

**ALCYONE RESOURCES LTD**

ABN 53 056 776 160

**Interim Consolidated Financial Statements**

**For The Half-Year Ended  
31 December 2009**

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## Directors' Report

The Directors present their interim consolidated report of Alcyone Resources Ltd and its controlled entities for the half-year ended 31 December 2009.

### 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):

C.W. Morgan      *(Appointed 21.08.09)*  
A.J. King         *(Appointed 21.08.09)*  
R.M. Harris      *(Appointed 21.08.09; Resigned 30.11.09)*  
E.P de Mori      *(Appointed 30.11.09)*  
R.D. McNeil      *(Resigned 11.09.09)*  
D.M. O'Neill     *(Resigned 11.09.09)*

### Company Secretary

Kevin Hart

### Review of Operations

The consolidated net profit / (loss) after income tax for the half-year was \$8,439,079 (31 December 2008: (\$37,644,873)).

The result of the consolidated entity was significantly affected by:

- Expenditure of Nil (2008: \$6,783,215) in respect of exploration expenditure written off in accordance with company policy as outlined in Note 1 (ii); and
- Debt forgiveness of \$9,835,741 (2008: nil) in terms of a Deed of Company Arrangement.

At the end of the half-year the Group had \$2,574,745 (30 June 2009: \$1,124,589) in cash and at call deposits. Capitalised exploration and evaluation expenditure is \$110,149 (30 June 2009: Nil). Capitalised mineral development expenditure is \$2,066,861 (30 June 2009: \$1,800,000).

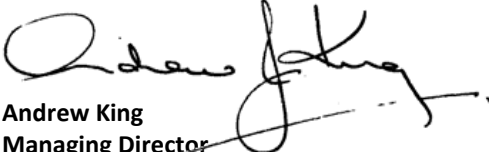
Following its recapitalisation, the Company commenced Metallurgical test work on the Twin Hills Silver Project, Texas, SE Queensland. In conjunction with this, the Geological data review and planning for a new Twin Hills JORC mineral resource estimate was started, following which detailed economics on the project will be completed.

### 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 3.

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

DATED at Perth this 11<sup>th</sup> day of March 2010.

  
**Andrew King**  
**Managing Director**

**DECLARATION OF INDEPENDENCE BY CHRIS SKELTON TO THE DIRECTORS OF ALCYONE RESOURCES LIMITED**

As lead auditor for the review of Alcyone Resources Limited for the half-year ended 31 December 2009, 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 entities it controlled during the period.

**BDO (QLD)**



**CJ Skelton**

Partner

Brisbane: 11 March 2010

**Consolidated Statement of Comprehensive Income**  
**For the half-year ended 31 December 2009**

		Consolidated	
		31	31
		December	December
		2009	2008
		\$	\$
	Note		
Revenue from continuing operations		<b>868,021</b>	1,784,020
Other income	3	<b>9,871,261</b>	4,072,751
Direct costs of mining and processing		<b>(138,487)</b>	(109,055)
Employee benefits expense		<b>(142,708)</b>	(741,138)
Depreciation and amortisation	4	<b>(160,572)</b>	(276,116)
Exploration expenditure written off	4	-	(6,783,215)
Development expenditure written off	4	-	(8,928,562)
Net loss on foreign exchange		-	(1,008,729)
Corporate compliance, insurance, shareholder relations		<b>(177,796)</b>	(371,271)
Repairs and maintenance		<b>(391)</b>	(17,368)
Finance costs		<b>(79,272)</b>	(356,376)
Office rental, communication and consumables		<b>(23,626)</b>	(68,443)
Payment to creditors' trust/Recognition of creditors claims		<b>(850,000)</b>	(7,957,293)
Impairment of property, plant and equipment		-	(6,352,581)
Net result Twin Hills Mines		-	(10,178,728)
Equity based remuneration expense		<b>(428,784)</b>	-
Other expenses		<b>(298,567)</b>	(352,769)
<b>Profit / (loss) before income tax</b>	4	<b>8,439,079</b>	(37,644,873)
Income tax expense		-	-
<b>Profit / (loss) for the half-year</b>		<b>8,439,079</b>	(37,644,873)
Other comprehensive income		-	(6,394,375)
<b>Net comprehensive income / (loss) for the half-year</b>		<b>8,439,079</b>	(44,039,248)
<b>Profit / (loss) per share from continuing operations</b>			
Basic profit / (loss) per share (cents)		<b>1.43 cents</b>	(7.48 cents)
Diluted profit / (loss) per share (cents)		<b>1.22 cents</b>	(7.48 cents)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**Consolidated Statement of Financial Position**  
**As at 31 December 2009**

		Consolidated	
		31 December 2009 \$	30 June 2009 \$
	Note		
<b>Current assets</b>			
Cash and cash equivalents		2,574,745	1,124,589
Trade and other receivables		136,663	28,942
<b>Total current assets</b>		<b>2,711,408</b>	1,153,531
<b>Non-current assets</b>			
Trade and other receivables		1,648,602	1,695,524
Property, plant and equipment		2,373,463	2,067,980
Available for sale financial assets		-	1,627,215
Capitalised exploration and evaluation expenditure	7	110,149	-
Capitalised mineral development expenditure	8	2,066,861	2,270,000
<b>Total non-current assets</b>		<b>6,199,075</b>	7,660,719
<b>Total assets</b>		<b>8,910,483</b>	8,814,250
<b>Current liabilities</b>			
Trade and other payables		290,136	4,241,745
Interest bearing liabilities	9	180,968	9,220,342
<b>Total current liabilities</b>		<b>471,104</b>	13,462,087
<b>Non-current liabilities</b>			
Provisions		4,028,973	4,028,973
<b>Total non-current liabilities</b>		<b>4,028,973</b>	4,028,973
<b>Total liabilities</b>		<b>4,500,077</b>	17,491,060
<b>Net assets / (asset deficiency)</b>		<b>4,410,406</b>	(8,676,810)
<b>Equity</b>			
Issued capital	5	75,743,760	71,524,407
Accumulated losses	6	(74,033,589)	(82,472,668)
Equity remuneration reserve	6	2,700,235	2,271,451
<b>Total equity</b>		<b>4,410,406</b>	(8,676,810)

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 2009**

	Consolidated				Total
	Issued Capital Ordinary \$	Accumulated Losses \$	Fair Value Reserve	Options Reserve	
<b>Balance at 1.7.2008</b>	69,599,596	(44,543,597)	6,394,375	2,271,451	33,721,825
<b>Total comprehensive income for the period</b>					
Loss	-	(37,644,873)		-	(37,644,873)
<b>Other comprehensive income</b>	-	-	-	-	-
Changes in fair value of available for sale investment assets	-	-	(6,394,375)	-	(6,394,375)
<b>Total comprehensive income</b>	-	(37,644,873)	(6,394,375)	-	(44,039,248)
<b>Transactions with owners, recorded directly in equity</b>	-	-	-	-	-
<b>Contributions by and distributions to owners</b>					
Issue of ordinary shares	1,944,120	-	-	-	1,944,120
Transaction costs arising on share issue	(19,309)	-	-	-	(19,309)
<b>Total transactions with owners</b>	1,924,811	-	-	-	(42,144,437)
<b>Balance at 31.12.2008</b>	71,524,407	(82,188,470)	-	2,271,451	(8,392,612)
<b>Balance at 1.7.2009</b>	71,524,407	(82,472,668)	-	2,271,451	(8,676,810)
<b>Total comprehensive income for the period</b>					
Profit	-	8,439,079	-	-	8,439,079
<b>Other comprehensive income</b>	-	-	-	-	-
<b>Total comprehensive income</b>	-	8,439,079	-	-	8,439,079
<b>Transactions with owners, recorded directly in equity</b>	-	-	-	-	-
<b>Contributions by and distributions to owners</b>					
Issue of ordinary shares	4,600,000	-	-	-	4,600,000
Transaction costs arising on share issue	(380,647)	-	-	-	(380,647)
Movement in equity compensation reserve	-	-	-	428,784	428,784
<b>Total transactions with owners</b>	4,219,353	-	-	428,784	4,648,137
<b>Balance at 31.12.2009</b>	75,743,760	(74,033,589)	-	2,700,235	4,410,406

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 2009**

	<b>Consolidated</b>	
	<b>31 December 2009 \$</b>	<b>31 December 2008 \$</b>
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations (inclusive of goods and services tax)	<b>757,312</b>	1,417,886
Interest received	<b>89,359</b>	20,155
Payments to creditors' trust	<b>(1,606,259)</b>	-
Payments to suppliers and employees	<b>(1,236,975)</b>	(2,582,425)
Goods and Services Tax refunded	-	133,492
<b>Net cash used in operating activities</b>	<b>(1,996,563)</b>	<b>(1,010,892)</b>
<b>Cash flows from investing activities</b>		
Exploration and evaluation activities	<b>(110,149)</b>	(4,987,855)
Development activities	<b>(239,638)</b>	-
Payments for property, plant and equipment	<b>(12,196)</b>	(151,788)
Proceeds from the sale property, plant and equipment	<b>20,909</b>	42,000
Proceeds from sale of available-for-sale financial assets	<b>26,111</b>	1,779,153
<b>Net cash used in investing activities</b>	<b>(314,963)</b>	<b>(3,318,490)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of shares (net of share issue costs)	<b>3,869,353</b>	923,067
Repayments of borrowings	<b>(107,671)</b>	(419)
<b>Net cash provided by financing activities</b>	<b>3,761,682</b>	<b>922,648</b>
<b>Net increase/(decrease) in cash held</b>	<b>1,450,156</b>	<b>(3,406,734)</b>
<b>Cash at the beginning of the period</b>	<b>1,124,589</b>	<b>4,957,906</b>
<b>Cash at the end of the period</b>	<b>2,574,745</b>	<b>1,551,172</b>

The above statement of cash flows should be read in conjunction with the accompanying notes.



**Notes to the Interim Financial Statements**  
**For the half-year ended 31 December 2009**

**Note 1 Basis of preparation of half-year report**

This general purpose financial report for the interim half-year reporting period ended 31 December 2009 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board 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 2009 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 12<sup>th</sup> March 2010.

*Adoption of new and revised accounting standards*

In the half year ended 31 December 2009, 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 2009. 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.

*Operating segments*

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Company's chief operating decision maker which, for the Company, is the board of directors. In this regard, such information is provided using different measure to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the interim financial report have not been included as the Company has one operating segment which is presented in the Statement of Comprehensive Income and Statement of Financial Position.

*Presentation of financial statements*

The Group applies revised *AASB 101 Presentation of Financial Statements*, which became effective as from 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in this half year financial statements as of and for the six months period ended on 31 December 2009.

*Recoverability of Mineral Development Expenditure and Going concern*

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.

At 31 December 2009, the Group had cash assets of \$2,574,745 (30 June 2009: \$1,124,589) and working capital / (working capital deficiency) of \$2,240,304 (30 June 2009: (\$12,308,556)).

**Notes to the Interim Financial Statements**  
**For the half-year ended 31 December 2009**

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

Whilst the Group has sufficient cash and assets to meet its current exploration and administration expenditure commitments, the directors recognise the need to raise additional funds to meet working capital requirements into the future. Based on the known potential to raise the additional working capital, the directors are confident of securing funds if and when necessary to meet the Group's obligations as and when they fall due, and consider it appropriate that the financial statements be prepared on a going concern basis.

**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.

**Note 3 Other income**

	Consolidated	
	31 December 2009 \$	31 December 2008 \$
Debt forgiveness pursuant to settlement of a Deed of Company Arrangement	9,835,741	-
Revaluation of investments	-	1,909,769
Gain on sale of investments	26,111	1,779,153
Gain on sale of plant & equipment	8,909	42,000
Sundry	500	341,829
	<b>9,871,261</b>	<b>4,072,751</b>

**Note 4 Loss for the period**

Profit / (loss) before income tax includes the following specific expense items:

Depreciation	(160,572)	(276,116)
Development expenditure written off and expensed	-	(8,928,562)
Exploration expenditure written off and expensed	-	(6,783,215)

**Note 5 Issued capital**

*Ordinary share capital*

Issued and fully paid		<b>75,743,760</b>	71,524,407
<i>Movements in ordinary share capital</i>		#	\$
At the start of the period		511,098,640	71,524,407
Issued in terms of replacement prospectus	\$0.001	50,000,000	50,000
Issued for nil consideration to offset recapitalisation costs incurred by subscribers	\$0.001	100,000,000	100,000
Share placement	\$0.01	400,000,000	4,000,000
Issued to Creditors' Trust on settlement	\$0.01	25,000,000	250,000
20 to 1 Consolidation		25,555,407	-
20 to 1 Consolidation		(511,098,640)	-
Issued on the exercise of options	\$0.01	20,000,000	200,000
Costs associated with share issues		-	(380,647)
At the end of the period		<b>620,555,407</b>	<b>75,743,760</b>

**Notes to the Interim Financial Statements**  
**For the half-year ended 31 December 2009**

**Note 6 Reserves**

	31 December 2009		Consolidated 31 December 2008		
	Accumulated losses	Share based payment reserve	Accumulated losses	Share based payment reserve	Fair value reserve
	\$	\$	\$	\$	\$
At the start of the reporting period	<b>(82,472,668)</b>	<b>2,271,451</b>	(44,543,597)	2,271,451	6,394,375
Profit / (loss) for the reporting period	<b>8,439,079</b>	-	(37,644,873)	-	-
Changes in fair value of available for sale investments	-	-	-	-	(6,394,375)
Expense recognised on issue of options as remuneration	-	<b>428,784</b>	-	-	-
At the end of the reporting period	<b>(74,033,589)</b>	<b>2,700,235</b>	(82,188,470)	2,271,451	-

**Note 7 Mineral exploration**

During the six months ended 31 December 2009 the Group capitalised expenditure in respect of mineral exploration of \$110,149. Included in these capitalised costs are expenses amounting to \$4,167 that were settled by the issue of ordinary fully paid shares.

Capitalised mineral exploration expenditure as at 31 December 2009 is \$110,149 (30 June 2009: Nil).

**Note 8 Mineral development**

During the six months ended 31 December 2009 the Group capitalised expenditure in respect of mineral development of \$266,861. The fixed property valued at \$470,000, previously reflected under mineral development in June 2009 has now been reclassified under property plant and equipment.

Capitalised mineral development expenditure as at 31 December 2009 is \$2,066,861 (30 June 2009: \$2,270,000).

The ultimate recoupment of costs carried forward for mineral development is dependent upon the successful development and commercial exploitation or sale of the respective areas of interest. The directors have determined the carrying value of mineral development to be equal to its capitalised value.

**Note 9 Interest bearing liabilities**

The Group has existing hire purchase agreements in respect of the acquisition of mine related plant and equipment amounting to existing liabilities under the agreements of \$83,814. The agreements are repayable at various interest rates within 4 months. The Group has a mortgage over the fixed property amounting to \$97,154 and is repayable at variable interest rates within 26 years.

**Note 10 Dividends**

No dividends were paid or proposed during the period.

The Company has no franking credits available as at 31 December 2008 or 31 December 2009.

**Notes to the Interim Financial Statements**  
**For the half-year ended 31 December 2009**

**Note 11 Contingencies**

*(i) Contingent liabilities*

There has been no change in contingent liabilities since the last annual reporting date.

*(ii) Contingent assets*

There has been no change in contingent assets since the last annual reporting date.

**Note 12 Related party transactions**

New related party transactions not previously disclosed in the annual report for the year ended 30 June 2009 are as follows:

- The appointment of Eric de Mori as a non-executive director being remunerated at \$2,916.67 per month.
- The issue of 10,000,000 unlisted options to Charles Morgan for nil consideration as per resolution passed at the AGM held on 30 November 2009.

**Note 13 Events occurring after the balance sheet date**

There are no matters that have arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

**Note 14 Subsidiary Information**

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

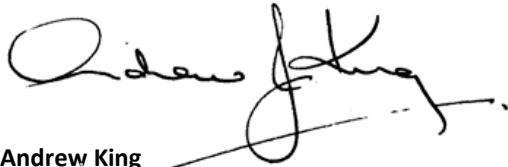
**Directors' Declaration**

The Directors of Alcyone Resources Ltd ("the Company") declare that:

- (a) the interim financial statements and notes set out on pages 4 to 10 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Australian Accounting Standard AASB134 – *Interim Financial Reporting*, and the Corporations Regulations 2001; and
  - (ii) give a true and fair view of the financial position as at 31 December 2008 and of the performance for the half-year ended on that date of the Company.
- (b) there are reasonable grounds to believe that the Company 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 11<sup>th</sup> day of March 2010.

A handwritten signature in black ink, appearing to read 'Andrew King', written over a horizontal line.

**Andrew King**  
**Managing Director**

## **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 statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year.

### **Directors' Responsibility for the Half-Year Financial Report**

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **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 an Interim and Other Financial Reports 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 financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2009 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 would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

## 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 2009 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 Matters regarding recoverability of mineral development expenditure and going concern

Without qualification to the conclusion expressed above, we draw attention to the matters detailed in Note 1 under the heading "Recoverability of Mineral Development Expenditure and Going concern". As detailed, 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. As also explained in the Note, whilst the Group has sufficient cash and assets to meet its current exploration and administration expenditure commitments, the directors recognise the need to raise additional funds to meet working capital requirements into the future.

No adjustments have been to the carrying amount of mineral development expenditure should the commercial exploitation of the areas of interest not be successful. In addition, no adjustments have been made to the carrying amount of assets or recorded amount of liabilities should the company not be able to raise additional funds to meet working capital requirements into the future.

BDO (QLD)

BDO



Chris Skelton

Partner

Brisbane: 11 March 2010