a conversion notice
<b>Redemption</b>	<p>The Company must repay the convertible notes in the following stages prior to the maturity date (failing which default interest will be payable):</p> <ul style="list-style-type: none"> <li>• 150,000 convertible notes are repayable 45 business days after issue (being 20 June 2013). Celtic Capital has subsequently agreed to defer this until completion of the Rights Issue;</li> <li>• 450,000 convertible notes are repayable 60 business days after issue (being 11 July 2013). Celtic Capital has subsequently agreed to defer this until completion of the Rights Issue;</li> <li>• 450,000 convertible notes are repayable 90 business days after issue (being 22 August 2013); and</li> <li>• any remaining unconverted convertible notes are repayable on the maturity date (being 11 October 2013).</li> </ul> <p>In the event that the Company raises funds of more than \$2,000,000 (whether by debt or equity), the Company must immediately use 50% of the funds raised (before costs) to repay amounts outstanding in relation to the convertible notes (failing which default interest will be payable).</p> <p>The Company intends to redeem the Celtic Capital Convertible Notes if the minimum subscription is raised under the Rights Issue. Celtic Capital's has agreed that the convertible securities may be repaid via cash payment before the maturity date.</p> <p>If the Company draws funds under the Celtic Capital Equity Placement Facility, Celtic Capital may direct that some or all of those proceeds are used towards repaying the convertible notes.</p> <p>Other than as set out above, the Company does not have a right to repay the convertible notes before the maturity date.</p>
<b>Default Events</b>	<p>The convertible notes are subject to default events relating to:</p> <ul style="list-style-type: none"> <li>• material breach by the Company that is not rectified within 5 business days of written notice from Celtic Capital;</li> <li>• non-payment of funds within 5 business days of the due date;</li> <li>• untrue or misleading representations;</li> <li>• winding up or insolvency; and</li> <li>• suspension of Shares on the ASX for more than 5 trading days between 10 April 2013 and the maturity date.</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>• only use the Subscription Amount for working capital; and</li> <li>• not issue, or agree to issue, any Shares or instruments capable</li> </ul>

	<p>of conversion into Shares, other than the Rights Issue.</p> <p>The Company must convene a shareholder meeting to refresh the Company's 15% placement capacity under ASX Listing Rule 7.1 by 27 May 2013. Celtic Capital has agreed to extend this date until the Shareholder Meeting, but no later than 31 July 2013.</p>
<b>Transferability</b>	The convertible notes may be transferred with the consent of the Company, which cannot be unreasonable withheld.
<b>Options</b>	The Company must issue Celtic Capital with 36,000,000 listed Options (exercisable at 1 cent each, expiring 31 July 2015) in lieu of a capital raising fee.
<b>Collateral Shares</b>	<p>The Company has issued Celtic Capital with 9,000,000 Shares for nil cash consideration as collateral for the convertible notes.</p> <p>If Celtic Capital sells any of the collateral Shares before the maturity date, the proceeds received will be offset against the Company's repayment obligations, in reverse order.</p> <p>To the extent Celtic Capital 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 5 day VWAP for Shares prior to the maturity date.</p> <p>If a default event occurs and is not cured by the Company within 5 business days of written notice, Celtic Capital may keep the collateral Shares and is released from the above offset and payment obligations.</p>
<b>No Participation or Voting Rights</b>	<p>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.</p> <p>The convertible notes do not carry any voting rights at Shareholder meetings but the Company must use reasonable endeavours to provide Celtic Capital with copies of documents at the same time as provided to Shareholders.</p>
<b>Legal Costs</b>	In satisfaction of \$10,000 in legal fees incurred by Celtic Capital, the Company must issue 2,352,941 Shares (at a deemed issue price of 0.425 cents each) to Celtic Capital by 17 April 2013. This notice seeks approval for the issue of these Options. Celtic Capital has agreed to extend this date until after the General Meeting, but no later than 31 July 2013.
<b>Governing Law</b>	Western Australia

## **PART E – CELTIC CAPITAL PROMISSORY NOTES / CELTIC CAPITAL CONVERTIBLE PROMISSORY NOTES**

The terms and conditions of the 1,400,000 Celtic Capital Promissory Notes / Celtic Capital Convertible Promissory Notes are as follows.

<b>Term</b>	<b>Details</b>
<b>Subscription Amount</b>	\$700,000
<b>Face Value</b>	\$1.00 per convertible note (a total of \$1,400,000)
<b>Maturity Date</b>	120 days after issue (being 5 October 2013)
<b>Interest</b>	Interest is payable on the outstanding face value of the convertible notes at a rate of 12% per annum, subject to

	<p>Shareholder approval.</p> <p>The interest repayments are to be satisfied via the issue of Shares to the holder at the beginning of each month in advance of the proceeding month, subject to Shareholder approval.</p> <p>The number of Shares to be issued in satisfaction of the Interest Repayments is calculated by dividing the monthly interest repayment by either (at the sole discretion of holder) \$0.004 or 80% of the VWAP over the ten days (on which trading in Shares occurs) before interest payment date.</p> <p>The default interest rate of 18% pa is payable on a default event occurring or a failure by the Company to convert/ redeem the convertible notes as and when required.</p>
<b>Unsecured</b>	The convertible notes are unsecured but are to rank in priority over any unsecured creditor.
<b>Conversion</b>	<p>Each convertible note is convertible in whole, and not part, at Celtic Capital's election before the maturity date, subject to Shareholder approval.</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 Celtic Capital 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>	The face value of the convertible notes are convertible at either (at the sole discretion of holder) \$0.004 or 80% of the VWAP over the ten days (on which trading in Shares occurs) before the receipt of a conversion notice.
<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>In the event that the Company raises funds of more than \$1,900,000 (whether by debt or equity), the Company must immediately use 50% of the funds raised (before costs), or an equivalent amount of its cash reserves, to repay amounts outstanding in relation to the convertible notes. This does not apply to the funds raised from the Powerline Off-take Agreement.</p>
<b>Default Events</b>	<p>The convertible notes are subject to default events relating to:</p> <ul style="list-style-type: none"> <li>• material breach by the Company that is not rectified within 5 business days of written notice from Celtic Capital;</li> <li>• non-payment of funds within 5 business days of the due date;</li> <li>• untrue or misleading representations made by the Company;</li> <li>• winding up or insolvency' and</li> <li>• the Company is suspended from ASX for more than 5 trading days post 31 July 2013.</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>• only use the Subscription Amount for working capital; and</li> <li>• not issue, or agree to issue, any Shares or instruments capable of conversion into Shares, other than under the Rights Issue o9r with Celtic Capital's consent.</li> </ul>

	The Company must convene a shareholder meeting to refresh the Company's 15% placement capacity under ASX Listing Rule 7.1 by 12 July 2013.
<b>Transferability</b>	The convertible notes may be transferred with the consent of the Company, which cannot be unreasonable withheld.
<b>Collateral Shares</b>	<p>Subject to Shareholder approval, the Company must issue Celtic Capital with \$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.</p> <p>If Celtic Capital sells any of the collateral Shares 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.</p> <p>To the extent Celtic Capital retains collateral Shares at the maturity date, it must pay the Company for those Shares at a price equal to the 80% of the average of the ten day VWAP for Shares prior to the maturity date.</p> <p>If a default event occurs and is not cured by the Company within 5 business days of written notice, Celtic Capital may keep the collateral Shares and is released from the above offset and payment obligations.</p>
<b>No Participation or Voting Rights</b>	<p>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.</p> <p>The convertible notes do not carry any voting rights at Shareholder meetings but the Company must use reasonable endeavours to provide Celtic Capital with copies of documents at the same time as provided to Shareholders.</p>
<b>Re-Organisation Events</b>	Should the Company undertake any Share buy-backs, re-organisations, reconstructions, consolidations or sub-divisions of the Company's Shares capital then the number of Shares to be issued on conversion of the convertible notes and in satisfaction of the interest repayments will vary so that the holder is treated the same as Shareholders. Any adjustments will only be made to the extent that it does not contravene the Corporations Act or Listing Rules.
<b>Governing Law</b>	Western Australia

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## **SCHEDULE 2 – TERMS AND CONDITIONS OF OPTIONS**

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### **PART A – 26,000,000 BERGEN AND YA GLOBAL OPTIONS (13,000,000 UNLISTED OPTIONS EACH)**

(a) **Nature of Options**

Each Option grants the holder the right but not the obligation to be issued by the Company one Share at the Option Exercise Price.

(b) **Exercise Price**

Subject to adjustment in accordance with these terms, the amount payable upon exercise of each Option will be \$0.0496 (**Exercise Price**).

(c) **Expiry Date**

Each Option will expire at 5.00pm (WST) on 26 February 2016 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise of Options**

An Option holder may exercise any of its Options at any time after their grant and prior to the Expiry Date by delivery of:

- (i) a copy of a duly executed Option exercise form to the Company on any Business Day; and
- (ii) payment of an amount equal to the Option Exercise Price multiplied by the number of Shares in respect of which the Options are being exercised at the time.

(e) **Issue of Shares on exercise of Options**

As soon as reasonably practicable, but no later than on the third Business Day following the date of the receipt of a duly completed Exercise Form and the payment of the Exercise Price, the Company must issue the Shares in respect of which the Options are so exercised by the Option holder and provide to the Option holder holding statements evidencing that such Shares have been recorded on the Company's Share register.

(f) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(g) **Unquoted**

The Company will not apply for quotation of the Options on ASX.

(h) **Quotation of Shares issued on exercise**

If admitted to the official list of ASX at the time, application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options by no later than the business day immediately after such issue.

(i) **Cleansing Statement and Cleansing Prospectus**

The Company must use its best endeavours to issue a Cleansing Statement in respect of any Shares issued on conversion of the Options to allow the Shares to be freely tradeable on ASX. If a Cleansing Statement is not permitted under any applicable law then the Company must lodge a cleansing prospectus with ASIC no later than 20 business days after the date on which the Company was required to issue the Shares.

(j) **Bonus issues**

If prior to an exercise of an Option, there is a bonus issue (as referred to in Listing Rule 6.22.3) the number of Shares over which an Option is exercisable shall be increased as specified in Listing Rule 6.22.3.

(k) **Rights issues**

If prior to an exercise of an Option, there is a pro rata issue (except a bonus issue) as referred to in Listing Rule 6.22.2, the Option Exercise Price shall be reduced according to the formula in Listing Rule 6.22.2.

(l) **Reconstruction of capital**

In the event of a consolidation, subdivision or similar reconstruction of the issued capital of the Company, the rights of an Option holder will be changed to comply with the Listing Rules (currently Listing Rule 7.22) applying to a reorganisation of capital at the time of the reorganisation.

(m) **Cumulative adjustments**

Full effect must be given to the above adjustment provisions, as and when occasions for their application arise and in such manner that the effects of the successive applications of them are cumulative, the intention being that the adjustments they progressively effect will be such as to reflect, in relation to the Shares issuable on exercise of the Options outstanding, the adjustments which on the occasions in question are progressively effected in relation to Shares already on issue.

(n) **Notice of adjustments**

Whenever the number of Shares over which an Option is exercisable, or the Option Exercise Price, is adjusted, the Company must give written notice of the adjustment to all the Option holders, within one Business Day.

(o) **No right to participate in new issues**

An Option holder cannot participate in new issues of Securities without exercising the Option.

(p) **Assignability and transferability**

The Options are freely assignable and transferable, subject to the provisions of Chapter 6D of the Corporations Act and all other applicable Laws.

## **PART B – 88,000,000 BERGEN UNLISTED OPTIONS**

### **(a) Nature of Options**

Each Option grants the holder the right but not the obligation to be issued by the Company one Share at the Option Exercise Price.

### **(b) Exercise Price**

Subject to adjustment in accordance with these terms, the amount payable upon exercise of each Option will be the lesser of:

- (i) the VWAP per Share on 26 March 2013 (being 1.55 cents); or
- (ii) the VWAP per Share on the date immediately prior to the issue date of the Options (**Exercise Price**).

### **(c) Expiry Date**

Each Option will expire at 5.00pm (WST) on the date that is 60 months after the issue date of the Options (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

### **(d) Exercise of Options**

An Option holder may exercise any of its Options at any time after their grant and prior to the Expiry Date by delivery of:

- (i) a copy of a duly executed Option exercise form to the Company on any Business Day; and
- (ii) payment of an amount equal to the Option Exercise Price multiplied by the number of Shares in respect of which the Options are being exercised at the time.

### **(e) Issue of Shares on exercise of Options**

As soon as reasonably practicable, but no later than on the third Business Day following the date of the receipt of a duly completed exercise form and the payment of the Exercise Price, the Company must issue the Shares in respect of which the Options are so exercised by the Option holder and provide to the Option holder holding statements evidencing that such Shares have been recorded on the Company's Share register.

### **(f) Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

### **(g) Unquoted**

The Company will not apply for quotation of the Options on ASX.

### **(h) Quotation of Shares issued on exercise**

If admitted to the official list of ASX at the time, application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options by no later than the business day immediately after such issue.

(q) **Cleansing Statement and Cleansing Prospectus**

The Company must use its best endeavours to issue a Cleansing Statement in respect of any Shares issued on conversion of the Options to allow the Shares to be freely tradeable on ASX. If a Cleansing Statement is not permitted under any applicable law then the Company must lodge a cleansing prospectus with ASIC no later than 20 business days after the date on which the Company was required to issue the Shares.

(i) **Bonus issues**

If prior to an exercise of an Option, there is a bonus issue (as referred to in Listing Rule 6.22.3) the number of Shares over which an Option is exercisable shall be increased as specified in Listing Rule 6.22.3.

(j) **Rights issues**

If prior to an exercise of an Option, there is a pro rata issue (except a bonus issue) as referred to in Listing Rule 6.22.2, the Option Exercise Price shall be reduced according to the formula in Listing Rule 6.22.2.

(k) **Reconstruction of capital**

In the event of a consolidation, subdivision or similar reconstruction of the issued capital of the Company, the rights of an Option holder will be changed to comply with the Listing Rules (currently Listing Rule 7.22) applying to a reorganisation of capital at the time of the reorganisation.

(l) **Cumulative adjustments**

Full effect must be given to the above adjustment provisions, as and when occasions for their application arise and in such manner that the effects of the successive applications of them are cumulative, the intention being that the adjustments they progressively effect will be such as to reflect, in relation to the Shares issuable on exercise of the Options outstanding, the adjustments which on the occasions in question are progressively effected in relation to Shares already on issue.

(m) **Notice of adjustments**

Whenever the number of Shares over which an Option is exercisable, or the Option Exercise Price, is adjusted, the Company must give written notice of the adjustment to all the Option holders, within one Business Day.

(n) **No right to participate in new issues**

An Option holder cannot participate in new issues of Securities without exercising the Option.

(o) **Assignability and transferability**

The Options are freely assignable and transferable, subject to the provisions of Chapter 6D of the Corporations Act and all other applicable Laws.

## **PART C – 8,823,529 LISTED PLACEMENT OPTIONS**

- (a) Each Option gives the Optionholder the right to subscribe for one Share.
  - (b) Each Option will expire at 5.00pm (WST) on 14 May 2015 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
  - (c) Subject to paragraph (j), the amount payable upon exercise of each Option will be \$0.06 (**Exercise Price**).
  - (d) The Options held by each Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
  - (e) An Optionholder may exercise their Options by lodging with the Company an Exercise Notice, before the Expiry Date:
  - (f) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
    - (i) a written notice of exercise of Options specifying the number of Options being exercised; and
    - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised,
- (Exercise Notice).**
- (g) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
  - (h) Subject to the expiry of any applicable escrow period the Options shall be freely transferable.
  - (i) All Shares allotted upon the exercise of Options will upon allotment rank pari passu in all respects with other Shares.
  - (j) The Company will apply for quotation of the Options on ASX, although no assurance is given that the Options will be quoted by the ASX. In addition, the Company will also apply for quotation of all Shares allotted pursuant to the exercise of Options on ASX within 10 Business Days after the date of allotment of those Shares.
  - (k) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
  - (l) There are no participating rights or entitlements inherent in the Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.
  - (m) An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

## PART D – LISTED RIGHTS ISSUE OPTIONS, BROKER OPTIONS AND CELTIC CAPITAL OPTIONS

The terms and conditions of the Rights Issue Options, Broker Option and Celtic Capital Options are as follows:

(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price**

Subject to paragraph (j), the amount payable upon exercise of each Option will be \$0.01 (**Exercise Price**).

(c) **Expiry Date**

Each Option will expire at 5.00pm (WST) on 31 July 2015 (**Expiry Date**). A Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Within 15 Business Days after the later of the following:

- (i) the Exercise Date; and
- (ii) when excluded information in respect to the Company (as defined in section 708A(7) of the Corporations Act) (if any) ceases to be excluded information,

but in any case no later than 20 Business Days after the Exercise Date, the Company will:

- (iii) issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (iv) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the

Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and

- (v) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under (g)(iv) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(h) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(i) **Quotation of Shares issued on exercise**

If admitted to the official list of ASX at the time, application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options.

(j) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(k) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(l) **Change in exercise price**

A Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(m) **Quoted**

The Company will apply for quotation of the Options on ASX.

(n) **Transferability**

The Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

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## SCHEDULE 3 – TERMS AND CONDITIONS OF EQUITY PLACEMENT FACILITY

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On 10 April 2013, the Company and Celtic Capital entered into an Equity Placement Facility pursuant to which the Company, at its discretion, may require Celtic Capital to subscribe for Shares up to a total issue price of \$10,000,000.

The key terms and conditions of the Equity Placement Facility are summarised below.

- (a) **(Condition Precedent):** The Equity Placement Facility is conditional upon the Company obtaining all necessary shareholder approval within 60 days of execution. Celtic Capital has agreed to extend this until after the General Meeting, but no later than 31 July 2013.
- (b) **(Fees):** As consideration for entering into the Equity Placement Facility, the Company must, on the date of entering into the agreement, issue 70,588,235 Shares (at a deemed issue price of 0.0425 cents per Share). The Company issued 39,591,370 of these Shares on 15 April 2013 and is seeking Shareholder approval under Resolution 6 to issue the remaining 30,996,865 Shares.
- (c) **(Legal Costs):** In satisfaction of \$10,000 in legal fees incurred by Celtic Capital, the Company must issue 2,352,941 Shares (at a deemed issue price of 0.425 cents each) to Celtic Capital. The Company is seeking Shareholder approval to issue these Shares under Resolution 6.
- (d) **(Shareholder Approval):** If the Company has not obtained Shareholder approval to issue the Shares the subject of the Fees and Legal Costs by 9 June 2013 (or such later date as agreed by the parties), then the Company must pay Celtic Capital the cash value of the outstanding Shares. Celtic has agreed to extend this date until after the General Meeting, but no later than 31 July 2013.
- (e) **(Drawdown):** The Company may require Celtic Capital to subscribe for Shares by issuing a drawdown notice, and obtaining all necessary director and shareholder approval.
  - (i) The drawdown limit in relation each specific drawdown notice is 300% of 85% of the daily average Share trading volume over the 5 consecutive days prior to the draw down notice (**Draw Down Limit**).
  - (ii) Each draw down is conditional upon the Company following the necessary procedure, the drawdown note not exceeding the Draw Down Limit, the Company not breaching or being in default under the terms of the Equity Placement Facility, all necessary approvals being obtained, the Company being able to issue a cleansing statement (Celtic Capital has agreed cleansing prospectus can be used instead), Shares being continuously quoted on ASX, and the price of Shares not being below \$0.005 on the trading day prior to the drawdown notice.
- (f) **(Subscription Price):** The price at which Celtic must subscribe for Shares is 85% of the VWAP of Shares over the 5 consecutive trading days immediately after the Company issues a drawdown notice. If at any time during the pricing period, 85% of the VWAP of Shares on any one trading day is below \$0.005 (**Relevant Trading Day**), then that Relevant Trading Day will not be taken into account in the Subscription Price and the drawdown amount will be reduced by 20% for each Relevant Trading Day.

- (g) **(Exclusivity)**: The Company must not enter into or engage any similar equity arrangement with a third party without Celtic Capital's consent.
- (h) **(Proceeds)**: Any proceeds raised from the Equity Placement Facility must be used by the Company for the sole purpose of satisfying general working capital expenditure.
- (i) **(Maximum Holding)**: During the term of the Equity Placement Facility, Celtic Capital must not hold more than 19.99% interest in Shares.
- (j) **(Interest)**: The Company must pay interest on any amounts due under the Equity Placement Facility at the default rate.
- (k) **(Termination)**: The Equity Placement Facility will automatically terminate on 10 April 2016. The Company may terminate the Equity Placement Facility at its sole discretion by notice in writing to Celtic Capital. Celtic Capital may terminate the Equity Placement Facility, by notice in writing, if any of the following termination events occurs:
- (i) the Company is in material breach of the Equity Placement Facility and fails to rectify that breach within 5 business days of written notice;
  - (ii) the Company does not pay any amount payable under the Equity Placement Facility or the convertible note agreement entered into with Celtic Capital;
  - (iii) a change of control event occurring in respect of the Company;
  - (iv) any representations or warranties being false or misleading in any material respect;
  - (v) a event occurring that causes a material adverse effect on the Company or any of its business;
  - (vi) a winding up application being made in respect of any company in the Company Group;
  - (vii) an administrator or controller being appointed over any company in the Company Group;
  - (viii) the Company Group suspending, or being unable to pay, any of its debts;
  - (ix) the Company seeking shareholder approval to dispose of its main undertaking or major asset;
  - (x) steps are taken to cancel the registration of any company in the Company Group;
  - (xi) a compromise or arrangement is proposed between the Company and any of its creditors; or
  - (xii) the Equity Placement Facility becoming unenforceable or non-performable.
- (l) **(Other terms)**: the Equity Placement Facility has other terms and conditions that can be considered standard for an agreement of its nature, including, but not limited to, representations and warranties, indemnities, confidentiality, negative covenants and GST.

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## SCHEDULE 4 – TERMS AND CONDITIONS OF THE OFF-TAKE AGREEMENT

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As announced on 6 June 2013, the Company and Powerline entered into the Off-take Agreement under which the Company, Powerline and Texas Silver have agreed the terms upon which Powerline may purchase silver bullion from the Company.

The key terms and conditions of the Off-take Agreement are summarised below.

- (a) **(Term):** The term of the agreement is 3 years after the date of the agreement, which may be extended to 5 years, at the election of Powerline, by providing 30 days written notice to the Company.
- (b) **(Condition Precedents):** The sale of silver bullion is conditional upon:
  - (i) the Company and Texas Silver providing certificates to Powerline that no event of default or potential event of default has occurred, all conditions under the Off-take Agreement have been satisfied, and the Company and Texas Silver have complied with all agreements and covenants required under the Off-take Agreement;
  - (ii) the execution of specified customary security documentation; and
  - (iii) the Company having received subscriptions under the Rights Issue of \$6,000,000 by 24 July 2013.
- (c) **(Sale Notice):** During the Term, the Company may provide Powerline with a sale notice specifying the amount of silver to be sold under the sale notice and whether Powerline is to purchase the silver via a Sale Transaction or Pre-Pay Transaction, which Powerline may accept by providing the Company with a purchase notice. The Company must not give a Sale Notice to Powerline unless all prior outstanding silver deliveries have been satisfied.
- (d) **(Pre-pay Transaction):** the number of ounces of Silver that the Company may offer under a Pre-Pay Transaction must not be greater than 90% of the Company's anticipated production of silver bullion over a certain period of production. The Company must deliver the silver the subject of the Pre-Pay Transaction within an agreed period of time. The Company cannot have \$10,000,000 or more outstanding in respect of a Pre-pay Transaction at any one time.
- (e) **(Pre-Pay Purchase Amount):** the price at which Powerline may choose to purchase ounces of silver bullion under a Pre-pay Transaction is 95% of the settlement price per ounce of silver on the London Bullion Market Association on a day during a specified period preceding the purchase date.
- (f) **(Initial Pre Payment):** On the fifth New York business day after the Company satisfies the Condition Precedents, Powerline must pay the Company \$2,000,000, which (in respect of the initial pre-payment only) is deemed to create a \$2,500,000 Pre-Payment Transaction obligation. These funds may only be used for general working capital and not for debt reduction.

- (g) **(Repayment via Share Issue):** the Company may satisfy repayment of a Pre-pay Transaction via the issue of Shares capped at a maximum of \$200,000 in any 30 day period. Issue of these Shares are conditional upon the Company having placement capacity under listing rule 7.1 (or obtaining Shareholder approval if necessary), and the Shares being freely tradeable on ASX. The issue price of Shares to be issued in satisfaction of such repayment is calculated, at the election of Powerline, as either:
- (i) 81% of the average of three daily VWAPs per Share (as selected by Powerline in its sole discretion) during the 20 consecutive trading days immediately prior to the date of payment; or
  - (ii) the average of two daily VWAPs per Share for the 2 consecutive trading days immediately prior to 26 March 2013 (being 1.53 cents),
- (Repayment Formula).**
- (h) **(Interest):** Nil, but if an Event of Default occurs, interest shall be payable at the interest rate prescribed by section 101 of the Civil Procedure Act 2005 (NSW) (as at the Date of this Notice, the prescribed rate is 6% (per annum) above the cash rate last published by the Reserve Bank of Australia), compounded monthly.
- (i) **(Sale Transaction):** the number of ounces of Silver that the Company may offer under a sale transaction must not be greater than the Company's anticipated production of silver over a certain period following the Sale Notice.
- (j) **(Spot Price):** the price at which Powerline may choose to purchase ounces of silver bullion under a Sale Transaction is:
- (i) the settlement price per ounce of silver on the London Bullion Market Association on a day during a specified period preceding the purchase date; or
  - (ii) at the election of Powerline, in relation to no more than 500,000 ounces of silver, \$25 per ounce.
- (k) **(Commitment Fee):** the Company must issue Powerline with \$200,000 worth of Shares at each anniversary of the agreement as a commitment fee. The issue of these Shares are conditional upon the Company obtaining Shareholder approval, and the Shares being freely tradeable on ASX. The Company must either issue a Cleansing Statement or lodge a cleansing prospectus in order to allow these Shares to be freely tradeable. The issue price of Shares to be issued in satisfaction of the Commitment Fee is calculated in accordance with the Repayment Formula.
- (l) **(Negative Covenants):** during the term of the agreement, the Company must not:
- (i) create or permit to exist any encumbrance of any of the Company Group's assets other than any permitted encumbrance;
  - (ii) transfer any of its assets or receivables;
  - (iii) enter into any title recognition arrangement;
  - (iv) enter into any arrangement under which money (or the benefit of a bank account) may be applied, set-off or made subject to a combination of accounts;

- (v) incur or permit to exist any financial indebtedness other than permitted financial indebtedness;
  - (vi) make any substantial change to the business of the Company Group;
  - (vii) enter into any amalgamation, demerger, merger or reconstruction without the consent of the Powerline
  - (viii) acquire any business, shares or other ownership in any other person, other than acquisitions approved by Powerline or acquisitions that do not exceed \$250,000 in aggregate in any financial year;
  - (ix) issue, sell, or grant a right over any shares in any of the Company's subsidiaries;
  - (x) enter into any contract that are not at arm's length other than between the Company and Texas Silver; or
  - (xi) amend its constitution in any way that could adversely affect Powerline.
- (m) **(Board Nominees):** Powerline may nominate two persons to be non-executive directors of the Company and Texas Silver (and any future replacements).
- (n) **(Security):** the Company Groups obligations under the Off-take Agreement are secured by the Powerline General Security Deed.
- (o) **(Events of Default):** events of default in respect of the Off-take Agreement are:
- (i) non-payment of any amount owing under the Off-take Agreement or other related documents;
  - (ii) the Company not complying with any term of the Off-take Agreement or associated agreements;
  - (iii) the Company breaching or otherwise failing to comply in full with any of its obligations under any other document to which the Company, Powerline and any of their affiliates are a party to;
  - (iv) an event of default or a like event is asserted by Powerline (or an affiliate) under any a document to which the Company, Powerline and any of their affiliates are a party;
  - (v) the Company Group causing an event of default in any material document it is a party to, without such breach being cured in the permitted timeframe;
  - (vi) any representations or statements made by the Company being false or misleading in any material respect;
  - (vii) the Company does not repay any financial in indebtedness when due;
  - (viii) any financial indebtedness become prematurely due and payable or placed on demand as a result of an event of default or similar event;
  - (ix) any commitment for financial indebtedness is cancelled or suspended as a result of an event of default;

- (x) any event of insolvency occurs in relation to any of the Company Group;
- (xi) an encumbrance over a Company asset is enforced;
- (xii) any attachment, sequestration, distress, execution or analogous event affects any assets of the Company Group, having an aggregate value of at least \$250,000.
- (xiii) the Company or any of its subsidiaries threaten to cease carrying on business;
- (xiv) the Off-take Agreement or any associated documents being incapable of performance or enforcement, or any person asserting any claim which seeks to challenge or limit the rights of Powerline or the Company to undertake any contemplated transaction under the Off-take Agreement;
- (xv) any security document to which the Company Group, Powerline and any affiliates are a party, failing to create the encumbrance it purports to create;
- (xvi) a change in control occurring, meaning:
  - (A) any person directly or indirectly acquiring an interest in or becoming the holder of more than 15% of the shares in any of the companies in the Company Group, or acquiring the whole or a material part of the business or property of the Company Group;
  - (B) any person acquires control (within the meaning of section 50AA of the Corporations Act) of any company in the Company Group;
  - (C) any person comes to be in a position to control the composition of any the Company Group's board; and
  - (D) the appointment, removal or resignation of any person as a director of the Company;
- (xvii) the Company reduces or takes steps to reduce its capital or passes a resolution referred to in section 254N(1) of the Corporations Act;
- (xviii) the constitution of the Company being amended in a material respect without the prior consent of Powerline (not be withheld unreasonably);
- (xix) Mining Lease 5932 or Mining Lease 50161 being repealed, revoked, terminated or found to be invalid, expires or suspended;
- (xx) any property that secures the performance of the Company's obligations under the Off-take Agreement is compulsorily acquired or steps are taken to that effect;
- (xxi) the Company's Texas Silver Project being abandoned or destroyed beyond repair in circumstances not fully covered by insurance proceeds;

- (xxii) the Company being suspended for 30 or more calendar days, a stop order, cessation of quotation, or removal of the Shares from official quotation on ASX being requested or imposed; or
- (xxiii) any event or series of events occurs which, in the opinion of Powerline, has or could have a material adverse effect on the Company's business or assets.

If, in Powerline's reasonable opinion, an Event of Default has occurred, Powerline may declare the Company's secured obligations immediately due and payable, enforce any encumbrance, and terminate the agreement without prejudice to any rights that may be available in law or equity.

- (p) **(Other terms):** the Off-take Agreement has other terms and conditions that can be considered standard for an agreement of its nature.

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## SCHEDULE 5 – TERMS AND CONDITIONS OF PERFORMANCE RIGHTS PLANS

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The following is a summary of the key terms and conditions of the Employee Performance Rights Plan and Non-Executive Director Performance Rights Plan to be adopted by Shareholders under Resolutions 13 and 15 respectively:

- (a) **Entitlement to Participate:** the Board will determine in its discretion whom is entitled to participate in the Plan and issue an invitation to that person. The Board will consider factors such as seniority and position of the potential participant, length of service, record of employment or holding of office and potential contribution to growth and profitability of the Company.
- (b) **Rights:** each Performance Right issued under the Plan is a right to be issued with or transferred a single Share, free of encumbrances.
- (c) **Expiry Date:** means the date on which a Performance Right lapses (if it has not already lapsed in accordance with the Plan) as specified in the offer made to the participant.
- (d) **Vesting Conditions:** the Board will determine the Vesting Conditions that must be satisfied by a participant before the Performance Right vests in the holder.
- (e) **Vesting:** a Performance Right will vest in a participant where the Vesting Conditions are satisfied or waived by the Board or where the Performance Right vests as a result of Accelerated Vesting.
- (f) **Accelerated Vesting:** The Board may in its discretion determine that all or a specified number of a participant's unvested Performance Rights vest where:
  - (i) the participant dies;
  - (ii) the participant ceases to be employed by the Company or act as a Director;
  - (iii) a takeover bid for the Company's issued Shares is declared unconditional and the bidder has acquired a relevant interest in at least 50.1% of the Company's issued Shares;
  - (iv) a court approves under Section 411(4)(b) of the Corporations Act a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies; or
  - (v) the Company passes a resolution for voluntary winding up or an order is made for the compulsory winding up of the Company.
- (g) **Lapse of an unvested Performance Right:** A Performance Right that has not vested will lapse upon the earlier to occur of:
  - (i) a failure to meet the Performance Right's Vesting Conditions;
  - (ii) the Expiry Date;
  - (iii) the Participant ceasing to be an employee;

- (iv) the Performance Right lapsing due to the Participant ceasing to be an employee or a Director or due to the occurrence of a Takeover Bid, compromise or arrangement or winding up;
  - (v) the Performance Right lapsing due to an unauthorised transfer, or purported transfer, of the Performance Right;
  - (vi) a determination of the Board that the Performance Right is to lapse due to fraud or dishonesty; or
  - (vii) the day before the end of the 7 year anniversary of the date of grant of the Performance Rights.
- (h) **Lapse of a vested Performance Right:** A Performance Right that has vested but not been validly exercised will lapse upon the earlier to occur of:
- (i) the Expiry Date (if any);
  - (ii) the Performance Right lapsing due to an unauthorised transfer, or purported transfer, of the Performance Right;
  - (iii) a determination of the Board that the Performance Right is to lapse due to fraud or dishonesty; or
  - (iv) the day before the end of the 7 year anniversary of the date of grant of the Performance Right
- (i) **Exercise of Performance Right:** A participant may exercise a Performance Right that is entitled to exercised by lodging with the Company a notice of exercise of the Performance Right in the form (if any) prescribed by the Company, and the certificate for the Performance Right.
- (j) **Quotation:** If Shares of the same class as those issued under the Plan are listed on the ASX the Company will apply to the ASX within a reasonable time after they are issued for those Shares to be listed.
- (k) **New Issues:** Other than adjustments for bonus issues and reorganisation of the issued capital of the Company, participants are not entitled to participate in any new issue of securities of the Company as a result of their holding Performance Rights during the currency of any Performance Rights and prior to vesting. In addition, participants are not entitled to vote nor receive dividends as a result of their holding Performance Rights.

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## GLOSSARY

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**\$** means Australian dollars.

**ASIC** means the Australian Securities and Investments Commission.

**Associate** has the meaning given in section 9 of the Corporations Act.

**ASX** means ASX Limited.

**ASX Listing Rules** or **Listing Rules** means the listing rules of ASX.

**ASX Waiver** means the waiver of ASX Listing Rules 7.11.3 and 17.5 granted to the Company by ASX.

**Bergen Global or Bergen** means Bergen Global Opportunities Fund II LLC.

**Bergen Global Convertible Securities** means the First Bergen Global Convertible Security, the Second Bergen Global Convertible Security and the Third Bergen Global Convertible Security.

**Bergen Global Convertible Securities Agreement** means the agreement of that name dated 24 February 2013 between the Company and Bergen Global, which has since been terminated.

**Board** means the current board of directors of the Company.

**Broker Offer** means the offer of up to 195,011,126 Options to Patersons as consideration for broker services provided in relation to the Rights Issue, the subject of Resolution 9.

**Broker Options** means up to 195,011,126 Options being offered to Patersons under the Broker Offer on the terms and conditions set out at Schedule 2, Part D.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

**Celtic Capital** means Celtic Capital Pty Ltd (ACN 120 688 262) as trustee for the Celtic Capital Trust.

**Celtic Capital Convertible Notes** means the convertible notes to be issued by the Company to Celtic Capital on Shareholder approval with an initial face value of \$1.00 each and maturing 11 October 2013 and otherwise on the terms summarised in Schedule 1.

**Celtic Capital Option** means an Option on the terms and conditions set out in Schedule 2, Part D.

**Celtic Capital Promissory Convertible Notes** means 1,400,000 promissory debt securities, each with a face value of \$1.00, maturing 5 October 2013, with conversion into Shares being subject to shareholder approval, to be issued in accordance with the terms of the Celtic Capital Promissory Note Agreement.

**Celtic Capital Promissory Note Agreement** means the agreement of that name entered into between the Company and Celtic Capital under which the Company has agreed to issue 1,400,000 Celtic Capital Convertible Promissory Notes.

**Cleansing Statement** means a written notice by the Company to the ASX under section 708A(5) of the Corporations Act that meets the requirements of section 708A(6) of the Corporations Act and permits secondary trading of Shares on the ASX.

**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 dependent of the member or 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 dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

**Company** or **AYN** means Alcyone Resources Ltd (ACN 056 776 160).

**Company Group** means the Company and any of its subsidiary companies.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Directors** means the current directors of the Company.

**Entitlement** means the entitlement of a Shareholder who is eligible to participate in the Offer.

**Equity Placement Facility** means the equity placement facility agreement dated 10 April 2013 between the Company and Celtic Capital as summarised in Schedule 3 of this Notice.

**Explanatory Statement** means the explanatory statement accompanying the Notice.

**First Bergen Global Convertible Security** means the convertible security to be issued by the Company to Bergen Global on Shareholder approval with an initial face value of \$1,312,500 and maturing on 24 February 2015 and otherwise on the terms summarised in Schedule 1.

**General Meeting** or **Meeting** means the meeting convened by the Notice.

**General Security Deed** means the General Security Deed between the Company and Bergen Global dated 26 March 2013 which secures payment of all amounts owing to Bergen Global via the grant of a security interest over of all its present and future acquired personal property, a mortgage over all the Company's (including subsidiaries) mining tenements, and a fixed charge over all the Company's present and after acquired property that is not classified as personal property.

**Interest Repayments** means the interest repayments payable to Celtic Capital at a rate of 12% per annum on the outstanding face value of the Celtic Capital Promissory Convertible Notes, to be satisfied via the issue of Shares in accordance with the terms of the Celtic Capital Promissory Note Agreement.

**Key Management Personnel** has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

**Notice** or **Notice of Meeting** or **Notice of General Meeting** means this notice of general meeting including the Explanatory Statement and the Proxy Form.

**Offer** means the offer under the Rights Issue.

**Off-take Agreement** means the silver purchase agreement entered into by the Company, Texas Silver and Powerline which documents the terms upon which Powerline may purchase silver bullion (either by pre-payment or sale).

**Option** means an option to acquire a Share.

**Patersons** means Patersons Securities Limited.

**Placement Option** means an Option on the terms and conditions set out in Schedule 2, Part C of this Notice of Meeting.

**Powerline** means Powerline Value Fund II LLC, limited liability company registered in Delaware, USA.

**Powerline Commitment Fee** is defined at section 1.3 of the Explanatory Statement.

**Powerline General Security Deed** means the General Security Deed between the Company, Texas Silver and Powerline.

**PPSA** means the Personal Property Securities Act 2009 (Cth).

**Prospectus** means the prospectus lodged with ASIC on 29 May 2013 by the Company in respect of the Rights Issue, which was subsequently replaced by a replacement prospectus lodged with ASIC on 13 June 2013,

**Proxy Form** means the proxy form accompanying the Notice.

**Record Date** means the date specified above in Section 9.4 of the Explanatory Statement.

**Resolutions** means the resolutions set out in this Notice of Meeting, or any one of them, as the context requires.

**Rights Issue** means the non-renounceable entitlement issue of 2 Shares for every one Share held by eligible shareholders at an issue price of \$0.005 per Share to raise up to approximately \$16,250,927 (based on the number of Shares on issue as at the date of this Notice) together with 1 free attaching quoted Option exercisable at \$0.01 on or before 31 July 2015 for every 2 Shares subscribed for and issued.

**Rights Issue Option** means an Option on the terms and conditions set out in Schedule 2, Part D of this Notice of Meeting.

**Second Bergen Global Convertible Security** means the convertible security to be issued by the Company to Bergen Global with an initial face value of \$250,000 and maturing 26 March 2015 and otherwise on the terms summarised in Schedule 1.

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

**Substantial Holder** has the meaning given in the ASX Listing Rules.

**Texas Silver** means the Company's wholly owned subsidiary, Texas Silver Mines Pty Ltd (ACN 002 789 380).

**Third Bergen Global Convertible Security** means the convertible security to be issued by the Company to Bergen Global on Shareholder approval with an initial face value of \$750,000 and maturing 26 March 2015 and otherwise on the terms summarised in Schedule 1.

**VWAP** means volume weighted average price of Shares.

**YA Global** means YA Global Master SPV, Ltd.

**YA Global Convertible Security** means the convertible security issued by the Company to YA Global on 26 February 2013 with an initial face value of \$1,312,500 and maturing 24 February 2015 and otherwise on the terms summarised in Schedule 1.

**YA Global Convertible Securities Agreement** means the agreement of that name dated 24 February 2013 between the Company and YA Global.