

Alcyone Resources Limited (AYN)

11 October 2010

Alcyone Resources Limited (AYN) is an Australian-based resource company focused on the re-development of the Twin Hills Silver Mine (previously operated by Macmin Silver Ltd), located in south-east Queensland.

Key Points

- Cygnet believe that AYN is currently **Undervalued**. With all material infrastructure in place and operations set to recommence in Q4 2010, AYN is the most advanced pure silver play listed on the ASX. In addition to boasting near term production, AYN is also nearing completion of a regional exploration program which provides excellent exploration upside and JORC potential;
- AYN's flagship asset is the Texas Silver Project located in south-east Queensland. The project comprises of the Twin Hills Silver Mine (currently on care and maintenance) and two primary silver deposits; Twin Hills and Mt Gunyan;
- AYN has recently recalculated a combined JORC resource for the Twin Hills and Mt Gunyan deposits of 15.1Moz of contained silver (cut off 40g/t Ag). This represents a robust resource with an average grade of 79g/t Ag and ~85% of the resource in the Measured and Indicated categories;
- AYN has a ready pathway to production having assumed ownership of all of Macmin's operational assets, including the entire Twin Hills project portfolio, processing facilities, mobile plant and administration buildings. Estimated combined new replacement value ~\$15-20m;
- Following a detailed test work program, AYN believe they have solved previous extraction issues and estimate silver recovery of +69%. Re-irrigation of historical heaps at Twin Hills is expected in Q4 2010;
- In parallel with re-commissioning the silver operations at Twin Hills, AYN is currently undertaking an exploration program focussed on expanding the current silver resource and investigating copper and polymetallic targets within the Texas Project lease area; and
- In June 2010, AYN completed a \$3.7m capital raising by way of a share placement of 148m shares at \$0.025. Funds are being used to underpin a regional exploration program at the Texas Silver Project.

Table 1: Texas Silver Project Resource

Deposit	Resource Category	Resource Size (Mt)	Grade Ag (g/t)	Contained Silver (Moz)
Twin Hills	Measured	176	86	4.87
	Indicated	147	79	3.72
	Inferred	0.61	81	1.60
	Total	3.84	83	10.19
Mount Gunyan	Indicated	176	76	4.27
	Inferred	0.35	58	0.65
	Total	2.11	73	4.92
Texas Project	Total	5.95	79	15.11

Source: AYN

Potential News Flow

- Oct 2010: Release of the final metallurgical test work results;
- Oct 2010: Release of exploration results at the Mt Gunyan and Hornet deposits;
- Nov 2010: Release of exploration results at Silver Spur and Twin Hills deposits;
- Nov 2010: Potential upgrade of JORC resource for the Texas Silver Project; and
- Dec 2010: Targeted re-irrigation of the historical heaps at the Twin Hills Mine.

Undervalued

Ticker: AYN

Sector: Materials

Current Price: \$0.047

Market Cap: \$36.2m

Shares: 769.6m

Options: 140.6m

Cash (est.): ~\$3.6m

EV: \$32.6m

As at 08 October 2010

Source: AYN & ASX

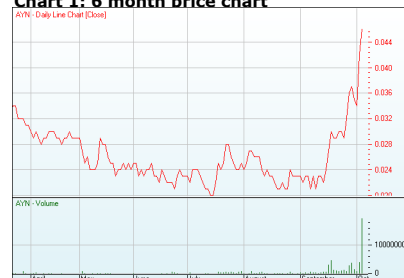
Board of Directors:

Andrew King – Managing Director

Charles Morgan - Chairman

Eric de Mori – Non Exec. Director

Chart 1: 6 month price chart



Source: ASX

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Texas Silver Project

AYN's flagship asset is the Texas Silver Project located in south-east Queensland. The project comprises of the Twin Hills Silver Mine (currently on care and maintenance) and primary silver deposits; Twin Hills and Mt Gunyan;

Twin Hills Silver Deposit & Mine

- The Twin Hills Silver deposit has been well defined from historic drilling and currently has a JORC resource of 10.2 Moz of silver. Total silver recovery prior to AYN's recapitalisation ~500,000 oz;
- The Twin Hills mine (currently on Care & Maintenance) is pre stripped with ~370Kt of ore ready for processing (170Kt – pit, 200Kt – ROM stockpile);
- In June 2010, a 75 day column leach test program was undertaken with an overall silver extraction of 69% established. Test work revealed that one of the key parameters in achieving this extraction rate is product size. Test work of historical heap leach pads indicates that previous product size did not meet this specification;
- Results of test work show that much of the existing equipment can be incorporated into the new circuit, however, new components will be required including; Merrill Crowe, quad rolls crusher, triple deck screener and conveyers;
- In the search for a more cost effective crushing system, a Quad Rolls Crusher, manufactured in Korea has been identified and tested. AYN has confirmed that the crusher will produce micro-fractures similar to HPGR and the sample is currently undergoing metallurgical testing;
- In addition to the revised crushing system, AYN have also decided to install a Merrill Crowe recovery circuit and bullion furnace as part of the silver recovery process. The new equipment will produce a higher value product which can be sold direct to refinery; and
- Final process circuit design and mine planning studies are underway with results, including the overall project economics, planned to be completed in the December quarter 2010.

Project Snapshot

Location:	Texas, QLD
Interest:	100%
Phase:	Development
Product:	Silver

JORC Resource:

Measured	4.8 Moz
Indicated	8.0 Moz
Inferred	2.3 Moz
Total	15.1 Moz

Current Infrastructure:

Merrill Crowe (pilot scale)	
Screeners x 3	
3 stage crushing system	
Agglomerator	
EMEW (Cu)	
Genset	
Estimated value	~\$15 - 20m

Source: AYN

Image 1: Twin Hills Silver Mine



Source: AYN

Texas Silver Project (cont.)

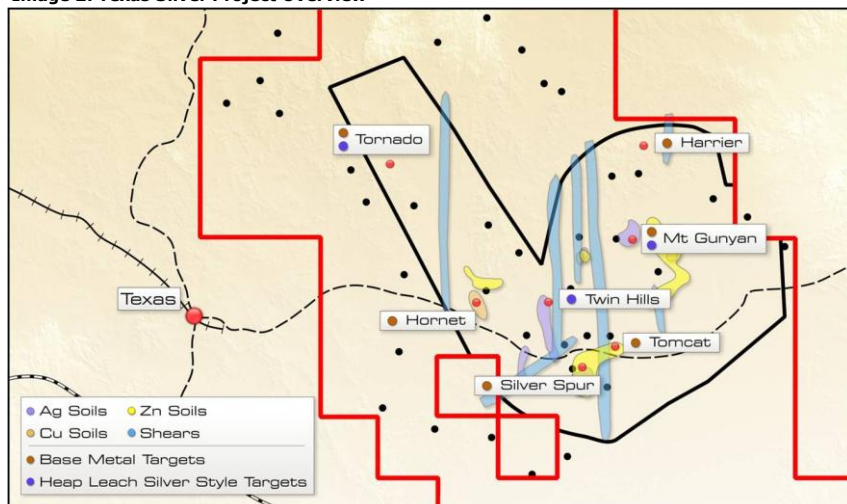
Mt Gunyan

- The Mt Gunyan silver deposit is located approximately 4km north-east of the Twin Hills Mine, and is a mesothermal disseminated silver deposit with elevated lead on the hanging wall and elevated zinc on the footwall, with potential massive sulphide mineralisation at depth;
- Extensive exploration drilling was undertaken between 1994 and 2004, which highlighted Mt Gunyan as the next most likely source of ore feed for the heap leach facility at Twin Hills; and
- In March 2010, AYN announced a JORC resource at Mt Gunyan of 4.9Moz of contained silver.

Exploration

- In June 2010, AYN commenced a 3000m diamond drilling exploration program to expand the current resource and test the potential for additional base metal mineralisation;
- The program comprising of two drill rigs will drill at the Harrier (Cu), Mt Gunyan (Ag), Hornet (Cu), Silver Spur (Ag), Twin Hills East (Ag), Tornado (Ag & Base Metals) and Tomcat (Base Metals) targets within the Texas Silver Project;
- Drilling at the Harrier target was completed in September and consisted of 6 holes (~700m) with the best intercept returning 1.5m @ 3.2% Cu, 2.7% Zn, 129g/t Ag and 0.6% Pb from 89.2m;
- In October 2010, AYN announced that phase one of the drilling program at Mt Gunyan had been completed, with 14 diamond drill holes being completed for 1400m. Significant intersections include:
 - 5m @ 148g/t Ag and 2.8 g/t Au from 49m;
 - 1.6m @ 110g/t Ag from 56m; and
 - 1m @ 100g/t Ag from 6m.
- In addition to the current drilling program, AYN has also commenced geophysical programmes including, induced polarisation and down hole electromagnetic surveys to further enhance target generation;

Image 2: Texas Silver Project Overview



Source: AYN

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