ALCYONE RESOURCES LTD

ABN 53 056 776 160

Interim Consolidated Financial Statements

For The Half-Year Ended 31 December 2012

Contents

Competent Person Statements

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

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

Mr Ball consents to the inclusion in this Report of the information compiled in the form and context in which they appear.
The information in this Report that relates to Exploration is based on information also compiled by Mr Ball.

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

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

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

Directors' Report

The Directors present their interim consolidated report of Alcyone Resources Ltd and its controlled entities for the half-year ended 31 December 2012.

Directors

The following persons were directors of Alcyone Resources Ltd during the half-year and up to the date of this report (directors were in office for the entire period unless otherwise stated):

T Morrison (Appointed 13 March 2012)
P. Sylva (Appointed 13 March 2013)
M.Reed (Appointed 15 March 2013)

C.W. Morgan (Resigned 8 March 2013)
A.J. King (Resigned 13 March 2013)
A.L. Richards(Resigned 15 March 2013)
I.J. McCubbing (Resigned 8 March 2013)

Company Secretary

K.R. Hart

Review of Operations

Whilst Alcyone continued progress towards achieving steady-state operations at Twin Hills over the second half of 2012, a number of mechanical, contractor and weather events impacted Alcyone's planned production.

Production in the latter part of the year was below expectations, mainly due to equipment breakdowns in the mining fleet which resulted in mining operations being limited for a period of 18 days, and a shortfall in high grade ore deliveries to the ROM pad during this period.

As a result, the processing plant was temporarily fed from lower grade ROM stockpiles dating back to the pre-Alcyone period of operations at Texas, rather than higher grade ore direct from the Twin Hills mine. The grade of this ore parcel was below forecast based on previously assayed ore grades from the stockpile, resulting in a short term impact on the overall level of ounces produced.

To recover the mining shortfall the mine moved to 24 hour operations, introduced additional trucks and commissioned the second excavator. Contingency plans were also put in place regarding support mining equipment that should minimise the impact of breakdowns in the future.

The key achievement for the half year was the successful commissioning and commencement of silver production from the newly completed Leach Pad 4 (LP4). The commencement of production from this new pad which, when completed, will effectively double the total area under irrigation, provides the basis for continued progress in growing the production profile of the Company. Currently six out of 12 cells on LP4 are stacked and under irrigation with cell 7 under construction.

Since the end of the half year, production has been impacted by some unexpected issues with the availability of the Drill & Blast Contractor and the cyclonic rain that significantly affected South East Queensland at the end of January. The Drill and Blast issues impacted mine production at the start of January. While the weather caused minimal physical damage to site operations, the intensity of the rain diluted silver grades in the leach ponds, impacting recoveries. In addition the delivery of consumables, including explosives, cyanide and parts to site was delayed, with this in turn impacting silver extraction rates into February.

Directors' Report

Review of Operations (continued)

Silver production from the Texas Operations for the half year was 439,431oz (2011: 274,301oz), and leachable silver inventory on the heaps standing at 614,187oz (2011: 236,738) at end of the year.This increase in Silver Inventory was driven by the mining of 426,946t (2011: 189,361t) of ore to the ROM at an average grade of 65.6 g/t (2011: 63.6 g/t), and the processing of 392,211t (2011: 194,343t), adding 509,156 recoverable ounces (2011: 317,504) to the leach heaps.

Ore Reserves

Proved & Probable Ore Reserves for the Twin Hills deposit were also increased in October by 30 per cent to 5.5 million tonnes grading 57 grams of silver per tonne for 6.6 million ounces of recoverable silver (10 million ounces of contained silver), reported below the end of July 2012 mining surface. The revised Ore Reserve underpins a mine life of between 5 and 6 years from the Twin Hills deposit alone, based on the targeted full annualised production rate at Twin Hills of 1.2Moz per annum.

In addition, the Mineral Resource for the Mt Gunyan deposit, 4km east of Twin Hills, was increased by 35 per cent to 3.9 million tonnes grading 55 grams of silver per tonne for 7.0 million ounces of contained silver. This has increased the total Texas Project Mineral Resource inventory (encompassing Twin Hills and Mt Gunyan) to 13.3 million tonnes grading 53.6 grams of silver per tonne for 23 million ounces of contained silver.

Positive results were also obtained from preliminary optimisation studies for Mt Gunyan as the next source of ore feed, with a Feasibility Study on the planned development of this deposit expected to be undertaken in 2013.

Corporate

The consolidated net (loss) after income tax for the half-year was ($1,240,599) (31 December 2011: ($2,539,324)).

At the end of the half-year the Group had $1,986,190 (30 June 2012: $2,121,068) in cash and at call deposits. Capitalised exploration and evaluation expenditure is $5,796,444 (30 June 2012: $4,599,623). Capitalised mineral development expenditure is $4,658,544 (30 June 2012: $3,848,313).

On 11 March 2013, the company announced the resignation of Mr Charles Morgan and Mr Ian McCubbing as Directors. The company also announced on 15 March the resignation of Mr Andrew King, Managing Director, and the appointment of Mr Tim Morrison and Mr Paul D'Sylva to the Board of Directors. On 15 March 2013 Mr Andrew Richards resigned as a Director, and Mr Michael Reed was appointed as a Director.

From a financing perspective, on 26 February 2013 the Company announced it had entered into Convertible Securities Agreements with Bergen Global Opportunity Fund II, LLC a US-based institutional investor managed by Bergen Asset Management LLC, and YA Global Master SPV a US-based institutional investor managed by Yorkville Advisors, to provide funding of $5.5 million and up to $10 million. The funds 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. Further details about this arrangement can be found in Note 16 and the ASX announcement dated 26 February 2013.

Subsequent to this, the board announced on 15 March 2013 that it had signed a non-binding term sheet to raise a further $2.5 million in short term funding by way of the placement of promissory notes to an Australian Investment Group. At the date of this document, final binding documents are being prepared, with execution expected prior to the end of the month.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001 is set out on page 5.

This report is made in accordance with a resolution of the Directors.

DATED at Perth this 15 March 2013

Paul D'Sylva
Director

BDO

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

15 March 2013

Board of Directors
Alcyone Resources Limited
Level 1
50 Kings Park Road
WEST PERTH WA 6059

Dear Sirs,

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF ALCYONE RESOURCES LIMITED

As lead auditor for the review of Alcyone Resources Limited for the half-year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Alcyone Resources Limited and the entity it controlled during the period.

Peter Toll
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

Consolidated Statement of Profit or Loss and other Comprehensive Income
For the half-year ended 31 December 2012

	Note	31 Dec 2012 $	31 Dec 2011 $
Revenue from continuing operations		**13,331,168**	286,883
Other income	3	**5,020**	50,000
Cost of sales		**(9,769,715)**	-
Royalties		**(715,877)**	(583,112)
Employee benefits expense		**(748,086)**	(703,642)
Depreciation and amortisation	4	**(2,652,063)**	(166,756)
Corporate compliance, insurance, shareholder relations		**(408,491)**	(642,456)
Finance costs		**(3,028)**	(4,020)
Office rental, communication and consumables		**(105,841)**	(116,715)
Consulting fees		**(23,300)**	(220,373)
Equity based remuneration expense	11	**(63,936)**	(155,571)
Exploration expenditure written off		**-**	(152,686)
Other expenses		**(86,450)**	(130,876)
(Loss) before income tax		**(1,240,599)**	(2,539,324)
Income tax expense		**-**	-
(Loss) from continuing operations		**(1,240,599)**	(2,539,324)
Other comprehensive income		**-**	-
Total comprehensive (loss) for the half-year attributable to members of Alcyone Resources Ltd		**(1,240,599)**	(2,539,324)
(Loss) per share for the half year attributable to members of Alcyone Resources Ltd			
Basic (loss) per share (cents)		**(0.08) cents**	(0.19) cents
Diluted (loss) per share (cents)		**(0.08) cents**	(0.19) cents

The above Consolidated Statement of Profit or Loss and other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position
as at 31 December 2012

	Note	31 Dec 2012	30 Jun 2012
		$	$
Current assets			
Cash and cash equivalents		**1,986,190**	2,121,068
Trade and other receivables		**663,024**	597,685
Inventory		**5,410,826**	5,710,145
Financial assets at fair value through profit or loss		**30,118**	25,098
Total current assets		**8,090,158**	8,453,996
Non-current assets			
Trade and other receivables		**2,094,162**	2,090,462
Property, plant and equipment	7	**11,927,518**	11,516,252
Finance lease asset		**1,086,226**	1,257,736
Capitalised exploration and evaluation expenditure	6	**5,796,444**	4,599,623
Capitalised mineral development expenditure	8	**4,658,544**	3,848,313
Total non-current assets		**25,562,894**	23,312,386
Total assets		**33,653,052**	31,766,382
Current liabilities			
Trade and other payables		**5,968,411**	4,515,008
Commodity loan		**2,000,000**	1,500,000
Finance lease liabilities		**528,182**	456,019
Interest bearing liabilities	9	**89,185**	90,729
Total current liabilities		**8,585,778**	6,561,756
Non-current liabilities			
Finance lease liabilities		**511,463**	794,917
Provisions		**3,472,157**	3,286,705
Total non-current liabilities		**3,983,620**	4,081,622
Total liabilities		**12,569,398**	10,643,378
Net assets		**21,083,654**	21,123,004
Equity			
Issued capital	10	**100,941,188**	99,803,875
Accumulated losses	12	**(82,876,224)**	(81,635,625)
Equity remuneration reserve	12	**3,018,690**	2,954,754
Total equity		**21,083,654**	21,123,004

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2012

	Note	Issued Capital Ordinary $	Accumulated Losses $	Options Reserve $	Total $
Balance at 1.7.2011		95,585,386	(78,515,881)	2,743,256	19,812,761
Total comprehensive loss for the half year					
Loss		-	(2,539,324)	-	(2,539,324)
		-	(2,539,324)	-	(2,539,324)
Transactions with owners in their capacity as owners					
Issue of ordinary shares		83,333	-	-	83,333
Transaction costs arising on share issue		-	-	155,571	155,571
		83,333	-	155,571	238,904
Balance at 31.12.2011		95,668,719	(81,055,205)	2,898,827	17,512,341
Balance at 1.7.2012		**99,803,875**	**(81,635,625)**	**2,954,754**	**21,123,004**
Total comprehensive loss for the period					
Loss		**-**	**(1,240,599)**	**-**	**(1,240,599)**
		-	**(1,240,599)**	**-**	**(1,240,599)**
Transactions with owners in their capacity as owners					
Issue of ordinary shares		**1,162,933**	**-**	**-**	**1,162,933**
Transactions costs arising on share issue		**(25,620)**	**-**	**-**	**(25,620)**
Movement in equity Compensation reserve	**11**	**-**	**-**	**63,936**	**63,936**
		1,137,313	**-**	**63,936**	**1,201,249**
Balance at 31.12.2012		**100,941,188**	**(82,876,224)**	**3,018,690**	**21,083,654**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
For the half-year ended 31 December 2012

	31 December 2012 $	31 December 2011 $
Cash flows from operating activities		
Cash receipts in the course of operations	**13,255,375**	-
Interest received	**72,089**	108,234
Payments to creditors' trust	**-**	(600,000)
Interest paid	**(229)**	(4,020)
Payments to suppliers and employees	**(9,792,432)**	(2,715,135)
Net cash inflow/(outflow) from operating activities	**3,534,803**	(3,210,921)
Cash flows from investing activities		
Exploration and evaluation activities	**(1,196,821)**	(1,149,266)
Development activities	**(2,362,475)**	548,781
Payments for property, plant and equipment	**(1,354,648)**	(409,760)
Security deposits paid and relinquished	**(3,700)**	-
Net cash outflow from investing activities	**(4,917,644)**	(1,010,245)
Cash flows from financing activities		
Proceeds from the issue of shares (net of share issue costs)	**1,137,313**	83,333
Proceeds from commodity loan	**2,000,000**	3,000,000
Repayments of borrowings	**(1,889,350)**	(129,251)
Net cash inflow from financing activities	**1,247,963**	2,954,082
Net increase/(decrease) in cash and cash equivalents held	**(134,878)**	(1,267,084)
Cash and cash equivalents at the beginning of the period	**2,121,068**	3,036,586
Cash and cash equivalents at the end of the period	**1,986,190**	1,769,502

Non-cash financing and investing activities – Note 13

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1 Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2012 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made by Alcyone Resources Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The consolidated interim financial statements were approved by the Board of Directors on 15 March 2012.

Going Concern

For the half year ended 31 December 2012 the Group incurred a consolidated loss of $1,240,599 and experienced net operating and investing cash outflows of $1,382,841. As at December 31 2012 the Group had $1,986,190 in cash and cash equivalents and net current liabilities of $495,620.

On 26 February 2013 the company announced it was entering into Convertible Securities Agreements to provide funding of $2.5M (with an aggregate face value of $2.65M) which became available on 26 February 2013. This facility may by mutual consent of the respective parties be extended to $10M on satisfaction of key terms.

Further to entering into the Convertible Securities Agreement the Company announced on 15 March 2013 that it had signed a non-binding term sheet to raise $2.5 million by way of the placement of promissory notes to an Australian based investment group. Final binding documents are being prepared and the fund raising is expected to close on execution of these binding agreements later this month. This $2.5M in short term funding will provide additional financial resources and secure the company's ability to remain focused on continuing to ramp up production at the Texas Silver Mine. Further details of these fundraising arrangements are available in Note 16 to the Financial Statements.

Current production forecasts indicate that with the receipt of the $2.5M promissory note placement in March the company has sufficient short term working capital to continue its efforts to ramp up production and continue as a going concern. The company will need to raise further capital during 2013 to provide additional working capital and fund on going improvements to the processing circuit. At 31 December 2013 the company held silver inventory of 718,463oz of silver on the leach pads and in-circuit, with a market value of $20M at a silver price of $A28/oz. The carrying value of this asset for accounting purposes in the Financial Statements for 31 December 2012 is $4.5M.

The Directors have reviewed the Group's and the Company's overall position and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe that the Company will achieve its production targets. Should the company fail to ramp up production in the short term to levels sufficient to sustain the operations, further funding will be required. While there is capacity to reduce the company's on-going costs in the event of future production shortfalls, should the company be unsuccessful in raising further funds from debt or equity, there is material uncertainty which may cast doubt as to whether the company will continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and the amounts stated in the financial report.

Notes to the Interim Consolidated Financial Statements
For the half-year ended 31 December 2012

Note 1 Basis of preparation of half-year report (continued)

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Adoption of new and revised accounting standards

In the half year ended 31 December 2012, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2012. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and therefore no change is necessary to Group accounting policies.

Recoverability of Mineral Development Expenditure

The ultimate recoupment of costs carried forward for mineral development expenditure is dependent upon the successful development and commercial exploitation or sale of the respective areas of interest.

Heap Leaching Recovery Curve

A change was made to the heap leaching recovery curve from five months to twelve months since the start of the reporting period. The change was made based on current metallurgical data collected since the recommencement of mining production which more suitably reflects the leaching profile of the heaps.

Note 2 Segment information

Management has determined, based on the reports reviewed by the Board to make strategic decisions, that the Group only has one reportable segment being the mineral exploration and development sector within Australia.

	For the six months ended 31 Dec 2012 $	For the six months ended 31 Dec 2011 $
Revenue from external sources	**13,317,016**	178,011
Reportable segment profit / (loss)	**55,984**	(758,478)

	At 31 Dec 2012 $	At 30 Jun 2012 $
Reportable segment assets	**32,560,092**	29,117,179
Reportable segment liabilities	**11,918,848**	9,953,004

	For the six months ended 31 Dec 2012 $	For the six months ended 31 Dec 2011 $
Reportable segment revenue is reconciled to total revenue as follows:		
Segment revenue	**13,317,016**	178,011
Corporate Revenue:		

Notes to the Interim Consolidated Financial Statements
For the half-year ended 31 December 2012

Note 2 Segment information (continued)

Interest received	**14,152**	36,306
Sundry Items	**-**	72,566
Total Corporate revenue	**14,152**	108,872
Total revenue as per the Statement of Comprehensive Income	**13,331,168**	286,883
Reportable segment profit is reconciled to total (loss) / profit before income tax as follows:		
Segment (loss) / profit	**55,984**	(758,478)
Corporate revenue	**14,152**	108,872
Other corporate income	**5,020**	50,000
Corporate Expenses:		
Corporate compliance	**(401,491)**	(516,255)
Employee benefit expense	**(603,108)**	(595,240)
Share based payment expense	**(63,936)**	(155,570)
Finance costs	**-**	(59)
Office rental and consumables	**(105,841)**	(116,715)
Consulting fees	**(23,300)**	(220,373)
Depreciation and amortisation	**(43,692)**	(52,589)
Exploration expenditure written off	**-**	(152,686)
Other expenses	**(74,387)**	(130,231)
Total (loss) as per the Statement of Comprehensive Income	**(1,240,599)**	(2,539,324)

	At 31 Dec 2012 **$**	At 30 Jun 2012 $
Reportable segment assets are reconciled to total assets as follows:		
Segment assets	**32,560,092**	29,117,179
Corporate assets:		
Cash and cash equivalents	**195,380**	1,591,581
Trade and other receivables	**507,707**	629,078
Property, plant and equipment	**359,755**	403,446
Investments	**30,118**	25,098
Total assets as per the Statement of Financial Position	**33,653,052**	31,766,382
Reportable segment liabilities are reconciled to total liabilities as follows:		
Segment liabilities	**11,918,848**	9,953,004
Corporate liabilities:		
Provisions	**131,764**	114,162
Trade and other payables	**518,786**	576,212
Total liabilities as per the Statement of Financial Position	**12,569,398**	10,643,378

Notes to the Interim Consolidated Financial Statements
For the half-year ended 31 December 2012

Note 3 Other income

	For the six months ended 31 Dec 2012 $	For the six months ended 31 Dec 2011 $
Proceeds from sale of tenements	**-**	50,000
Net profit on revaluation of financial assets at fair value through profit or loss	**5,020**	-
	5,020	50,000

Note 4 Loss for the period

(Loss) / Profit before income tax includes the following specific expense items:		
Depreciation	**(943,384)**	(166,756)
Amortisation – mine development	**(270,766)**	-
Amortisation – deferred waste	**(1,281,478)**	-
Amortisation – rehabilitation provision	**(156,435)**	-
Net (loss) on revaluation of financial assets at fair value through profit or loss	**-**	(12,353)

Note 6 Mineral exploration

During the six months ended 31 December 2012 the Group capitalised expenditure in respect of mineral exploration of $1,196,821.

	At 31 Dec 2012 $	At 30 Jun 2012 $
Expenditure carried forward in respect of areas of interest in the pre-production – exploration and evaluation phase		
Balance at the beginning of the financial period	**4,599,623**	3,044,032
Expenditure during the period	**1,196,821**	1,801,841
Capitalised expenditure written off	**-**	(246,250)
Balance at the end of the period	**5,796,444**	4,599,623

The ultimate recoupment of exploration and evaluation expenditure carried forward is dependent on successful development and exploitation, or alternatively sale of the respective area of interest.

Notes to the Interim Consolidated Financial Statements
For the half-year ended 31 December 2012

Note 7 Property, plant and equipment

Construction of Leach Pad 4 was completed during the December quarter at a total cost of $1,033,126. As at the reporting date there was 102,280 tonnes of material under irrigation on the new pad.

	Property $	Process plant $	Crushing plant $	Plant and Equipment $	Total $
At 30 June 2012					
Cost or fair value	134,992	2,148,742	6,147,525	12,041,812	20,473,071
Impairment	-	-	-	(5,343,506)	(5,343,506)
Accumulated Depreciation	-	(128,651)	(368,069)	(3,116,593)	(3,613,313)
Net book amount	**134,992**	**2,020,091**	**5,779,456**	**3,581,713**	**11,516,252**
Half-year ended 31 December 2012					
Opening net book amount	134,992	2,020,091	5,779,456	3,581,713	11,516,252
Additions	-	-	-	1,354,650	1,354,650
Depreciation	-	(162,237)	(464,157)	(316,990)	(943,384)
Closing net book amount	**134,992**	**1,857,854**	**5,315,299**	**4,619,373**	**11,927,518**
At 31 December 2012					
Cost or fair value	134,992	2,148,742	6,147,525	13,396,460	21,827,719
Impairment	-	-	-	(5,343,506)	(5,343,506)
Accumulate depreciation	-	(290,888)	(832,226)	(3,433,581)	(4,556,695)
Net book amount	**134,992**	**1,857,854**	**5,315,299**	**4,619,373**	**11,927,518**

Note 8 Mineral development

During the six months ended 31 December 2012 the Group had an increase in capitalised expenditure in respect of mineral development of $810,231 represented by:

	At 31 Dec 2012 $	At 30 Jun 2012 $
Balance at the beginning of the financial period	**3,848,313**	15,299,302
Expenditure during the period	-	4,821,371
Revenue offset against costs	-	(7,135,408)
Rehabilitation provision write back	-	(850,664)
Reclassification of plant and equipment	-	(8,548,447)
Life of mine costs amortised	**(270,766)**	(214,713)
Capitalised waste costs	**2,362,475**	855,702
Capitalised waste costs amortised	**(1,281,478)**	(378,830)
	4,658,544	3,848,313

The ultimate recoupment of costs carried forward for mineral development expenditure is dependent upon the successful development and commercial exploitation or sale of the respective areas of interest.

Notes to the Interim Consolidated Financial Statements
For the half-year ended 31 December 2012

Note 8 Mineral development (continued)

Based on a review, undertaken by the current directors, the carrying value of deferred mineral development expenditure is represented as follows:

	At 31 Dec 2012 $	At 30 Jun 2012 $
Tenements	**4,188,544**	3,378,313
Properties	**470,000**	470,000
	4,658,544	3,848,313

Note 9 Interest bearing liabilities

The Group has a mortgage over the fixed property amounting to $89,185 and is repayable at variable interest rates within 17 years.

Note 10 Issued capital

	31 Dec 2012	31 Dec 2011
Ordinary share capital		
Issued and fully paid	**100,941,188**	**95,668,719**

		31 Dec 2012 \#	31 Dec 2012 $	31 Dec 2011 \#	31 Dec 2011 $
Movements in ordinary share capital					
At the start of the period		**1,421,607,960**	**99,803,875**	1,316,066,488	95,585,386
Issued on exercise of options	$0.01			5,000,000	50,000
Issued on exercise of options	$0.01			2,000,000	20,000
Issued on exercise of options	$0.01			1,333,333	13,333
Issued in share placement	$0.048	**10,416,666**	**500,000**		
Issued on exercise of options	$0.01	**10,000,000**	**100,000**		
Issued in share placement	$0.048	**1,042,000**	**50,016**		
Issued on exercise of options	$0.01	**36,000,000**	**360,000**		
Issued on exercise of options	$0.01	**5,000,000**	**50,000**		
Issued on exercise of options	$0.01	**10,166,667**	**101,667**		
Issued on exercise of options	$0.06	**20,833**	**1,250**		
Share issue costs		**-**	**(25,620)**	-	-
At the end of the period		**1,494,254,126**	**100,941,188**	1,324,399,821	95,668,719

Note 11 Related party transactions

Key management compensation

Key management includes the Board of Directors (executive and non-executive), all members of the Group Management and the Company Secretary. The compensation paid or payable to key management for employee services is shown below:

	For the six months ended 31 Dec 2012 $	For the six months ended 31 Dec 2011 $
Short-term employee benefits	**552,360**	502,431
Post-employment benefits	**31,023**	27,009
Share-based payments	**63,936**	155,571
	647,319	685,011

Notes to the Interim Consolidated Financial Statements
For the half-year ended 31 December 2012

Note 11 Related party transactions (continued)

Share-based payments

During the period options and rights to shares were issued under the Alcyone Resources Ltd Incentive Option Scheme and the Alcyone Resources Ltd Performance Rights Plan which was approved by shareholders at an Annual General Meeting of shareholders of the Group held on 25 November 2010.

Under the Scheme participants are granted options which typically vest on issue with a strike price 50% above the market price. Ian McCubbing received 500,000 options which were vested and exercisable on 4 July 2012 with an expiry date of 4 July 2016. The underlying security spot price was $0.036 at the Grant Date which, in accordance with the Scheme, resulted in a strike price of $0.054.

The value per option at grant date was $0.018 calculated using the Black-Scholes Option Pricing Model with a volatility rate of 80%.

Details of options issued under this scheme are as follows.

Name	Number of Options granted during the period		Value of options at grant date	Number of options vested during the period		Number of options lapsed during the period		Value of options at lapse date
	Dec 2012	Dec 2011	$	Dec 2012	Dec 2011	Dec 2012	Dec 2011	$
MA Reed	-	1,000,000	-	-	1,000,000	-	-	-
CW Morgan	-	5,000,000	-	1,500,000	2,000,000	-	-	-
AL Richards	-	500,000	-	-	500,000	-	-	-
IJ McCubbing	500,000	-	9,187	500,000	-	-	-	-

Detail of Performance Rights issued under this scheme is as follows.

IJ McCubbing received 500,000 Performance Rights during the period with a value of $18,000 using the share price at date of issue of $0.036. The Performance Rights are subject to the following vesting conditions:

- 166,666 Performance Rights vest on the holder remaining in employment of the company at 4 July 2013, and will expire if unexercised on 4 July 2016;
- 166,666 Performance Rights vest on the holder remaining in employment of the company at 4 July 2014, and will expire if unexercised on 4 July 2016; and
- 166,667 Performance Rights vest on the holder remaining in employment of the company at 4 July 2015, and will expire if unexercised on 4 July 2016.

The Performance Rights expense recognised in the accounts for the period was $17,134.

Notes to the Interim Consolidated Financial Statements
For the half-year ended 31 December 2012

Note 12 Reserves

	31 Dec 2012		31 Dec 2011	
	Accumulated losses	**Share based payment reserve**	Accumulated losses	Share based payment reserve
	$	**$**	$	$
At the start of the reporting period	**(81,635,625)**	**2,954,754**	(78,515,881)	2,743,256
(Loss) for the reporting period	**(1,240,599)**	**-**	(2,539,324)	-
Expense recognised on issue of options as remuneration	**-**	**46,802**	-	154,711
Expense performance share rights	**-**	**17,134**	-	860
At the end of the reporting period	**(82,876,224)**	**3,018,690**	(81,055,205)	2,898,827

Note 13 Commitments

a) *Finance Leases*

The finance lease for the mining heavy fleet vehicles had a carrying amount of $1,039,645 expiring within two years. Under the terms of the lease, the group has the option to acquire the leased assets for $378,750 on expiry of the initial lease term or further the initial term for an additional 2 years. If the option is not exercised within the first 30 days after the date of expiration of the initial term, the option shall lapse and expire.

	31 Dec 2012	31 Dec 2011
Commitments in relation to finance leases are payable as follows:	**$**	$
Within one years	**769,224**	769,224
Later than one year but not later than five years	**576,918**	1,346,142
	1,346,142	2,115,366
Future finance charges	**306,497**	682,006
Recognised as a liability	**1,039,645**	1,433,360
Representing lease liabilities:		
Current	**528,182**	393,715
Non-current	**511,463**	1,039,645
	1,039,645	1,433,360

A second finance lease was entered into in August 2012 for a new Trio TC51S-M Cone Crusher and Feed Bin. The installation of the equipment is expected to be finalised and operational in the first quarter of the 2013 calendar year.

All finance charges are being treated as capital until the equipment is installed and ready for use. At the reporting date $528,000 remained payable within the next 12 months.

Notes to the Interim Consolidated Financial Statements
For the half-year ended 31 December 2012

Note 13 Commitments (continued)

b) *Commodity Loan*

The fourth and final tranche silver repayment was made in December 2012 for the $3,000,000 prepay commitment undertaken in November 2011. During December 2012 a new $2,000,000 prepay commitment was established, repayable in 79,500 ounces between the periods February to July 2013.

c) *Forward Trade Facility*

The forward trade facility was extended to September 2013 with a total of 443,500 ounces to be delivered on a monthly basis over the following nine months.

The forward trade facility will be satisfied by delivery of the Group's output and has therefore not been accounted for as a derivative. The facility is secured by a fixed and floating charge over the assets of Texas Silver mines Pty Ltd, including its mining lease and holdings. Alcyone Resources Limited has provided a deed of cross guarantee.

The average price per ounce in the forward trade facility at 31 December 2012 is $28.17.

Note 14 Contingencies

At the balance date the Group had no contingent assets or liabilities.

Note 15 Dividends

No dividends were paid or proposed during the period.

The Group has no franking credits available as at 31 December 2011 or 31 December 2012.

Note 16 Events occurring after the reporting date

Funding

Due to factors detailed in the review of operations, production was lower than expected, and as such on 26 February 2013 the Company announced it had entered into Convertible Securities Agreements (the "Agreements") with Bergen Global Opportunity Fund II, LLC ("Bergen"), a US-based institutional investor managed by Bergen Asset Management, LLC ("Bergen Asset Management"), and YA Global Master SPV ("Yorkville"), a US-based institutional investor managed by Yorkville Advisors, to provide funding of $5.5 million and up to $10 million. The funds 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.

Under the Agreements, Bergen and Yorkville will invest a minimum of $5.5 million in the Company on a 50/50 basis by purchasing up to four interest-free unsecured convertible securities ("Convertible Securities").

The first investment of $2.5 million was made immediately by way of Convertible Securities (with an aggregate face value of $2.625 million). Each of the subsequent three Convertible Security tranches will be purchased (100 days after the date of advance of the previous tranche, but subject to Alcyone's right to postpone the advances) at an aggregate purchase price of $1 million and with an aggregate face value of $1.05 million. By mutual consent, Alcyone, Bergen and Yorkville may increase the purchase price of the subsequent Convertible Securities to up to a maximum of $10 million in the aggregate.

Notes to the Interim Consolidated Financial Statements
For the half-year ended 31 December 2012

Note 16 Events occurring after the reporting date (continued)

Subsequent to this, the board announced on 15 March that it had signed a non-binding term sheet to raise a further $2.5M in short term funding by way of the placement of promissory notes to an Australian Investment Group. At the date of this document, final binding documents as being prepared, with execution expected prior to the end of March.

Board and Management
On 11 March 2013, the company announced the resignation of Mr Charles Morgan and Mr Ian McCubbing as Directors. The company also announced on 15 March the resignation of Mr Andrew King, Managing Director, and the appointment of Mr Tim Morrison and Mr Paul D'Sylva to the Board of Directors. On 15 March 2013 Mr Andrew Richards resigned as a Director, and Mr Michael Reed was appointed as a Director.

Note 17 Subsidiary Information

The consolidated financial report for Alcyone Resources Ltd incorporates its wholly owned subsidiary company Texas Silver Mines Pty Ltd.

Directors' Declaration

The Directors of Alcyone Resources Ltd declare that:

(a) the interim consolidated financial statements and notes set out on pages 4 to 15 are in accordance with the Corporations Act 2001, including:

(i) complying with Australian Accounting Standard AASB134 – *Interim Financial Reporting*, and the Corporations Regulations 2001, other mandatory professional reporting requirements; and

(ii) give a true and fair view of the financial position as at 31 December 2012 and of the performance for the half-year ended on that date and.

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Signed at Perth this 15th day of March 2013

Paul D'Sylva
Director

BDO

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF ALCYONE RESOURCES LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alcyone Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entity it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alcyone Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Alcyone Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Alcyone Resources Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report which indicates that the consolidated entity incurred a net loss of $1,240,599 during the half-year ended 31 December 2012 and had a net working capital deficiency of $495,620 on this date. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities at the amounts stated in the financial report in the normal course of business.

BDO Audit (WA) Pty Ltd

BDO

Peter Toll
Director

Perth, Western Australia
Dated this 15th day of March 2013