ABN 53 056 776 160

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2011

CORPORATE DIRECTORY

DIRECTORS
Charles Morgan - Non-Executive Chairman
Andrew King - Managing Director
Andrew Richards - Non-Executive Director

COMPANY SECRETARY
Kevin Hart

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Review of Operations

The 2010/11 financial year has been a landmark in the development of Alcyone Resources Limited. Firstly, the company finalised the last of the metallurgical testing then completed an economic review that demonstrated the viability of the Twin Hills ore body. This enabled it to raise approximately $16million and commence the construction of the upgraded processing facility to take the Company into commercial production. Then, in conjunction with the commencement of construction, Alcyone also started the re-irrigation of the historic heaps to prove the viability of the Merrill Crowe circuit and deliver some early silver production and cashflow.

The Company is now positioned to undertake full scale wet commissioning of the processing facility in September followed by a ramp up to the commencement of commercial silver production

Twin Hills

Progress at the Twin Hills Mine in Texas, Queensland has been the cornerstone of the company's growth this year.

Based on the initial feasibility work completed in 2009/10, an economic model was independently developed based on the Twin Hills resource, using a pit design based around a silver price of $19.50 AUD per ounce. In parallel with the development of this model a final phase of test work was undertaken on the potential to utilise a Korean manufactured quad rolls crusher. On the basis of positive results from these crusher tests, the economic model was updated and the decision was taken to proceed with the re-development of the Twin Hills processing facility and commence commercial production.

Construction work commenced on the updated processing and recovery circuit in February 2011, and is on track to ramp-up to full scale commercial silver extraction during the December 2011 Quarter at an initial annualised rate of 1.5-2.0Moz.

Following completion of some remedial works on the Storm Water Dam, re-irrigation of the historical heap leach stockpiles at the Twin Hills mine commenced in late April this year. Heap saturation was achieved in June with the silver leachate reaching a suitable concentration to justify the trialing of the pilot scale Merrill Crowe circuit. The successful extraction of silver via the pilot plant confirmed the viability of the proposed long-term process flow sheet for the Texas Project. The first batch of silver-rich precipitate was treated off-site and the first silver bullion poured on 15 June. Final silver out turn from the Perth Refinery was 14,043 oz.

Optimisation of the pilot scale Merrill Crowe circuit delivered flow rates 50% higher than those previously achieved and resulted in silver recoveries from solution in excess of 94%.

Since the end of the financial year, the Alcyone bullion circuit has been commissioned resulting in the first bullion being produced on site. Over 100,00oz of silver has been poured by the end of July while dry commissioning of the crushing circuit was being undertaken.

Wet commissioning has commenced in August with ramp up towards commercial scale production to be undertaken in the December Quarter.

Revised Ore Reserves

With the spot silver price continuing to trade above A$30/oz throughout the June Quarter, the Company initiated a re-optimisation of its Ore Reserve for the Twin Hills deposit. Pit optimisations at varying prices between A$19.85/oz and A$35/0z were undertaken with the decision being taken to mine the Ore Reserve using a price of A$25/oz. This resulted in a new Proven and Probable Ore Reserve of 5.64Moz of recoverable silver (4Mt @ 64g/t Ag). – See following Table

The new Ore Reserve, when coupled with the approximately 400,000 tonnes already on the stockpiles, has delivered over a 30% increase in production ounces and increased the mine life of the Twin Hills deposit from three years to between 4 and 5 years at production rates of 1.0 million tonnes per annum.

The new Reserve has also decreased the expected waste-to-ore mining strip ratio from 3.9:1 on the original November 2010 estimate to 1.65:1 for the Production Pit.

During the same period that the Twin Hills Ore reserve was being reviewed, the company completed an updated Resource Estimate for the Mt Gunyan deposit, located 4-5km north-east of the Twin Hills mine. This incorporated recent successful exploration results and improved the classification of the material.

Mt Gunyan now has a revised JORC compliant Mineral Resource estimate of 2.3Mt @ 69g/t Ag and 0.08g/t Au, containing 5.2Moz of silver and 6,200oz of gold.

Mineral Resource

Deposit	Category	Tonnes	Silver	Gold	Contained Silver (oz)	Contained Gold (oz)
			(g/t Ag)	(g/t Au)		
Twin Hills	Measured	1,762,000	86	0.08	4,868,000	4,700
*includes Ore Reserve below	Indicated	1,466,000	79	0.12	3,722,000	5,400
	Inferred	614,000	81	0.08	1,602,000	1,600
	TOTAL:	3,842,000	83	0.09	10,192,000	11,700
Mount Gunyan	Measured:	242,000	69	0.16	537,000	1,300
	Indicated	1,777,000	69	0.08	3,925,000	4,400
	Inferred	329,000	69	0.05	728,000	500
	TOTAL:	2,347,000	69	0.08	5,189,000	6,200
PROJECT TOTAL*	All Categories	6,189,000	77	0.09	15,382,000	17,900

Reporting Cut-off 40g/t Ag

Ore Reserve

Deposit	Category	Tonnes	Silver	Gold
			(g/t Ag)	(g/t Au)
Twin Hills	Proved	1,570,000	86	0.08
	Probable	2,445,000	50	0.07
	TOTAL:	**4,016,000**	**64**	0.07

Cut-off 26.5g/t Ag

Work will commence in the current fiscal year on the feasibility study and permitting of Mt Gunyan to provide additional feed and hence mine life to the Twin Hills processing facility

EXPLORATION

Further exploration within the company's existing Queensland tenements remains a significant priority and a key to the company's growth. The Company is focused on developing the targets that are most likely to deliver leachable silver resources and thus potentially extend mine life. In addition to these are the base metal opportunities that have been identified as requiring follow up to assess their prospectivity for resource delineation .

The most prospective of the leachable silver targets include the Hawker prospect together with Mt Gunyan and its satellites. In addition, further work will be done on the Tomcat prospect to establish an optimum drill program. At Hawker, the drilling will provide evidence as to the scale and style of the mineralisation which may be a precursor to establishing a mineral resource

The company has defined a number of base metal exploration targets within the 7km long corridor between the Tornado and Hornet prospects, as well as at the historic Silver Spur prospect. The planned drilling at Silver Spur will help to more fully assess the potential for open-cut mining by confirming and most likely expanding the current Mineral Resource.

RAB drilling has been completed at the Hornet prospect, over a 1km strike length centered on the old Texas Copper Mine workings. The results have outlined broad anomalous copper and zinc zones on more than one structural orientation. This information is being combined with the previously conducted SAM geophysical survey and a regional mapping program to enhance targeting.

Alcyone has engaged an RC drilling contractor who has commenced work in mid-August. The initial focus of the 5,000m program will be grade control in the Twin Hills Pit, In addition, deeper drilling will provide evidence as to the source of the mineralising fluids and controlling structures.

At Hornet drilling will be beneath the broad sulphide enriched near surface areas defined in the RAB drilling.

At Hawker, the drilling will provide evidence as to the scale and style of the Ag/Cu mineralisation in an around old working within a broader soil anomaly.

This is a key to unlocking the genetic model for the mineral emplacement within the sedimentary sequences.

Greenhouse Reporting

The company has reviewed the updated greenhouse reporting requirements and determined that the current energy use remains below the reporting thresholds. This will be reviewed early in 2012 once the commercial energy use of the Twin Hills operations has been established.

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 Directors of Alcyone Resources Ltd ('Alcyone') support the establishment and ongoing development of good corporate governance for the Company.

Alcyone has adopted systems of control and accountability as the basis for the administration of corporate governance. These policies and procedures are summarised below. The Board of the Company has made it a priority to administer the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

The Board and management are committed to corporate governance and to the extent they are applicable to the Company, have adopted the ASX Corporate Governance Principles and each of the Best Practice Recommendations as published by ASX Corporate Governance Council **("ASX Principles and Recommendations")**.

Further information about the Company's corporate governance practices are set out on the Company's website at www.alcyone.com.au. In accordance with the recommendations of the ASX, information published on the Company's website includes:

- Corporate Governance Statement;
- Board Charter;
- Nomination and Appointment of Directors Policy;
- Corporate Code of Conduct;
- Dealings in Company Securities Policy;
- Audit Committee Charter;
- Selection of External Auditor and Rotation of Audit Engagement Partners Strategy;
- Continuous Disclosure Policy;
- Communication with Shareholders Policy;
- Risk Management Policy;
- Remuneration Committee Charter:
- Remuneration Policy; and
- Diversity Policy.

This Statement sets out the corporate governance practices in place during the course of the financial year and as at the date of this report, which comply with the recommendations of the Corporate Governance Council unless otherwise stated.

CORPORATE GOVERNANCE COUNCIL PRINCIPLE 1
Lay Solid Foundations for Management and Oversight

Role of the Board of Directors

The role of the Board is to build long term sustainable value for its security holders whilst respecting the interests of its stakeholders.

In order to fulfil this role, the Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, setting remuneration and monitoring the performance of Directors and Senior Executives. The Board relies on Senior Executives to assist it in approving and monitoring expenditure, ensuring the integrity of internal controls and management information systems and monitoring and approving financial and other reporting.

In complying with Recommendation 1.1 of the Corporate Governance Council, the Company has adopted a Board Charter which clarifies the respective roles of the Board and senior management and assists in decision making processes. A copy of the Board Charter and the responsibilities of senior executives and management is available on the Company's website.

Board Processes

An agenda for Board meetings has been determined to ensure certain standing information is addressed and other items which are relevant to reporting deadlines and or regular review are scheduled when appropriate. The agenda is regularly reviewed by the Chairman and the Company Secretary.

Evaluation of Senior Executive Performance

The Company has not complied with Recommendation 1.2 of the Corporate Governance Council. Due to the stage of development of the Company, it is difficult for quantitative measures of performance to be established. As the Company progresses its projects, the Board intends to establish appropriate evaluation procedures. The Chairman currently assesses the performance of the Board, individual directors and key executives on an informal basis.

CORPORATE GOVERNANCE COUNCIL PRINCIPLE 2
Structure the Board to Add Value

Board composition

The Constitution of the Company provides that the number of Directors shall not be less than three. There is no requirement for any share holding qualification.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include the quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the scope of activities of the Company, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the Board and are subject to re-election by shareholders at the next general meeting. In any event one third of the Directors are subject to re-election by shareholders at each general meeting.

The Board is presently comprised of three members, two Non-executive Directors and one Executive Director.

The Board has assessed the independence of the Non-Executive Directors in accordance with the definition contained within the ASX Corporate Governance Guidelines and has concluded that the current Non-Executive Directors are independent. They have no material business or contractual relationship with the Company, other than as a Director and no conflicts of interest could interfere with the exercise of independent judgement. Shareholdings in excess of 10% are deemed to be material.

Independent Chairman

The Chairman is an independent Chairman. As such, Recommendation 2.2 of the Corporate Governance Council has been complied with.

The Board considers both its structure and composition are appropriate given the size of the Company and its current scale of operation. As the Company transitions to a mining entity the Board composition and number of Directors will be subject review.

Roles of Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are exercised by different individuals, and as such, the Company complies with Recommendation 2.3 of the Corporate Governance Council.

A profile of each Director, including their skills, experience and relevant expertise, and the date each Director was appointed to the Board is set out in the Directors' Report.

Nomination Committee

The Board does not have a separate Nomination Committee comprising of a majority of independent Directors and as such does not comply with Recommendation 2.4 of the Corporate Governance Council. The selection and appointment process for Directors is carried out by the full Board. The Board considers that given the importance of Board composition it is appropriate that all members of the Board partake in such decision making.

A copy of the Nomination Committee Charter and the Policy and Procedure for Selection and Appointment of New Directors is available on the Company's website.

Evaluation of Board Performance

The Company does not have a formal process for the evaluation of the performance of the Board and as such does not comply with Recommendation 2.5 of the Corporate Governance Council. The Board is of the opinion that the competitive environment in which the Company operates will effectively provide a measure of the performance of the Directors, in addition the Chairman assesses the performance of the Board, individual Directors and key executives on an informal basis from time to time.

Education

All Directors are encouraged to attend professional education courses relevant to their roles.

Independent Professional Advice and Access to Information

Each Director has the right to access all relevant information in respect to the Company and to make appropriate enquiries of senior management. Each Director has the right to seek independent professional advice on matters relating to him as a Director of the Company at the Company's expense, subject to prior approval of the Chairman.

CORPORATE GOVERNANCE COUNCIL PRINCIPLE 3
Promote Ethical and Responsible Decision Making

Code of conduct

The Board believes in and supports ethical and responsible decision making. It is expected that all Directors, managers and employees observe the highest standards of integrity, objectivity and business ethics in conducting its business, striving at all times to enhance the reputation and performance of the Company in respect of legal and other obligations to all legitimate stakeholders.

Accordingly, the Board acknowledges the rights of stakeholders and has adopted a Code of Conduct.

The Board has adopted a Code of Conduct that applies to all employees, executives and Directors of the Company and as such complies with Recommendation 3.1 of the Corporate Governance Council.

A copy of the Company's Code of Conduct is available on the Company's website.

Diversity Policy

The Board has implemented a Diversity policy in line with Corporate Governance guidelines. The Company believes that the promotion of diversity on its board, in senior management and within the organisation generally is good practice and adds to the strength of the Group.

The policy affirms existing employment arrangements which seek to attract and retain people by promoting an environment where employees are treated with fairness and respect and have equal access to opportunities as they arise. Diversity within the workforce includes such factors as religion, race, ethnicity, language, gender, disability and age.

Gender Diversity

The Corporate Governance guidelines relating to reporting are effective from 1 July 2011 and require the Board to set 'measureable objectives' for achieving gender diversity and to report against them on an annual basis. The Board is currently reviewing its practices with a focus on ensuring the selection process at all levels within the organisation is formal and transparent and that the workplace environment is open, fair and tolerant. Measures to assess the success of the policy will be put in place during the coming financial year.

The following table is a summary of the workforce within Alcyone and provides a high level snap shot of our level of gender diversity as at 30 June 2011.

Workforce Summary

	Male	Female	Total	Proportion female
Board	3	-	3	0%
Senior Management	2	-	2	0%
Balance of Employees	17	9	26	34%
	22	9	31	29%

Security trading policy

The Board has committed to ensuring that the Company, its Directors and executives comply with their legal obligations as well as conducting their business in a transparent and ethical manner. The Board has adopted a policy on dealing in the Company's securities by Directors, officers and employees which prohibits dealing in the Company's securities when those persons possess inside information and as such complies with Recommendation 3.2 of the Corporate Governance Council. Further, in keeping with recent listing rule amendments additional restrictions are placed on trading by Relevant Persons including directors, key management personnel and employees. Relevant Persons are at all times prohibited from dealing in the company's securities unless in a trading window. The policy also provides that notification of intended trading should be given to the whole Board prior to trading. A copy of the Policy for dealing in Company Securities is available on the Company's website.

The law prohibits insider trading and the Corporations Act and the ASX Listing Rules require disclosure of any trading undertaken by Directors or their related entities in the Company's securities.

CORPORATE GOVERNANCE COUNCIL PRINCIPLE 4
Safeguarding Integrity in Financial Reporting

Audit committee

The Company does not have a separately constituted Audit Committee with a composition as suggested by Recommendations 4.1, 4.2 and 4.3 of the Corporate Governance Council. The full Board carries out the function of an Audit committee. The Board believes that the Company is not of a sufficient size to warrant a separate committee and that the full Board is able to meet objectives of the best practice recommendations and discharge its duties in this area.

The Company has an Audit Committee Charter, which is currently administered by the full Board.

External audit recommendations, internal control matters and any other matters arising from the half-year audit review and the annual statutory audit are discussed directly between the Board and the audit engagement partner.

External auditors

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. Performance of the external auditor is reviewed annually by the Board. Auditor rotation is required by the Corporations Act 2001. The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

A copy of the Selection of an External Auditor and Rotation of Audit Engagement Partners Strategy is available on the Company's website.

Financial reporting

The Board relies on senior executives to monitor the internal controls within the Company. Financial performance is monitored on a regular basis by the Managing Director and Chief Financial Officer who reports to the Board at the scheduled Board meetings.

CORPORATE GOVERNANCE COUNCIL PRINCIPLE 5
Make Timely and Balanced Disclosure

Timely and balanced disclosure

The Board is committed to the promotion of investor confidence by providing full and timely information to all security holders and market participants about the Company's activities and to comply with the continuous disclosure requirements contained in the Corporations Act 2001 and the Australian Securities Exchange Listing Rules.

A copy of the Company's Continuous Disclosure Policy is available on the Company's website.

In accordance with ASX Listing Rules, the Company Secretary is appointed as the Company's disclosure officer.

CORPORATE GOVERNANCE COUNCIL PRINCIPLE 6
Respect the Rights of Shareholders

Communications

The Board fully supports security holder participation at general meetings as well as ensuring that communications with security holders are effective and clear.

A copy of the Communication with Shareholders Policy is available on the Company's website.

In addition to electronic communication via the ASX web site, the Company publishes all ASX releases including Annual and Half-Yearly financial statements on the Company's website at www.alcyone.com.au.

Shareholders are able to pose questions on the audit process and the financial statements directly to the independent auditor who attends the Company's Annual General Meeting for that purpose.

CORPORATE GOVERNANCE COUNCIL PRINCIPLE 7
Recognise and Manage Risk

Risk Identification and Management

The Board accepts that taking and managing risk is central to building shareholder value. The Board manages the Company's level of risk by adhering to a formal Risk Policy Statement. The Risk Management Policy Statement is available from the Corporate Governance section of the Company's website.
The Board has primary responsibility for oversight of the financial risks of the Company with particular emphasis on accounting, financial and internal controls. The Board will receive regular reports from the external auditor on critical policies and practices of the Company and in relation to alternative treatments of financial information.

The Company employs executives and retains consultants each with the requisite experience and qualifications to enable the Board to manage the risks to the Company. The Board reviews risks to the Company at regular Board meetings.

Key identified risks to the business are monitored on an ongoing basis as follows:

- Business risk management
  The Company manages its activities within budgets and operational and strategic plans.

- Internal controls
  The Board has implemented internal control processes typical for the Company's size and stage of development. It requires the senior executives to ensure the proper functioning of internal controls and in addition, it obtains advice from the external auditors as considered necessary.

- Financial reporting
  Directors approve an annual budget for the Company and regularly review performance against budget at Board Meetings.

- Operations review
  Members of the Board regularly visit the Company's exploration project areas, reviewing development activities, geological practices, environmental and safety aspects of operations.

- <u>Environment and Safety</u>
  The Company is committed to ensuring that sound environmental management and safety practices are maintained in its operations and exploration activities.

  With the transition to commercial production at the Texas Silver Project significant resources have been focused on establishing and maintaining a culture of best practice through the implementation of an Occupational Health and Safety Plan and an Environmental Management Plan. The group uses external consultants to review its activities to assist in maintaining a best practice approach.
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The Company's risk management strategy is evolving and will be an ongoing process and it is recognised that the level and extent of the strategy will develop with the growth and change in the Company's activities.

Risk Reporting

As the Board has responsibility for the monitoring of risk management it has not required a formal report regarding the material risks and whether those risks are managed effectively therefore not complying with Recommendation 7.2 of the Corporate Governance Council. The Board believes that the Company is currently effectively communicating its significant and material risks to the Board and its affairs are not of sufficient complexity to justify the implementation of a more formal system for identifying, assessing monitoring and managing risk in the Company.

The Company does not have an internal audit function.

Managing Director and CFO Written Statement

The Board requires the Managing Director and the Chief Financial Officer provide a written statement that the financial statements of the Company present a true and fair view, in all material aspects, of the financial position and operational results and have been prepared in accordance with Australian Accounting Standards and the Corporations Act. The Board also requires that the Managing Director and Chief Financial Officer provide sufficient assurance that the declaration is founded on a sound system of risk management and internal control, and that the system is working effectively.

CORPORATE GOVERNANCE COUNCIL PRINCIPLE 8
Remunerate Fairly and Responsibly

The Company's remuneration policy is to ensure that the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Disclosure of the details of the nature and amount of each element of Directors', including Non-Executive Directors, and Executive's remuneration is included in the financial statements.

Remuneration committee

The Board does not have a separate remuneration committee and as such does not comply with Recommendation 8.1 of the Corporate Governance Council. Due to the stage of development and size of the Company, a separate remuneration committee was not considered to add any efficiency to the process of determining the levels of remuneration for the Directors and key executives. Where appropriate the Executive Director(s) absent themselves.

The full Board determines all compensation arrangements operating under the Remuneration Committee Charter, which is available on the Company's website. It is also responsible for setting performance criteria, performance monitors, share option schemes, incentive performance schemes, superannuation entitlements, retirement and termination entitlements and professional indemnity and liability insurance cover.

Distinguish Between Executive and Non-Executive Remuneration

The Company does distinguish between the remuneration policies of its Executive and Non-Executive Directors in accordance with Recommendation 8.2 of the Corporate Governance Council.

Executive Directors contracting arrangements may include performance based components, designed to reward and motivate, including the granting of share options and performance rights, subject to shareholder approval and with vesting conditions relating to continuity of engagement.

Non-Executive Directors receive fees agreed on an annual basis by the Board, within total Non-Executive remuneration limits voted upon by shareholders at Annual General Meetings.

The Board ensures that, all matters of remuneration will continue to be in accordance with Corporations Act requirements, by ensuring that none of the Directors participate in any deliberations regarding their own remuneration or related issues. To the extent that additional executives are appointed in the future and the scope of the Company's activities expands, the Company will reconsider whether a change in the structure of executive remuneration is appropriate.

DIRECTORS

Your Directors present their report on the consolidated entity consisting of Alcyone Resources Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2011.

The following persons were Directors of Alcyone Resources Ltd during the financial year and up to the date of this report as detailed below:

CW Morgan
AJ King
EP de Mori (Resigned 6 May 2011)
AL Richards (Appointed 6 May 2011)

PRINCIPAL ACTIVITIES

The principal activities during the financial year of entities within the consolidated entity were exploration, evaluation of gold, silver and other base metal projects and production at the Twin Hills Silver Mine near Texas, Queensland.

RESULTS

The consolidated entity loss from operating activities after income tax for the full year is $3,936,253 (2010 : Profit $7,893,040).

The result of the consolidated entity was affected by the non-cash amount of $43,021 (2010 : $428,784) included in Employee Benefits Expense in respect of options issued under shareholder approval at general meeting and by Other Income of Nil (2010 : $9,835,741) resulting from debt forgiveness under the terms of the Deed of Company Arrangement. Further significant costs were incurred for financing costs relating to the purchase of Put Options of $1,507,610 (2010 : $25,792) and settlement of creditors' claims relating to the recapitalisation of $600,000 (2010 : $850,000).

REVIEW OF OPERATIONS

The principal continuing activities of the Company are mine operation, mineral exploration and evaluation.

Full details are available in the Review of Operations in the Annual Report.

FINANCIAL POSITION

As at the end of the financial year, the company had $3,036,586 (2010 : $3,742,232) in cash on deposit. Deferred mineral development expenditure was $15,299,302 (2010 : $3,489,438).

DIVIDENDS

No dividend has been paid since the end of the previous financial year and no dividend is recommended for the current year. No dividend was paid during the previous financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There have been no significant events subsequent to the end of the financial year.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group expects to complete the commissioning phase of the current construction project and commence initial mining programs in the September quarter. Silver continues to be recovered from existing heaps, and full commercial silver production is expected to be underway in October.

ENVIRONMENTAL REGULATIONS

The Group is subject to significant environmental regulation in respect of its mineral exploration and mining activities.

The Group has exploration and mining tenements in Queensland and New South Wales, Australia. The entity is not aware of any breach of environmental regulations during or since the end of the financial year.

The Group has been granted a Mining Lease from the Queensland Department of Natural Resources and Mines for the Texas Silver Project in Queensland and an Environmental Authority from the Queensland Environmental Protection Agency. This authority imposes additional environmental regulations to apply during the developmental and operational phase of the project.

The Group has reviewed the updated greenhouse reporting requirements and determined that the current energy usage remains below the reporting thresholds. This will be reviewed early in 2012 once the commercial energy usage of the Twin Hills operations has been established.

INFORMATION ON CURRENT DIRECTORS

	Particulars of Directors' Interest	
	Ordinary Shares	Options
Mr Charles Morgan (Appointed 21.08.09) - Non-Executive Chairman	29,389,741	Nil

Mr Morgan has extensive experience in equity capital markets and has been involved with numerous projects over a 25 year period. Most of these were in the resources/oil & gas industries and the technology sector.

Mr Morgan has successfully identified emerging international opportunities and acquired large, early stage and strategic positions in a wide range of ventures around the world. In addition to identifying and acquiring interests in early stage ventures, his strengths include partnering with regional experts, securing teams of appropriate executives, procuring development capital and adding value for the benefit of shareholders.

He holds, or has previously held, the positions of Founder, Chairman, Director and/or Major Shareholder in the following companies: Alto Energy Ltd, Nido Petroleum NL, West Oil NL, Fusion Oil & Gas NL, Valdera Ltd, Nautronix Ltd, WildHorse Ltd, Matra plc, Grand Gulf Energy Limited, Latent Petroleum Pty Ltd and VectoGen Ltd.

	Ordinary Shares	Options
***Mr Andrew King (Appointed 21.08.09) -* Managing Director**	35,700,000	35,000,000 Unlisted

A mining engineer with over 35 years experience in the mineral resources industry, Mr King has a considerable depth of knowledge and expertise in technical disciplines as well as in the successful establishment of new companies.

Mr Kings extensive experience covers corporate, strategic and operational roles in gold, iron ore, coal and base metals. He is a member of the Australian Institute of Mining and Metallurgy and the Australian Institute of Company Directors.

He is currently Chairman of Base Resources Ltd and provides corporate and operating consulting services to the mining and financial industries. Previously, he held senior positions with Goldstar Resources NL, Tectonic Resources NL, Mt Edon Gold Mines (Aust) Pty Ltd and Griffin Coal Mining Company.

	Ordinary Shares	Options
Mr Andrew Richards (Appointed 06.05.11) - Non-Executive Director	Nil	Nil

Mr Richards, is a geologist with 30 years experience in the mining industry, 7 years of which involved a senior role in resources project finance with major banks.

Mr Richards has worked extensively overseas as well as in Australia, providing consultancy and advisory services, Independent Expert Reports and managing several listed and unlisted companies operating in Australia, Asia and South America.

He is currently a Non Executive Director. Previously he held the position of Managing Director with Dragon Mountain Gold Ltd.

INFORMATION ON FORMER DIRECTOR

	Particulars of Directors' Interest at Resignation	
Mr Eric de Mori (Resigned 06.05.11) - Non-Executive Director	Nil	7,000,000 Unlisted

Mr de Mori is the Associate Director of Corporate Finance for Corporate Advisory and stock broking firm Cygnet Capital. He has over 5 years investment banking and analyst experience covering a wide range of sectors, working with international and Australian based opportunities.

Mr de Mori has specialist skills in mergers and acquisitions, valuations, capital raisings, Initial Public Offerings, backdoor listings, project screening, due diligence investigations, early stage project management and extensive knowledge of Corporations law and ASX listing rules. He is currently a Non Executive Director of Incitive Ltd (ASX code "ICV"), and Newera Uranium Ltd (ASX code "NRU").

COMPANY SECRETARY – QUALIFICATIONS & EXPERIENCE

Kevin Hart (Appointed 13 October 2009)

Mr Hart is a Chartered Accountant and was appointed to the position of Company Secretary on 13 October 2009. He has over 25 years experience in accounting and the management and administration of public listed entities in the mining and exploration industry.

He is currently a partner in an advisory firm which specialises in the provision of company secretarial services to ASX listed entities.

DIRECTORS' MEETINGS

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the year and the number each Director attended is set out below:

	Directors' Meetings	
	Attended	**Held**
Mr CW Morgan	7	7
Mr AJ King	7	7
Mr EP de Mori	7	7
Mr AL Richards	1	1

(i) Remuneration and Audit Committee Meetings took place within the Director meetings.

REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

(a) Principles used to determine the nature and amount of remuneration

(b) Details of remuneration

(c) Service agreements

(d) Share-based compensation

(e) Additional information

Directors and executives disclosed in this report

Name	**Position**
Directors	
CW Morgan	Non Executive Chairman
AJ King	Managing Director
AL Richards	Non-executive Director
EP de Mori	Non-executive Director
Other key management personnel	
TA Harris	Chief Financial Officer
MA Reed	Operations Manager
K Hart	Company Secretary

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

(a) Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competiveness and reasonableness
- Acceptability to shareholders
- Performance linkage/alignment of executive compensation
- Transparency
- Capital management

The framework provides a mix of fixed and variable pay, and a blend of short and long term incentives. As executives gain seniority within the group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

As the Company transitions to production during 2011/12 the Board will establish a remuneration committee which will provide advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages, and other terms of employment for executive directors, other senior executives and non-executive directors. The committee will also oversee the remuneration policies for employees.

Non-executive Directors
Total remuneration for all Non-executive Directors voted upon by shareholders at an Annual General Meeting, whereby it is not to exceed $150,000 per annum. Fees are set at appropriate levels for Chair and other Non-executive Directors. Non-executive Directors do not receive bonuses. Director's fees cover all main Board activities.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive pay
The combination of the following comprises the executive's total remuneration:

- Base pay and benefits, including superannuation,
- Short term performance incentives, and
- Long term incentives through participation in the Alcyone Resources Ltd Incentive Option Scheme and Performance Rights Plan.

Base pay
Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contracts.

Benefits
Executives can salary sacrifice certain benefits including motor vehicle and remote area housing benefits.

Superannuation
Retirement benefits are paid to complying superannuation funds nominated by the executives. During the period ended 30 June 2011 the Company contribution rate was 9% of ordinary time earnings.

Short term incentives
The Board is responsible for setting appropriate targets and key performance indicators that link to the Short Term Incentive Plan ('STI'). The Board has not established any ongoing short term incentives apart from:

- At the date of the report, the Company has entered into an agreement with the Managing Director which includes a performance based component. Upon meeting certain key performance criteria set by the Chairman and the Board, the Managing Director can earn up to 30% of his base salary as a short term cash incentive. Any long term incentive in the form of an option package will be issued at the sole discretion of the Board.

- At the date of the report, the Company has entered into an agreement with the Operations Manager which includes a performance based component. Upon meeting certain key performance criteria set by the Chairman and the Board, the Operations Manager can earn up to 50% of his base salary as a short term cash incentive. Any long term incentive in the form of an option package will be issued at the sole discretion of the Board.

- During the reporting period a bonus of $150,000 was paid to the Managing Director on decision to proceed to commercial production at the Group's Texas Silver Project and the completion of the related capital raising.

The Board is responsible for assessing whether the KPI's are met. To help make this assessment, the Board received detailed reports on performance from management. The short term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Board.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Going forward, a Remuneration Committee will develop, over the following financial year, further policy and plans around short term incentives that reflect the operational changes to the Group's activities as the Group transitions from a focus on exploration and mine construction to a focus on silver production. Refer also to the Corporate Governance Statement for more detail on the Board's policy in this area.

Long-term incentives
Long term incentives are provided to certain employees via the Alcyone Resources Limited Incentive Option Scheme and Performance Rights Plan.

The plans were approved by shareholders at the Annual General Meeting held on 25 November 2010.

(b) Details of remuneration

Details of the nature and amount of each element of the emoluments of each key management personnel of the Company and the consolidated entity for the year ended 30 June 2011 and 2010 are set out in the following tables:

2011	Short-term employee benefits			Post-employment benefits		Share-based payment			
Name	Cash salary and fees $	Cash Bonus $	Non-Monetary benefits $	Super-annuation $	Retirement benefits $	Equity-settled Options* $	Total $	% Remuner-ation related to perform-ance	% Remuner-ation made up of options
Directors									
CW Morgan	78,330	-	-	-	-	-	78,330	-	-
AJ King	260,179	150,000	-	-	-	-	410,179	36.56	-
AL Richards (i)	-	-	-	-	-	-	-	-	-
EP de Mori (ii)	34,163	-	-	-	-	-	34,163	-	-
Other key management personnel of the Group									
TA Harris (iii)	63,656	-	-	5,729	-	43,021	112,406	-	-
MA Reed (iv)	32,669	-	-	2,940	-	-	35,609	-	-
K Hart #	78,500	-	-	-	-	-	78,500	-	-
	547,497	150,000	-	8,669	-	43,021	749,187		

REMUNERATION REPORT (AUDITED) (CONTINUED)

2010	Short-term employee benefits			Post-employment benefits		Share-based payment			
Name	Cash salary and fees $	Cash Bonus $	Non-Monetary benefits $	Super-annuation $	Retirement benefits $	Equity-settled Options* $	Total $	% Remuner-ation related to perform-ance	% Remuner-ation made up of options
Directors									
CW Morgan	50,000	-	-	-	-	428,784	478,784	-	89
AJ King	(i)180,745	-	36,667	-	-	-	217,412	-	-
RM Harris	73,800	-	43,659	-	-	-	117,459	-	-
EP de Mori	20,412	-	-	-	-	-	20,412	-	-
Other key management personnel of the Group									
None	-	-	-	-	-	-	-	-	-
Total	324,957	-	80,326	-	-	428,784	834,067		

(i) Includes technical consulting by Moonshadow Holdings and associates.

(c) Service agreements

Remuneration and other terms of employment for the Managing Director and the other key management personnel are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and participation, when eligible, in the Alcyone Resources Ltd Incentive Option Scheme ('Scheme') and Performance Rights Plan ('Plan'). Other major provisions of the agreements relating to remuneration are set out below:

All contracts with executives may be terminated early by either party with notice as set out in their service agreement, subject to termination payments as detailed below.

Andrew King, *Managing Director*
Following the significant transition in the Company over the last 12 months the Company has entered into a Service Agreement with the Managing Director.

- Term of Agreement – No fixed term commencing 1 August 2011
- Termination Notice - 3months
- Base Salary, inclusive of Superannuation of $400,000 to be reviewed annually
- Performance based component of up to 30% of base salary paid as cash, on achievement of certain key performance criteria as set by the Board
- Payment of a termination benefit, other than for gross misconduct, of 12 months base salary.
- Prior to 1 August 2011 Mr King and a related company Moonshadow Holdings Limited provided management, technical and administrative services at commercial rates, plus expenses and allowances as approved by the Board.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Trevor Harris, *Chief Financial Officer*

- Term of agreement – no fixed term commencing 14 March 2011.
- Termination notice – 1 months notice.
- Base salary inclusive of superannuation of $220,000 to be reviewed annually.
- Payment of a termination benefit by the employer, other than for gross misconduct, of 6 month's salary.

Michael Reed, *Operations Manager*

- Term of agreement – no fixed term commencing 16 May 2011.
- Termination notice – 1 months notice.
- Performance based component – upon meeting certain key performance criteria set by the Board, the Operations Manager can earn up to 50% of his base salary as a short term cash incentive.
- Base salary inclusive of superannuation of $275,000 to be reviewed annually.

(d) Share-based compensation

Options and Performance Rights
Options over shares in Alcyone Resources Ltd are granted under the Alcyone Resources Ltd Incentive Option Scheme and the Alcyone Resources Ltd Performance Rights Plan which were approved by shareholders at an Annual General Meeting of shareholders of the Company held on 25 November 2010. The Option Scheme and the Performance Rights Plan is designed to provide long term incentives for executives to deliver long term shareholder returns, and participation in the future growth of the Company. Under the Scheme participants are granted options which typically vest on issue with a strike price 50% above the market price. The Scheme allows the Company to issue free options to an eligible person. The options are exercisable at a fixed price in accordance with the Plan.

Performance Rights issued under the Plan have vesting periods of between 12 and 48 months except under certain circumstances whereby Rights may be capable of exercise prior to the expiry of the vesting period. Participation in the Scheme is at the Board's discretion and no individual has a contractual right to participate in the Scheme or to receive any guaranteed benefits. There were no performance rights issued in the year to 30 June 2011.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Date Vested & Exercisable	Expiry Date	Exercise Price	Value Per Option at date of Grant
March 2011	31 March 2011	31 March 2015	$0.11	$0.04

* Value per option at date of grant is calculated using Black-Scholes Option Pricing mode at grant date

Options granted under the Option Scheme carry no dividend or voting rights.

The exercise price of options is set at a premium to the price at which the company's shares are traded on the Australian Securities Exchange on the day of issue.

The Option Scheme rules contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. Option Scheme participants may not enter into any transaction designed to remove the 'at risk' aspect of the instrument before it vests.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Details of options over ordinary shares in the Company provided as remuneration to each Director of Alcyone Resources Ltd and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Alcyone Resources Ltd. Further information on the options is set out in note 24 to the Financial Statements.

Name	Number of Options granted during the year		Value of options at grant date	Number of options vested during the year		Number of options lapsed during the year		Value of options at lapse date
	2011	2010	$	2011	2010	2011	2010	$
Directors								
CW Morgan	-	10,000,000	428,784	-	10,000,000	-	-	-
AJ King	-	-	-	-	-	-	-	-
AL Richards (Appointed 06.05.11)	-	-	-	-	-	-	-	-
EP de Mori (Resigned 06.05.11)	-	-	-	-	-	-	-	-
Other key management personnel of the group								
TA Harris (Appointed 14.03.11)	1,000,000	-	43,021	1,000,000	-	-	-	-
MA Reed (Appointed 16.05.11)	-	-	-	-	-	-	-	-
K Hart	-	-	-	-	-	-	-	-

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

There were no Performance Rights issued during the financial year.

The model inputs for options granted during the year ended 30 June 2011 are disclosed in the table below:

	2011	2010
Exercise Price	$0.11	$0.01
Grant date	30 March 2011	30 November 2010
Expiry date	31 March 2015	30 September 2012
Share price at grant date	$0.076	$0.05
Expected price volatility	84%	90%
Expected dividend yield	0%	0%
Risk free interest rate	5.17%	4.74%

All options are granted for no consideration and vest based on the Option Scheme rules.

Shares provided on exercise of remuneration options

No shares were issued on exercise of options under a Share Option Plan during the year. No amounts are unpaid on any shares issued on the exercise of options.

REMUNERATION REPORT (AUDITED) (CONTINUED)

For the year ended 30 June 2011 (2010; Nil) no options granted as remuneration were exercised by any directors or key management personnel.

(e) Additional information

The directors have not provided information regarding the earnings and share price for the last 4 years as the Company has been in various stages of development, mining and then Administration. Over this period the Company incurred significant losses as recorded on the Consolidated Statement of Comprehensive Income.

THIS IS THE END OF THE REMUNERATION REPORT

LOANS TO DIRECTORS AND EXECUTIVES

No loans have been made to Directors or other key management personnel of Alcyone Resources Ltd or of the consolidated entity, including their personally-related entities.

SHARES UNDER OPTION

Unissued ordinary shares of Alcyone Resources Ltd under option at the date of this report and post consolidation are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
25 Feb 2008	9 Nov 2012	$9.60	250,000
29 Sep 2008	30 Sep 2011	$1.60	667,902
09 Oct 2010	30 Sep 2012	$0.01	70,500,000
30 Mar 2011	31 Mar 2015	$0.11	1,000,000
12 Aug 2011	31 Aug 2015	$0.15	1,000,000
			73,417,902

No optionholder has any right under the options to participate in any other share issue of the Company or of any other entity.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of Alcyone Resources Ltd were issued during the year ended 30 June 2011 on the exercise of options. No further shares have been issued on the exercise of options since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
9 October 2009	$0.01	68,500,000

INSURANCE OF OFFICERS

Since 13 October 2010 the Group has paid an insurance premium to insure certain officers of the Company including the current Directors named in this Report. The policies prohibit disclosure of details of the policies or the premiums paid. The Company has not provided any insurance for Auditors of the Company. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor or any of its controlled entities against a liability incurred as such an officer or auditors.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Consolidated Entity are important.

Details of the amounts paid or payable to the auditor (BDO) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to the auditor independence as set out in Professional Statement APES 110, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

	2011 $	2010 $
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.		
Assurance services		
1. Audit Services		
BDO (QLD)	-	36,900
BDO AUDIT (WA) Pty Ltd	30,861	5,561
Total remuneration for audit services	30,861	42,461
2. Taxation Services		
BDO Corporate Tax (WA) Pty Ltd	3,500	-
Total remuneration for taxation services	3,500	-

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

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

Andrew King
Managing Director
Dated this 23 day of September 2011

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

23 September 2011

To The Directors
Alcyone Resources Limited
Level 1, 50 Kings Park Road
WEST PERTH WA 6005

Dear Sirs,

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

As lead auditor of Alcyone Resources Limited for the year ended 30 June 2011, 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 audit; and
- any applicable code of professional conduct in relation to the audit.

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

ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 $	2010 $
Revenue from continuing operations	4	395,992	954,915
Other Income	4	524,513	9,877,085
Direct costs of mining and processing		-	(138,487)
Corporate compliance, insurance, shareholder relations, conference and promotion		(514,333)	(355,668)
Consulting fees		(302,171)	(185,593)
Depreciation and Amortisation	5	(191,834)	(222,643)
Employee benefit expense		(979,840)	(342,358)
Share based payment expense	24(d)	(43,021)	(428,784)
Financing costs		(1,507,610)	(25,792)
Office rental, communication and consumables		(153,763)	(102,938)
Repairs and maintenance		(4,317)	(5,279)
Creditors claim settled (dividend)		(600,000)	(850,000)
Loss on disposal of assets		(104,225)	-
Other expenses		(455,644)	(281,418)
(Loss) / Profit before income tax		(3,936,253)	7,893,040
Income tax (expense)/credit	6	-	-
(Loss) / Profit for the year		(3,936,253)	7,893,040
Loss) / Profit attributable to members of Alcyone Resources Ltd		(3,936,253)	7,893,040
Other comprehensive income		-	-
Total comprehensive income for the year		(3,936,253)	7,893,040
Total comprehensive (loss) / income attributable to the members of Alcyone Resources Ltd		(3,936,253)	7,893,040
		Cents	Cents
Basic and diluted (loss) / earnings per share	27	(0.39)	1.29

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

ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Notes	2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	3,036,586	3,742,232
Trade and other receivables	8	1,048,697	229,118
Inventory	9	838,498	-
Total Current Assets		4,923,781	3,971,350
Non-Current Assets			
Receivables	10	2,089,802	1,715,402
Property, plant and equipment	11	2,209,153	1,872,030
Mineral exploration and evaluation expenditure	12	3,044,032	630,501
Mineral development expenditure	14	15,299,302	3,489,438
Total Non-Current Assets		22,642,289	7,707,371
Total Assets		27,566,070	11,678,721
LIABILITIES			
Current Liabilities			
Trade and other payables	15	3,630,854	520,889
Financial liabilities	16	93,482	95,942
Total Current Liabilities		3,724,336	616,831
Non-Current Liabilities			
Provisions	17	4,028,973	4,028,973
Total Non-Current Liabilities		4,028,973	4,028,973
Total Liabilities		7,753,309	4,645,804
Net Assets		19,812,761	7,032,917
EQUITY			
Parent entity interest			
Contributed equity	18	95,585,386	78,912,310
Reserves	19(a)	2,743,256	2,700,235
Accumulated losses	19(b)	(78,515,881)	(74,579,628)
Total Equity		19,812,761	7,032,917

The above statement of financial position should be read in conjunction with the accompanying notes.

ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	Issued Capital	Accumulated losses	Options reserve	Total Equity
	$	$	$	$
Balance at 1 July 2009	71,524,407	(82,472,668)	2,271,451	(8,676,810)
Profit for the year	-	7,893,040	-	7,893,040
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	7,893,040	-	7,893,040
Transactions with owners in their capacity as owners				
Shares issued during the year	7,387,903	-	-	7,387,903
Fair value of options issued	-	-	428,784	428,784
Balance at 30 June 2010	78,912,310	(74,579,628)	2,700,235	7,032,917
Balance at 1 July 2010	78,912,310	(74,579,628)	2,700,235	7,032,917
Loss for the year	-	(3,936,253)	-	(3,936,253)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	(3,936,253)	-	(3,936,253)
Transactions with owners in their capacity as owners				
Shares issued during the year, net of costs	16,673,076	-	-	16,673,076
Fair value of options issued	-	-	43,021	43,021
Balance at 30 June 2011	95,585,386	(78,515,881)	2,743,256	19,812,761

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 $	2010 $
Cash Flows from Operating Activities			
Cash receipts in the course of operations		-	757,312
Interest received		404,601	181,691
Payments to suppliers and employees not included as part of exploration and evaluation activities below		(1,566,789)	(2,996,873)
Payment to creditors' trust		-	(600,000)
Interest and other costs of finance		(1,507,610)	(25,791)
Net Cash Flow Outflow from Operating Activities	29	(2,669,798)	(2,683,661)
Cash Flows from Investing Activities			
Exploration and evaluation activities		(2,413,531)	(424,717)
Development activities			
- Expenditure		(12,303,849)	(1,062,838)
- Revenue offset against costs		493,986	-
Security deposits paid		(374,400)	(66,800)
Proceeds from sale of property, plant and equipment		671,818	20,909
Purchase of property, plant and equipment		(780,487)	(36,567)
Proceeds from sale of available for sale financial assets		-	26,111
Net Cash Outflow From Investing Activities		(14,706,463)	(1,543,902)
Cash Flows from Financing Activities			
Proceeds from issue of shares (net of share issue costs)		16,673,075	7,037,903
Repayment of borrowings		(2,460)	(192,697)
Net Cash Inflow From Financing Activities		16,670,615	6,845,206
Net (Decrease) / Increase in Cash and Cash Equivalents		(705,646)	2,617,643
Cash and cash equivalents at the beginning of the year		3,742,232	1,124,589
Cash and Cash Equivalents at the End of the year	7	3,036,586	3,742,232

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The ultimate parent entity Alcyone Resources Ltd is a public, listed company, incorporated and domiciled in Australia and having its registered address and principal place of business at Level 1, 50 Kings Park Road, West Perth.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Interpretations and the *Corporations Act 2001.*

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements of the group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Adoption of new and revised accounting standards

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.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Alcyone Resources Ltd ("company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Alcyone Resources Ltd, and its subsidiary together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group Companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are carried at cost less impairment in the Parent Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED

(b) Principles of consolidation (continued)

(ii) Joint ventures

Joint venture operations
The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements under the appropriate headings.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors.

(d) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Alcyone Resources Ltd's functional and presentation currency.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties.

(i) Metal sales

Revenue from metal sales is recognised when the risk has passed from the Group to the customer and the selling price has been determined. Sales revenue represents gross proceeds receivable from the customer less associated refining and royalty costs. Revenue from metal sales is primarily from silver product but also includes sales of gold.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Income tax (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Alcyone Resources Ltd and its wholly-owned Australian controlled entities have not implemented the tax consolidation legislation.

(g) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in profit and loss.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Silver inventory has been classified according to the various stages of production and includes Silver in circuit, Silver in precipitate and Dore bars.

Cost is determined on the following basis:

- Silver inventory is valued on an average total production cost method;
- The measurement of silver in circuit is based on best acceptable metallurgical practices.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

Investments and other financial assets are initially stated at cost, being the fair value of consideration given plus any directly attributable transaction costs. Purchases and sales of investments are recognised on trade date which is the date on which the Group commits to purchase or sell the asset. Accounting policies for each category of investments and other financial assets subsequent to initial recognition are set out below.

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(i) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position (notes 8).

Loans and receivables are measured at amortised cost using effective interest method less any impairment losses.

(ii) Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have a negative effect on the estimated future cash flows of that asset.

(k) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(l) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Property, plant and equipment (continued)

Items of property, plant and equipment are depreciated over their estimated useful lives. The diminishing balance method is used. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Estimates of useful lives are made at the time of acquisition and varied as required. Expected useful lives are: Plant and Equipment between 4 years and 7 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Trade and other payables are classified as non-derivative other liabilities under AASB 139.

Other liabilities are recognised initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition other liabilities are measured at amortised cost using the effective interest rate.

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(o) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(p) Provisions

A provision is recognised in the balance sheet when the Group has a present legal, equitable or constructive obligation as a result of a past event, and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain. If the effect is material, provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessments of the time value of money, and where appropriate, the risks specific to the activity.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Provisions (continued)

Restoration and rehabilitation

A provision is raised for the restoration and rehabilitation of each mine site. Restoration and rehabilitation works can include facility decommissioning and dismantling; removal or treatment of waste materials; land rehabilitation; and site restoration. The extent of the work required and the associated costs are dependent on the relevant regulatory requirements and the Group's environmental policies.

A provision for restoration and rehabilitation is recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of the mine site, the provision is increased accordingly. The provision recognised represents management's best estimate of the present value of the all future costs required to restore and rehabilitate each mine site in connection with environmental disturbances that have occurred at the reporting date.

(q) Employee benefits

(i) Wages and salaries, and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave are expected to be settled within 12 months of the reporting date and are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for employee benefits relating to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the Alcyone Resources Ltd Incentive Option Scheme and the Alcyone Resources Ltd Performance Rights. Information relating to these Plans are set out in note 24.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

The market value of options issued to employees for no cash consideration under the employee option plan is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the options.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(r) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Potential shares as a result of options outstanding at the end of the year are not dilutive as they decrease the loss per share and therefore have not been included in the calculation of diluted earnings per share.

(s) Exploration and evaluation expenditure

The Group has adopted a policy of writing off exploration and evaluation expenditure at the end of the period in which it is incurred, unless a mineral resource has been estimated for the area of interest.

The Directors believe that this policy results in the carrying value of exploration expenditure more appropriately reflecting the definition of an asset, being future benefits controlled by the consolidated entity.

Costs arising from exploration and evaluation activities are carried forward where these activities have, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. All costs carried forward are in respect of areas of interest in the exploration and evaluation phases and accordingly, production has not commenced.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, in particular when exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area.

(t) Development expenditure

All costs of evaluation, construction and commissioning, other than identifiable items of plant and equipment were accumulated as development costs and are amortised over the life of the mine using a units of production basis so as to write off the costs in proportion to the depletion of the proved and probable mineral reserves. Depreciation of equipment used during the construction and commissioning phase was capitalised to development costs.

(u) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(w) Adoption of New and Revised Accounting Standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. Those standards that may have an effect on the consolidated financial statements of the Group in the future are as follows:

AASB reference	Title and Affected Standard(s):	Nature of Change:	Application date:	Impact on Initial Application:
AASB 7	Financial Instruments Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held	1 Jan 2011	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures.
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets	Periods beginning on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 31 December 2013 year end, the entity has not yet made and assessment of the impact of these amendments

AASB 11 (issued May 2011)	Joint Arrangements	Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement). Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method (proportionate consolidation no longer allowed).	Annual reporting periods commencing on or after 1 January 2013	Joint arrangement structured as a separate vehicle, i.e. joint venture, currently uses the proportionate consolidation method When this standard is adopted for the first time for the year ended 30 June 2014, joint ventures will be accounted for in consolidated financial statements using the equity method, rather than the proportionate consolidation method.
AASB 12	Disclosure of interest in other entities	Combines existing disclosures from IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.	1 Jan 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.

NOTE 2 FINANCIAL RISK MANAGEMENT

(a) General objectives, policies and processes

The Group's activities expose it to a variety of financial risks; market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Risk management is carried out by the Board of Directors under policies approved by the Board. The Board identifies and evaluates financial risks and provides written principles for overall risk management.

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk, and market risk.

(b) Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group. The carrying amounts of cash and cash equivalents and, trade and other receivables totalling $6,175,085 (2010: $5,686,752) represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's primary bankers are National Australia Bank Limited, Bankwest Limited and Westpac Bank Limited. At balance date all operating accounts and bonds held on deposit are with primary banks. The Directors believe that risk associated with these banks is mitigated by their size and reputation. Except for this matter the Group has no significant concentrations of credit risk.

<u>Credit quality of cash</u>

	2011	**2010**
	$	**$**
Cash at bank and short-term bank deposits		
A-1+	3,036,586	3,742,232
	3,036,586	**3,742,232**

No impairment expense or reversal of impairment charge has occurred during the reporting period.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages its liquidity risk by monitoring its cash reserves and forecast spending. Management is cognisant of the future demands for liquid finance resources to finance the Group's current and future operations, and consideration is given to the liquid assets available to the Group before commitment is made to future expenditure or investment.

NOTE 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financing arrangements

Maturity Analysis

	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Group – At 30 June 2011						
Financial Assets						
Non-interest bearing						
Cash and deposits	3,036,586	-	-	-	-	3,036,586
Receivables	1,048,697	-	-	-	-	1,048,697
Variable Interest rate						
Receivables	2,079,802	10,000	-	-	-	2,089,802
	6,165,085	10,000	-	-	-	6,175,085
Financial Liabilities						
Non-interest bearing						
Accounts payable and other creditors	(3,630,854)	-	-	-	-	(3,630,854)
Variable interest rate						
Bank loans	(93,482)	-	-	-	-	(93,482)
	(3,724,336)	-	-	-	-	(3,724,336)
Net Financial Assets/(liabilities)	2,440,749	10,000	-	-	-	2,440,749
Group – At 30 June 2010						
Financial Assets						
Non-interest bearing						
Cash and deposits	3,742,232	-	-	-	-	3,742,232
Receivables	229,118	-	-	-	-	229,118
Variable Interest rate						
Receivables	1,705,402	10,000	-	-	-	1,715,402
	5,676,752	10,000	-	-	-	5,686,752
Financial Liabilities						
Non-interest bearing						
Accounts payable and other creditors	489,434	-	-	-	-	489,434
Variable interest rate						
Bank loans	95,942	-	-	-	-	95,942
	585,376	-	-	-	-	585,376
Net Financial Assets/(liabilities)	5,091,376	10,000	-	-	-	5,101,376

(d) Market risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk), commodity prices (commodity price risk) or other market factors (equity price risk).

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising any return.

(i) Interest rate risk

Borrowings

It is the Group's policy to eliminate interest rate risk over the cash flows on the majority of its long-term debt finance through the use of fixed rate instruments and to continuously monitor interest rate risk exposures during the period balances are held and to alter the balance of fixed and floating rate deposits as considered appropriate. The Group's only exposure to floating-rate borrowings is $104,000 borrowed over 25 years for the purchase of a house for mine staff accommodation. $93,482 was outstanding at 30 June 2011 (2010: $95,942) in respect of the loan and included in current borrowings. The loan is secured by a mortgage over the house purchased with the loan proceeds. The interest rate at 30 June 2011 was 7.71%. This floating-rate borrowing exposes the Group to the fluctuations in interest rates that are inherent in such a market.

Deposits

As the Group has significant interest bearing assets, the Groups' income and operating cash flows are exposed to changes in market interest rates. The assets are short term interest bearing deposits and no financial instruments are employed to mitigate risk.

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Carrying Amount AUD	+ 50 basis points		- 50 basis points	
		Profit/(Loss)	Equity	Profit/(Loss)	Equity
	$	$	$	$	$
Consolidated - 2011					
Financial assets					
Cash and cash equivalents	3,036,586	15,183	15,183	(15,183)	(15,183)
Receivables	10,000	50	50	(50)	(50)
Security deposits	2,079,802	10,399	10,399	(10,399)	(10,399)
Financial liabilities					
Interest-bearing loans and borrowings	(93,482)	(467)	(467)	467	467
After tax increase/ (decrease)		25,165	25,165	(25,165)	(25,165)

NOTE 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis (continued)

Consolidated - 2010					
Financial assets					
Cash and cash equivalents	3,742,232	18,711	18,711	(18,711)	(18,711)
Receivables	10,000	50	50	(50)	(50)
Security deposits	1,705,402	8,527	8,527	(8,527)	(8,527)
Financial liabilities					
Interest-bearing loans and borrowings	(95,942)	(480)	(480)	480	480
After tax increase/ (decrease)		26,808	26,808	(26,808)	(26,808)

(ii) Currency risk

Neither the Group nor the Parent had any financial instruments with foreign currency exposure in 2011.

(iii) Commodity price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Group's commodity inputs and outputs.

The Group is primarily exposed to commodity price risk arising from revenue derived from the sales of silver and, to a lesser extent, gold.

The Group, purchased silver put options over a total of 774,171 ounce of silver at a strike price of $27 per ounce at a cost of $1,500,000. The purpose of the put options is to guarantee a minimum floor price for a volume of ounces sufficient to cover the expected operating costs of the Twin Hills project for the first 12 months of operations. This minimises the Group's price risk to a level where 50% of the expected production funds 100% of expected operating costs in the event of silver prices falling below $27. There is no requirement to deliver into these options should spot prices across the period be higher than $27.

(iv) Equity price risk

The Group has no investments in publicly listed companies and does not expose itself to the fluctuations in price that are inherent in such a market.

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and critical judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(b) Critical judgements in applying the entity's accounting policies

(i) Mine restoration provisions estimates

The calculation of rehabilitation and closure provisions (and corresponding capitalised closure cost assets where necessary) rely on estimates of costs required to rehabilitate and restore disturbed land to its original condition. These estimates are regularly reviewed and adjusted in order to ensure that the most up to date data is used to calculate these balances. Restoration provisions are disclosed in Note 17. There was no increase in the restoration provision in 2011 Nil (2010: Nil).

Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate costs required to rehabilitate the mine site. Factors that will affect this liability include future development, changes in technology, price increases and changes in interest rates.

(ii) Determination of inventory

Silver inventory at the reporting date is based on actual bullion on hand plus metallurgical testing of silver precipitate in circuit. Refer to Note 1 (i) for further details.

(iii) Units of production method of depreciation and amortisation

The Group applies the units of production method for depreciation and amortisation of its mine assets based on ore tonnes mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and the production capacity of the plants to be depreciated under this method. Factors that are considered in determining reserves, resources and production capacity are the Group's history of converting resources to reserves and the relevant timeframes, the complexity of metallurgy, markets and future developments. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying value of assets.

(iv) Employee options

The Group uses a Black-Scholes option pricing model to determine the fair values of options granted to employees, and others, at their grant date. In order to use this pricing model the Group must make critical judgements and assumptions about a range of input variables to the model. These input variables include the expected price volatility of the underlying shares, the expected dividend yield, the risk-free interest rate for the term of the options, the impact of dilution and the non-tradeable nature of the options.

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Critical judgements in applying the entity's accounting policies (continued)

(v) Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, future capital requirements and future operating performance.

(vi) 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.

(vii) Going concern

At 30 June 2011, the Group had cash assets of $3,036,586 (30 June 2010: $3,742,232) and working capital of $1,199,445 (30 June 2010: $3,354,519).

The company is forecasting to generate and have access to sufficient operating cash flows from its Twin Hills mine in Texas, Queensland over the 2011/2012 financial year to maintain appropriate working capital funding capacity. The Directors are confident that the operation will achieve its production and output forecasts.

NOTE 4 REVENUE

	2011 $	2010 $
Revenue from Continuing Operations		
Sales revenue (net of royalties and refining costs)	-	757,312
Interest received / receivable from other corporations	395,992	197,603
	395,992	954,915
Other Income		
Debt forgiveness pursuant to a settlement of a Deed	-	9,835,741
Gain on sale of plant and equipment	524,513	14,733
Gain on disposal of investment	-	26,111
Sundry	-	500
	524,513	9,877,085

NOTE 5 EXPENSES

	2011 $	2010 $
(Loss) / profit before income tax includes the following specific expenses:		
Depreciation and amortisation (note 11)	191,834	222,643
Rental expenses on operating leases	103,560	64,990
Defined contribution superannuation expense	16,882	2,374

NOTE 6 INCOME TAX

	2011 $	2010 $
(a) Numerical reconciliation of income tax expense to prima facie tax payable / (tax loss)		
(Loss) / profit from continuing operations before income tax expense	(3,936,253)	7,893,040
Tax at Australian tax rate of 30% (2010 – 30%)	(1,180,876)	2,367,912
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments expense	12,906	128,635
Other	180,512	255,363
	(987,458)	2,751,910
Previously unrecognised tax losses used to offset amounts recognised in equity	-	-
Adjustment to unrecognised tax losses under commercial debt forgiveness rules	-	(2,950,721)
De-recognition of deferred tax asset previously brought to account	-	198,811
Deferred tax asset not brought to account	987,458	-
Income tax expense	-	-

(b) Tax losses

	2011 $	2010 $
Unused tax losses for which no deferred tax asset has been recognised	71,653,040	66,287,936
Potential tax benefit @ 30%	21,495,912	19,886,381

This benefit for tax losses will only be obtained if:

- assessable income of a nature and of an amount sufficient to enable the benefit to be realised is derived; and
- conditions for deductibility imposed by law continue to be complied with; and
- no changes in tax legislation adversely affect the ability in realising the benefit.

(c) Deferred tax liabilities/(assets) not recognised

	2011 $	2010 $
Amounts recognised in profit or loss		
Exploration and evaluation and development costs	11,761,838	2,430,501
Provisions and sundry items	(7,750,530)	(4,313,320)
	4,011,308	(1,882,819)
Potential tax benefit @ 30%	1,203,392	(564,846)
Set-off deferred tax assets associated with carried forward losses not recognised	(1,203,392)	-
Deferred tax assets (excluding tax losses) not brought into account		564,846
Net deferred tax liability	-	-

NOTE 7 CURRENT ASSETS: CASH & CASH EQUIVALENTS

	2011 **$**	**2010** **$**
Cash at bank and on hand	1,036,586	10,338
Deposits at call	2,000,000	3,731,894
	3,036,586	3,742,232

The cash at bank and deposits earn floating interest at 5.3% (2010:5.6%). The weighted average term for the deposits at call at 30 June 2011 was 7 days (2010: 125 days).
The Group's risk exposure to interest rate risk is discussed in Note 2.

NOTE 8 CURRENT ASSETS: TRADE AND OTHER RECEIVABLES

	2011 **$**	**2010** **$**
Other receivables	634,825	194,651
Prepayments	413,872	34,467
	1,048,697	229,118

As at 30 June 2011 there were no trade receivables that were passed due or impaired.
A significant portion of the balance relates to GST receivable.
The Group's risk exposure to credit risk is discussed in Note 2.

NOTE 9 INVENTORY

	2011 **$**	**2010** **$**
Silver in circuit	240,523	-
Silver in precipitate	316,369	-
Dore bars	281,606	-
	838,498	-

Inventory comprises work in progress and is stated at the lower of cost and net realisable value. Refer to Note 2 for risk management and Note 3 for critical accounting estimates.

NOTE 10 NON-CURRENT ASSETS: RECEIVABLES

	2011 **$**	**2010** **$**
Security Deposits – tenements and premises	2,089,802	1,715,402
	2,089,802	1,715,402

Refer to Note 2 for risk management.

NOTE 11 NON CURRENT ASSETS: PLANT AND EQUIPMENT

	2011 **$**	**2010** **$**
Property		
Residential property at cost	134,992	134,992
Plant and equipment		
Plant and equipment at cost	10,418,981	11,186,451
Less accumulated depreciation	(2,793,989)	(3,119,605)
Less Impairment	(5,550,831)	(6,329,808)
	2,074,161	1,737,038
Total property plant and equipment	2,209,153	1,872,030

NOTE 11 NON CURRENT ASSETS: PLANT AND EQUIPMENT (continued)

Reconciliation

Reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the financial year are set out below:

	Property $	Plant and Equipment $	Total $
2010			
Carrying amount at the beginning of the financial year	134,992	1,932,988	2,067,980
Additions	-	36,567	36,567
Disposals	-	(32,647)	(32,647)
Depreciation expense	-	(222,643)	(222,643)
Impairment	-	22,773	22,773
Carrying amount at the end of the financial year	134,992	1,737,038	1,872,030
2011			
Carrying amount at the beginning of the financial year	134,992	1,737,038	1,872,030
Additions	-	780,487	780,487
Disposals	-	(251,530)	(251,530)
Depreciation expense	-	(191,834)	(191,834)
Impairment	-	-	-
Carrying amount at the end of the financial year	134,992	2,074,161	2,209,153

The residential property is a house at 22 Severn Street, Texas, Queensland which is secured by a building mortgaged as disclosed in Note 16. The valuation of the property is considered fair based on current prices in an active market for similar properties in the same location and condition.

The carrying value of plant and equipment is regularly reviewed by the directors. The value as at 30 June 2011 is deemed to be reasonable based on its current condition.

NOTE 12 MINERAL EXPLORATION AND EVALUATION EXPENDITURE

	2011 $	2010 $
Expenditure carried forward in respect of areas of interest in the pre production - exploration and evaluation phase		
Balance at the beginning of the financial year	630,501	-
Expenditure during the year – capitalised	2,413,531	630,501
Balance at the end of the financial year	3,044,032	630,501

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.

NOTE 13 INTERESTS IN JOINT VENTURES

Under a Joint Venture Agreement dated 10 December 2004 with Malachite Resources NL (Malachite), the Company acquired a 60% interest in exploration tenements. By June 2006 the Company had sole funded exploration on the tenements increasing its interest in the tenements to 75%. In 2011 the net capitalised expenditure is $52,324 (2010 $28,463) and is included under Exploration and Evaluation Expenditure (note 12).

NOTE 14 MINERAL DEVELOPMENT EXPENDITURE

	2011 **$**	**2010** **$**
Balance at the beginning of the financial year	3,489,438	2,270,000
Expenditure during the year	12,303,849	1,219,438
Revenue offset against costs	(493,985)	-
Balance at the end of the financial year	15,299,302	3,489,438

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

Tenements	14,829,302	3,019,438
Properties	470,000	470,000
	15,299,302	3,489,438

NOTE 15 CURRENT LIABILITIES: TRADE AND OTHER PAYABLES

	2011 **$**	**2010** **$**
Unsecured		
Trade creditors	3,549,197	236,002
Other creditors	-	250,931
Aggregate employee benefit and related on-costs liabilities	81,657	33,956
	3,630,854	520,889

Interest rate risk exposures
Details of the Group's exposure to interest rate changes on borrowings are set out in note 2 and 16.

NOTE 16 CURRENT LIABILITIES: BORROWINGS

	2011 ***$***	**2010** **$**
Secured		
Building mortgage	93,482	95,942
	93,482	95,942

The consolidated entity borrowed $104,000 toward the purchase of a house for mine staff accommodation. Liabilities in respect of the loan are included in current borrowings ($95,942). Interest is variable and at balance date was 7.71% (2010: 6.74%).

NOTE 17 NON-CURRENT LIABILITIES: PROVISIONS

	2011 **$**	**2010** **$**
Mine rehabilitation provision	4,028,973	4,028,973
	4,028,973	4,028,973
Movements		
Mine rehabilitation provision		
Balance 1 July	4,028,973	4,028,973
Increase in provision	-	-
Wind-back discount to NPV	-	-
Rehabilitation conducted	-	-
Balance 30 June	4,028,973	4,028,973

NOTE 18 CONTRIBUTED EQUITY

	Parent Entity		Parent Entity	
	2011	**2010**	**2011**	**2010**
	Shares	**Shares**	**$**	**$**
(a) Paid up capital				
Ordinary shares – fully paid – no par value	1,316,066,488	753,555,407	95,585,386	78,912,310

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and in a poll each share is entitled to one vote.

Date	Details	Number of Shares	Issue Price $	$
30 06.10	Opening Balance	753,555,407		78,912,310
01.07.10	Share placement	16,000,000	0.025	400,000
30.11.10	Options exercised	5,500,000	0.01	55,000
08.12.10	Options exercised	15,000,000	0.01	150,000
17.12.10	Options exercised	9,000,000	0.035	90,000
31.12.10	Share placement	118,508,311	0.01	4,147,791
31.01.10	Share placement	106,114,765	0.035	3,714,017
01.02.11	Share placement	201,491,689	0.035	7,052,209
02.02.11	Share placement	51,896,316	0.035	1,816,371
01.03.11	Options exercised	25,500,000	0.01	255,000
04.03.11	Options exercised	6,000,000	0.01	60,000
06.04.11	Options exercised	4,166,667	0.01	41,667
27.04.11	Options exercised	1,666,667	0.01	16,667
09.05.11	Options exercised	1,666,666	0.01	16,667
	Costs associated with share issues	-		(1,142,313)
30.06.11	Closing Balance	1,316,066,488		95,585,386

(b) Options

	No. of Options	
	2011	**2010**
The number of unissued ordinary shares relating to options not exercised at year end:		
Over shares in the Parent Entity:		
- Options exercisable on or before 30 September 2011 at $1.60	667,902	667,902
- Non-transferable options exercisable on or before 14 August 2011 at $9.00	423,750	423,750
- Non-transferable options exercisable on or before 9 November 2012 at $9.60	250,000	250,000
- Non-transferable options exercisable on or before 29 November 2010 at $5.60	-	260,000
Options exercisable on or before 30 September 2012 at 1 cent	70,500,000	139,000,000
- Options exercisable on or before 31 March 2015 at 11 cents	1,000,000	-
	72,841,652	140,601,652

NOTE 18 CONTRIBUTED EQUITY (continued)

(c) Option issues

Date	Details	Number of Options	Exercise Price	Expiry Date
2011				
30.03.11	Issued to Key Management Personnel	1,000,000	$0.11	31.03.15
2010				
17.09.09	Issued in terms of replacement prospectus	50,000,000	$0.01	30.09.12
17.09.09	Issued for nil consideration to offset re-capitalisation costs incurred by subscribers	100,000,000	$0.01	30.09.12
02.12.09	Issued to Director	10,000,000	$0.01	30.09.12

(d) Option exercised

During the year a total of 68,500,000 options were exercised (2010: 21,000,000).

(e) Option expiry

During the year 260,000 options expired unexcersised (2010: 75,625).

(f) Capital risk management

The group's objective when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the group may issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

During 2011, the group's strategy, which was unchanged from 2010, was to minimise debt. The gearing ratios at 30 June 2011 and 30 June 2010 were as follows:

	NOTE	2011 $	2010 $
Total borrowings	15,16	3,724,336	616,831
Less: cash and cash equivalents	7	3,036,586	3,742,232
Net debt		687,750	(3,125,401)
Total equity		19,812,761	7,032,917
Total capital		20,500,511	3,907,516
Gearing ratio		3%	(80%)

NOTE 19 RESERVES AND ACCUMULATED LOSSES

	2011 $	2010 $
(a) Reserves		
Share-based payments reserve	2,743,256	2,700,235
	2,743,256	2,700,235
Movement		
Balance 1 July	2,700,235	2,271,451
Employee option expense	43,021	428,784
Balance 30 June	2,743,256	2,700,235

Nature and purpose of reserve
The share-based payments reserve is used to recognise the fair value of options issued as part of remuneration but not exercised.

(b) Movements in accumulated losses were as follows:		
Balance 1 July	(74,579,628)	(82,472,668)
Net (loss) / profit for the year	(3,936,253)	7,893,040
Balance 30 June	(78,515,881)	(74,579,628)

NOTE 20 COMMITMENTS

	2011 $	2010 $
(a) Exploration Expenditure Commitments		
In order to maintain rights of tenure to exploration tenements the Company and the Consolidated Entity are required to perform exploration work to meet the minimum expenditure requirements as specified by various governments. Outstanding obligations are not provided for in the accounts and are payable:		
Not later than 1 year	310,000	345,000
Later than 1 year but not later than 3 years	875,000	616,600
	1,185,000	961,600
(b) Joint Venture Commitments		
Future exploration joint venture commitments not provided for in the financial statements and payable:		
Not later than 1 year	60,000	156,750
Later than 1 year but not later than 3 years	230,000	75,000
	290,000	231,750
(c) Operating Lease Commitments		
Future operating lease rentals not provided for in the financial statements and payable:		
Not later than 1 year	122,946	119,388
Later than 1 year but not later than 2 years	20,491	139,286
	143,437	258,674

The Company entered into a non-cancellable lease agreement for its office premises for a term of 32 months, with rent payable monthly in advance. There are 14 months remaining in the term.

NOTE 21 EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events subsequent to the reporting date.

NOTE 22 RELATED PARTY TRANSACTIONS

Wholly-owned group
The wholly-owned group and the consolidated entity consist of Alcyone Resources Ltd and its wholly-owned subsidiary, Texas Silver Mines Pty Ltd. Ownership interest in this subsidiary is set out in Note 33. The ultimate parent entity in the wholly-owned group and the consolidated entity is Alcyone Resources Ltd.

Texas Silver Mines Pty Ltd is incorporated in and operates in Australia.

Transactions between Alcyone Resources Ltd and its subsidiary in the wholly-owned group during the year ended 30 June 2011 consisted of loan funds of $15,510,810 advanced by Alcyone Resources Ltd (2010: $574,765).

As at 30 June 2011 the subsidiary owed Alcyone Resources Ltd $65,254,865 (2010: $49,744,055). The loan has been fully provided for at 30 June 2011.

The above transactions were made on normal commercial terms and conditions and at market rates, except that with respect to the intercompany loan balance, are unsecured, there are no fixed terms for the repayment of principal and no interest has been charged.

Joint venture with Malachite Resources NL
The Company is in an exploration and evaluation joint venture with Malachite as detailed in note 13.

Ownership interests in related parties
Interests held in subsidiaries are set out in Note 33.

Shared Costs
The Company has a cost sharing arrangement with Base Resources Limited in relation to office rent and associated outgoings, and one shared employee. Base Resources Limited is a related party via a common director. Receipts associated with this arrangement totalled $84,340 for the financial year (2010:$39,954).

NOTE 23 KEY MANAGEMENT PERSONNEL DISCLOSURES

	2011 $	2010 $
(a) Key management personnel compensation		
Short-term employee benefits	697,497	405,283
Post-employment benefits	8,669	-
Share-based payments	43,021	428,784
	749,187	834,067

NOTE 23 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(b) Equity Instrument disclosures relating to key management personnel

(i) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by key management personnel of the consolidated entity, including their personally-related entities, are set out below.

2011 Name	Balance at the start of the year Number	Granted during the year as compensation Number	Exercised during the year Number	Other changes during the year(ii) Number	Balance at the end of the year(i) Number	Vested and exercisable at the end of the year Number
Directors						
CW Morgan	10,000,000	-	-	(10,000,000)	-	-
AJ King	35,000,000	-	-	-	35,000,000	35,000,000
EP de Mori (Resigned 06.05.11)	7,000,000	-	-	-	7,000,000	7,000,000
AL Richards (Appointed 06.05.11)	-	-	-	-	-	-
Other key management personnel of the Group						
TA Harris (Appointed 14.03.11)	-	1,000,000	-	-	1,000,000	1,000,000
MA Reed (Appointed 16.05.11)	-	-	-	-	-	-
	52,000,000	1,000,000	-	(10,000,000)	43,000,000	43,000,000

2010 Name	Balance at the start of the year Number	Granted during the year as compensation Number	Exercised during the year Number	Other changes during the year(ii) Number	Balance at the end of the year(i) Number	Vested and exercisable at the end of the year Number
Directors						
CW Morgan	-	10,000,000	-	-	10,000,000	10,000,000
AJ King	-	-	-	35,000,000	35,000,000	35,000,000
EP de Mori (Resigned 06.05.11)	-	-	-	7,000,000	7,000,000	7,000,000
RM Harris (Resigned 30.11.09)	-	-	-	10,000,000	10,000,000	10,000,000
RD McNeil (Resigned 11.09.09)	3,588,380	-	-	(3,408,961)	179,419	179,419
DM O'Neill (Resigned 11.09.09)	1,264,251	-	-	(1,201,038)	63,213	63,213
EG Newman (Resigned 14.08.09)	561,582	-	-	(533,503)	28,079	28,079
Other key management personnel of the Group						
None	-	-	-	-	-	-
	5,414,213	10,000,000		46,856,498	62,270,711	62,270,711

(i) Where KMP have resigned the balance held is shown at the date of resignation.
(ii) Other changes during the year include other acquisitions and disposals..

NOTE 23 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(a) Equity Instrument disclosures relating to key management personnel (continued)

(ii) Share holdings

The numbers of shares in the Company held during the financial year by key management personnel of the consolidated entity, including their personally-related entities, are set out below.

2011 **Name**	**Balance at the start of the year** **Number**	**Received during the year on the exercise of options** **Number**	**Other changes during the year(ii)** **Number**	**Balance held directly at the end of year (i)** **Number**
Directors				
CW Morgan	43,000,000	-	(13,610,259)	29,389,741
AJ King	35,000,000	-	700,000	35,700,000
EP de Mori (Resigned 6.05.11)	5,250,000	-	(5,250,000)	-
AL Richards (Appointed 06.05.11)	-	-	-	-
Other key management personnel of the Group				
TA Harris (Appointed 14.03.11)	-	-	500,000	500,000
MA Reed (Appointed 16.05.11)	-	-	-	-

2010 **Name**	**Balance at the start of the year** **Number**	**Received during the year on the exercise of options** **Number**	**Other changes during the year(ii)** **Number**	**Balance held directly at the end of year(i)** **Number**
Directors				
CW Morgan	-	-	43,000,000	43,000,000
AJ King	-	-	35,000,000	35,000,000
EP de Mori	-	-	5,250,000	5,250,000
RM Harris(iii)	-	-	10,000,000	10,000,000
RD Mc Neil(iii)	6,234,023	-	(5,921,866)	312,157
DM O'Niell(iii)	4,506,002	-	(4,280,702)	225,300
EG Newman(iii)	60,171	-	(57,162)	3,009
Other key management personnel of the Group				
None				

(i) Where KMP have resigned the balance held is shown at the date of resignation.
(ii) Other changes during the year include other acquisitions and disposals.
(iii) Resigned at various dates during the period.

NOTE 23 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Loans to directors and executives

No loans were made to Directors or other key management personnel of Alcyone Resources Ltd or of the consolidated entity, including their personally-related entities (2010: Nil).

(d) Other transactions with key management personnel

No other transactions occurred between the Company and the Directors of Alcyone Resources Ltd or the specified executives except for the reimbursement at cost of expenditure incurred on behalf of the Company.

NOTE 24 SHARE-BASED PAYMENTS

(a) Incentive Options Scheme and Performance Rights Plan

Options over shares in Alcyone Resources Ltd are granted under the Alcyone Resources Ltd Incentive Option Scheme and the Alcyone Resources Ltd Performance Rights Plan which were approved by shareholders at an Annual General Meeting of shareholders of the Company held on 25 November 2010. The Option Scheme and the Performance Rights Plan is designed to provide long term incentives for executives to deliver long term shareholder returns, and participation in the future growth of the Company. Under the Scheme participants are granted options which typically vest on issue with a strike price 50% above the market price. The Scheme allows the Company to issue free options to an eligible person. The options are exercisable at a fixed price in accordance with the Plan.

Performance Rights issued under the Plan have vesting periods of between 12 and 48 months except under certain circumstances whereby Rights may be capable of exercise prior to the expiry of the vesting period. Participation in the Scheme is at the Board’s discretion and no individual has a contractual right to participate in the Scheme or to receive any guaranteed benefits.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Date Vested & Exercisable	Expiry Date	Exercise Price	Value Per Option at date of Grant
March 2011	31 March 2011	31 March 2015	$0.11	$0.04

* Value per option at date of grant is calculated using Black-Scholes Option Pricing mode at grant date

Options granted under the Option Scheme carry no dividend or voting rights.

The exercise price of options is set at a premium to the price at which the company's shares are traded on the Australian Securities Exchange on the day of issue.

The Option Scheme rules contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. Option Scheme participants may not enter into any transaction designed to remove the 'at risk' aspect of the instrument before it vests.

NOTE 24 SHARE-BASED PAYMENTS (CONTINUED)

Details of options issued under this scheme is as follows.

Name	Number of Options granted during the year		Value of options at grant date	Number of options vested during the year		Number of options lapsed during the year		Value of options at lapse date
	2011	2010	$	2011	2010	2011	2010	$
TA Harris	1,000,000	-	43,021	1,000,000	-	-	-	-

Details of options under issue are as follows:

2011

Grant Date	Exercise Date	Exercise Price	Balance at start of the year Number	Granted during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
31.03.11	31.03.15	$0.11	-	1,000,000	-	1,000,000	1,000,000
14.10.06	14.08.11	$9.00	423,750	-	-	423,750	423,750
27.11.07	29.11.10	$5.60	260,000	-	(260,000)	-	-
		Total	683,750	1,000,000	(260,000)	1,423,750	1423,750
Weighted average exercise price			$0.39	$0.11	$5.60	$2.67	$2.67

The weighted average remaining contractual life of options outstanding at reporting date is 2.99 years (2010: 0.87 years).

2010

Grant Date	Exercise Date	Exercise Price	Balance at start of the year Number	Consolidated 20 to 1 Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
13.10.05	01.11.10	$4.00	1,512,500	(1,436,875)	(76,625)	-	-
14.10.06	14.08.11	$9.00	8,475,000	(8,051,250)	-	423,750	423,750
27.11.07	29.11.10	$5.60	5,200,000	(4,940,000)	-	260,000	260,000
		Total	15,187,500	(14,428,125)	(76,625)	683,750	683,750
Weighted average exercise price			$0.37	-	$0.20	$0.39	$0.39

Shares provided on exercise of remuneration options
No shares were issued on exercise of options under a Share Option Plan during the year. No amounts are unpaid on any shares issued on the exercise of options.

For the year ended 30 June 2011 (2010; Nil) no options granted as remuneration were exercised by any directors or employees.

There were no Performance Rights issued during the financial year.

NOTE 24 SHARE-BASED PAYMENTS (CONTINUED)

(b) Directors' Options

Set out below are summaries of options granted to directors.

Name	Number of Options granted during the year		Value of options at grant date	Number of options vested during the year		Number of options lapsed during the year		Value of options at lapse date
	2011	2010	$	2011	2010	2011	2010	$
CW Morgan	-	10,000,000	428,784	-	10,000,000	-	-	-

No options were exercised during the financial year by Directors.
No options were issued to Directors in respect of the 2011 financial year.
Options were issued as an incentive and were not performance based.

(c) Fair value of options granted

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for incentive options granted during the year are disclosed in the table below:

	2011	2010
Exercise Price	$0.11	$0.01
Grant date	30 March 2011	30 November 2010
Expiry date	31 March 2015	30 September 2012
Share price at grant date	$0.076	$0.05
Expected price volatility	84%	90%
Expected dividend yield	0%	0%
Risk free interest rate	5.17%	4.74%

All options are granted for no consideration and vest based on the Option Scheme rules.

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense or capitalised as development expenditure, were as follows:

	2011 No.	2010 No.	2011 $	2010 $
Options issued	1,000,000	10,000,000	43,021	428,784
	1,000,000	10,000,000	43,021	428,784

NOTE 25: OPERATING SEGMENTS

Segment Information

Identification of reportable segments

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.

	2011 $	2010 $
Revenue from external sources	-	757,312
Reportable segment (loss)/profit	(296,059)	396,182
Reportable segment assets	23,775,266	7,670,804
Reportable segment liabilities	6,601,962	4,028,973

Reportable segment revenue is reconciled to total revenue as follows:		
Segment revenue	-	757,312
Corporate Revenue:		
Interest received	395,992	197,603
Debt forgiveness	-	9,835,741
Gain on sale of plant and equipment	524,513	14,733
Gain on disposal of investment	-	26,111
Sundry items	-	500
Total corporate revenue	920,505	10,074,688
Total revenue as per the Statement of Comprehensive Income	920,505	10,832,000

Reportable segment (loss) / profit is reconciled to total (loss)/profit as follows:		
Segment (loss) / profit	(296,059)	396,182
Corporate revenue	920,505	10,074,688
Corporate expenses:		
Corporate compliance, conference and promotion	(514,333)	(355,668)
Consulting fees	(302,171)	(185,593)
Employee benefit expense	(979,840)	(342,358)
Share based payment expense	(43,021)	(428,784)
Finance costs	(1,507,610)	(25,792)
Office rental and consumables	(153,763)	(102,938)
Repairs and maintenance	(4,317)	(5,279)
Creditor claims settled (dividend)	(600,000)	(850,000)
Other expenses	(455,644)	(281,418)
Total (loss)/profit as per the Statement of Comprehensive Income	(3,936,253)	7,893,040

NOTE 25: OPERATING SEGMENTS (CONTINUED)

	2011 $	**2010 $**
Reportable segment assets are reconciled to total assets as follows:		
Segment assets	23,775,266	7,670,804
Corporate assets:		
Cash and cash equivalents	3,036,066	3,742,232
Trade and other receivables	655,632	229,118
Property, plant and equipment	99,106	36,567
Total assets as per the Statement of Financial Position	27,566,070	11,678,721
Reportable segment liabilities are reconciled to total liabilities as follows:		
Segment liabilities	6,601,962	4,028,973
Corporate liabilities:		
Financial liabilities	93,482	95,942
Trade and other payables	1,057,865	520,889
Total liabilities as per the Statement of Financial Position	7,753,309	4,645,804

NOTE 26 AUDITORS' REMUNERATION

	2011 $	**2010 $**
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.		
Assurance services		
1. Audit Services		
BDO (QLD)	-	36,900
BDO Audit (WA) Pty Ltd	30,861	5,561
Total remuneration for audit services	30,861	42,461
Taxation Services		
BDO Corporate Tax (WA) Pty Ltd	3,500	-
Total remuneration for taxation services	3,500	-

NOTE 27 EARNINGS PER SHARE

	2011 $	2010 $
Basic and diluted (losses) / earnings per share (cents per share)	(0.39)c	1.29c
The (loss) / profit used in calculating basic earnings per share is the net (loss) /profit for the year.	(3,936,253)	7,893,040
Weighted average number of shares used in the calculation of the basic EPS	1,015,677,383	614,116,685
The number of potential ordinary shares relating to options not exercised at year end. These potential ordinary shares are not dilutive, as conversion would decrease the loss per share.	115,598,448	140,601,652

NOTE 28 CONTINGENCIES

Contingent Liabilities

Other than the grant of two royalties pursuant to the terms of the Recapitalisation Deed executed on 27 July 2009 and approved by creditors on 6 August 2009, which when combined, equate to a 3% gross royalty on specified silver production there are no further contingent liabilities. The royalty is applicable during the royalty period which commences when the total cumulative production exceeds 1,000,000 ounces of Silver and expires when the total cumulative production exceeds 7,000,000 ounces of Silver. At this stage no value has been placed on this obligation.

NOTE 29 RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011 $	2010 $
(a) Reconciliation of the operating loss after income tax to the net cash flow from operations:		
Operating (loss) / profit after income tax	(3,936,253)	7,893,040
Adjustment for non cash items:		
- Gain on disposal of fixed assets	(524,513)	(14,733)
- Loss on disposal of fixed assets	104,225	
- Non cash employee benefits	-	3,659
- Depreciation and amortisation expense	191,834	222,643
- Gain on disposal of investments (relates to investing activities)	-	(26,111)
- Non-cash benefits expense – share based payments	43,021	428,784
- Release from debt	-	(7,615,744)
- Shares issued to creditors trust	-	250,000
Shares issued in lieu of services	-	95,833
Change in operating assets and liabilities:		
- Accounts payable and provisions	3,109,965	(3,720,856)
- Amounts receivable	(819,579)	(200,176)
- Inventories	(838,498)	-
Net Cash outflow from operating activities	(2,669,798)	(2,683,661)

(b) Non cash financing and investing activities

There were no non cash financing and investing activities.

NOTE 31: PARENT ENTITY DISCLOSURE

As at, and throughout, the financial year ending 30 June 2011 the parent company of the group was Alcyone Resources Limited.

	2011 $	2010 $
Results of the parent entity		
(Loss) / profit for the period	(19,735,579)	6,816,774
Other comprehensive income	-	-
Total comprehensive result for the period	(19,735,579)	6,816,774
Financial position of the parent entity at year end		
Current assets	3,691,698	3,971,330
Non-current assets	805,730	435,615
Total assets	4,497,428	4,406,945
Current liabilities	3,630,854	520,889
Non current liabilities	-	-
Total liabilities	3,630,854	520,889
Total equity of the parent entity comprising of :		
Share capital	95,585,386	78,912,310
Option reserve	2,743,256	2,700,235
Accumulated losses	(97,462,068)	(77,726,489)
Total Equity	866,574	3,886,056

The Parent Entity has not entered into any guarantees in relation to the debts of its Subsidiary.

The Parent Entity does not have any commitments for the acquisition of property, plant and equipment.

NOTE 33 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1(b):

			Equity Holding	
	Country of	Class of	2011	2010
Name of Entity	**Incorporation**	**Shares**	**%**	**%**
Texas Silver Mines Pty Ltd	Australia	Ordinary	100	100

NOTE 33 DIVIDENDS

No dividends have been paid or declared since the start of the financial year, and the directors do not recommend the payment of a dividend in respect of the financial year ended 31 June 2011.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 23 to 57, are in accordance with the Corporations Act 2001 and:

   a) comply with Accounting Standards;
   b) are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in Note 1(a) to the financial statements;
   c) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the company and consolidated group; and
   d) the audited remuneration disclosures included in the Directors' report For the year ended 30 June 2011, comply with section 300A of the Corporations Act 2001.

2. The Chief Executive Officer and Chief Finance Officer have provided the declarations as required by s295A of the Corporations Act 2001.

3. In the director's opinion 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 Board of Directors.

Andrew King
Managing Director

23 September 2011

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

Report on the Financial Report

We have audited the accompanying financial report of Alcyone Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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 report.

Opinion

In our opinion:

(a) the financial report of Alcyone Resources Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Alcyone Resources Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Peter Toll
Director

Signed in Perth, Western Australia
Dated this 23rd day of September 2011