



ABN 53 056 776 160
Level 1, 50 Kings Park Road, West Perth WA 6005
PO Box 928, West Perth WA 6872
T: +61 (0)8 9322 3000
F: +61 (0)8 9322 8912
www.alcyone.com.au

14 December 2010

Dear Shareholder

NON-RENOUCEABLE ENTITLEMENT ISSUE

On 10th December 2010, Alcyone Resources Limited (**Company**) lodged a prospectus (**Prospectus**) with the Australian Securities & Investments Commission (**ASIC**) in relation to a non-renounceable entitlement issue of 1 fully paid ordinary share in the capital of the Company (**Share**) for every 5 Shares held by shareholders of the Company holding Shares as at the Record Date (as set out in the timetable below) (**Eligible Shareholders**) at an issue price of 3.5 cents per Share, to raise up to approximately \$5,530,388 (**Offer**). Fractional entitlements will be rounded up to the nearest whole number.

All of the Shares offered under the Prospectus will rank equally with the Shares on issue at the date of the Prospectus. The Prospectus contains further information regarding the rights and liabilities attaching to the Shares.

Fully Underwritten

The Offer is fully underwritten by Cygnet Capital Pty Limited (ACN 103 488 606) (**Underwriter**). Entitlements as a result of additional Shares issued due to the exercise of Options prior to the Record Date will be underwritten. The underwriting is subject to standard terms and conditions and further details are set out in the Prospectus.

The Company has agreed to pay the Underwriter an underwriting fee of 6% (excluding GST) of the value of the amount underwritten, as well as reimbursement of expenses.

The Company has been advised by the Underwriter that it has entered into a sub-underwriting agreement with Seaspin Pty Ltd, a company controlled by Mr Charles Morgan, the Company's Chairman. Seaspin Pty Ltd has agreed to sub-underwrite 57,142,857 Shares of the Underwritten Shares at a total subscription price of \$2,000,000.

Offer to Australia and New Zealand Investors Only

It is not practicable for the Company to comply with the securities laws of overseas jurisdictions having regard to the number of overseas Shareholders, the number and value of Shares these Shareholders would be offered and the cost of complying with regulatory requirements in each relevant jurisdiction. Accordingly, the Offer is not being extended and Shares will not be issued to Shareholders with a registered address which is outside Australia or New Zealand. Shareholders resident in New Zealand should consider the additional disclosures specific to them as set out in the Prospectus and should consult their professional advisors as to whether any government or other consents are required, or other formalities need to be observed, to enable them to exercise their entitlements under the Offer.

Availability of Prospectus

The Prospectus together with a personalised entitlement and acceptance form will be sent to Eligible Shareholders on the date set out in the timetable below. Instructions on how and when to apply under the Offer are set out in the Prospectus. The Prospectus is an important document and should be read in its entirety before deciding whether to accept an entitlement. If after reading the Prospectus you have any questions you should consult your stockbroker, accountant or other professional adviser.

The Prospectus has also been lodged with ASX and is available on the ASX website at asx.com.au and on the Company's website at www.alcyone.com.au.

Use of Funds

The funds raised by the Offer will be used to commence pre-development and infra-structure activities of the Company, order long lead time items, explore mineral resources and to meet the anticipated expenses of the Offer.

Application for Quotation

The Company has applied to ASX for quotation of the Shares to be issued pursuant to the Prospectus. If approval is not obtained from ASX before the expiration of 3 months after the date of issue of the Prospectus, (or such period as varied by the ASIC), the Company will not issue any Shares and will repay all application monies for the Shares within the time prescribed under the Corporations Act, without interest.

Placement

On 9 December 2010, the Company announced that it had entered into an engagement agreement (**Mandate**) with Southern Cross Equities Limited (**Southern Cross**) to act as lead manager for a placement to raise up to \$10 million by the issue of 285,714,286 Shares at an issue price of 3.5 cents per share to professional and sophisticated investors (**Placement**). Southern Cross must undertake the placement on a "best endeavours basis".

The Placement will be conducted in two tranches. Tranche 1 will comprise approximately 118 million Shares undertaken under the Company's 15% placing authority under ASX Listing Rule 7.1. Tranche 2, of approximately 167 million Shares, will be subject to Shareholder approval at a meeting to be convened in January 2011.

The Prospectus assumes that Shareholders approve the issue of Shares under Tranche 2 of the Placement and the Placement is fully subscribed.

Timetable

The timetable in respect of the Offer is set out below:

Lodgement of Prospectus with ASIC	10 December 2010
Notice sent to Optionholders	10 December 2010
Notice sent to Shareholders	14 December 2010
Ex Date	15 December 2010
Record Date for determining Entitlements	5pm (WST) on 21 December 2010
Prospectus dispatched to Shareholders	23 December 2010
Closing Date	5pm (WST) on 14 January 2011
Securities quoted on a deferred settlement basis	17 January 2011
Notify ASX and Underwriter of under-subscriptions	19 January 2011
Dispatch date/Shares entered into Shareholders' security holdings	24 January 2011
Date of quotation of Shares issued under the Offer*	25 January 2011
Underwriter lodges applications for Shortfall Shares	25 January 2011
Date of quotation of Shortfall Shares*	31 January 2011

* The Directors may extend the Closing Date by giving at least 6 Business Days notice to ASX prior to the Closing Date. As such the date the Shares are expected to commence trading on ASX may vary.

Capital Structure

Upon completion of the Offer (assuming the all Shares offered under the Prospectus and the Placement are issued and no Options are exercised prior to the Record Date), the capital structure of the Company will be:

Shares

	Number
Shares on issue at date of Prospectus	790,055,407
Shares offered pursuant to the Offer	158,011,081
Shares offered pursuant to the Placement	285,714,286
Total Shares on issue after completion of the Offer and Placement	1,233,780,774

Options

	Number
Options (unlisted) (exercise price 1 cent / expiry date 30 September 2012)	118,500,000
Options (unlisted) (exercise price \$9.00 / expiry date 14 August 2011)	423,750
Options (unlisted) (exercise price \$9.60 / expiry date 9 November 2012)	250,000
Options (listed) (exercise price \$1.60 / expiry date 30 September 2011)	667,902
Options offered pursuant to the Offer	Nil
Total Options on issue after completion of the Offer	119,841,652

Enquiries

If you have any questions about applying for securities under the Prospectus, please contact Kevin Hart, Company Secretary on +61 8 9316 9100.

Yours faithfully

ANDREW KING
MANAGING DIRECTOR
ALCYONE RESOURCES LIMITED