

ALCYONE RESOURCES LTD

ABN 53 056 776 160

Interim Consolidated Financial Statements

**For The Half-Year Ended
31 December 2010**

Contents

	Page
.....	
Directors' Report	2
.....	
Auditor's Independence Statement	3
.....	
Consolidated Statement of Comprehensive Income	4
.....	
Consolidated Statement of Financial Position	5
.....	
Consolidated Statement of Changes in Equity	6
.....	
Consolidated Statement of Cash Flows	7
.....	
Notes to the Interim Financial Statements	8
.....	
Directors' Declaration	13
.....	
Independent Auditor's Review Report	14
.....	

Directors' Report

The Directors present their interim consolidated report of Alcyone Resources Ltd and its controlled entities for the half-year ended 31 December 2010.

Directors

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

C.W. Morgan
A.J. King
E.P de Mori

Company Secretary

K.R. Hart

Review of Operations

The consolidated net (loss) / profit after income tax for the half-year was (\$502,005) (31 December 2009: \$8,439,079).

The result of the consolidated entity was significantly affected by:

- Debt forgiveness of Nil (2009: \$9,835,741) in accordance with the terms of a Deed of Company Arrangement.

At the end of the half-year the Group had \$4,938,044 (30 June 2010: \$3,742,232) in cash and at call deposits. Capitalised exploration and evaluation expenditure is \$2,154,105 (30 June 2010: \$630,501). Capitalised mineral development expenditure is \$5,481,303 (30 June 2010: \$3,489,843).

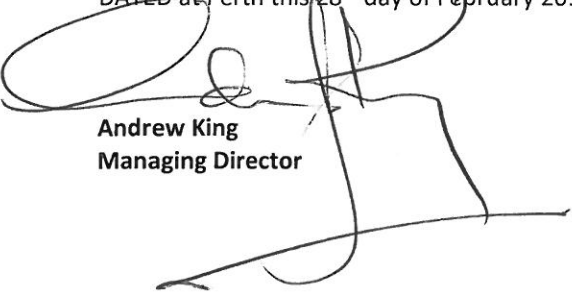
The economic review of the Twin Hills Project was completed and remedial work has commenced on the Heap Leach and the Storm Water Dam in anticipation of the commencement of the re-irrigation of the heaps in March 2011. Continued exploration work has provided positive results on the resource extension and drill programme at the Twin Hills and Mt Gunyan deposits as well as the regional exploration programmes at Hornet and Silver Spur Prospects and a RAB drilling programme is scheduled for the first quarter of 2011. The construction and commissioning of the modified processing circuit at Twin Hills is also planned to commence in March 2011 following the successful completion of the entitlement issue and share placement raising a total of \$16.7m.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001 is set out on page 3.

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

DATED at Perth this 28th day of February 2011.



Andrew King
Managing Director

28 February 2011

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 for the review of Alcyone Resources Limited for the half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

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

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



Peter Toll
Director



BDO Audit (WA) Pty Ltd
Perth, Western Australia

Alcyone Resources Ltd
ABN 53 056 776 160

Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2010

	Note	31 Dec 2010 \$	31 Dec 2009 \$
Revenue from continuing operations		129,370	868,021
Other income	3	366,546	9,871,261
Direct costs of mining and processing		-	(138,487)
Employee benefits expense		(250,717)	(142,708)
Depreciation and amortisation	4	(71,030)	(160,572)
Corporate compliance, insurance, shareholder relations		(242,221)	(177,796)
Assets written off		(104,225)	-
Finance costs		(4,278)	(79,272)
Office rental, communication and consumables		(74,386)	(24,017)
Payment to creditors' trust		-	(850,000)
Equity based remuneration expense		-	(428,784)
Other expenses		(251,064)	(298,567)
(Loss) / profit before income tax		(502,005)	8,439,079
Income tax expense		-	-
(Loss) / profit from continuing operations		(502,005)	8,439,079
Other comprehensive income			-
Total comprehensive (loss) / income for the half-year		(502,005)	8,439,079
(Loss) / profit per share from continuing operations			
Basic (loss) / profit per share (cents)		(0.06) cents	1.43 cents
Diluted profit / (loss) per share (cents)		(0.06) cents	1.22 cents

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Alcyone Resources Ltd
ABN 53 056 776 160

Consolidated Statement of Financial Position
as at 31 December 2010

		31 Dec 2010	30 Jun 2010
	Note	\$	\$
Current assets			
Cash and cash equivalents		4,938,044	3,742,232
Trade and other receivables		255,578	229,118
Total current assets		5,193,622	3,971,350
Non-current assets			
Trade and other receivables		1,715,402	1,715,402
Property, plant and equipment		1,689,312	1,872,030
Capitalised exploration and evaluation expenditure	7	2,154,105	630,501
Capitalised mineral development expenditure	8	5,481,303	3,489,438
Total non-current assets		11,040,122	7,707,371
Total assets		16,233,744	11,678,721
Current liabilities			
Trade and other payables		1,039,504	520,889
Interest bearing liabilities	9	94,882	95,942
Total current liabilities		1,134,386	616,831
Non-current liabilities			
Provisions		4,028,973	4,028,973
Total non-current liabilities		4,028,973	4,028,973
Total liabilities		5,163,359	4,645,804
Net assets		11,070,385	7,032,917
Equity			
Issued capital	5	83,451,783	78,912,310
Accumulated losses	6	(75,081,633)	(74,579,628)
Equity remuneration reserve	6	2,700,235	2,700,235
Total equity		11,070,385	7,032,917

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

Alcyone Resources Ltd
ABN 53 056 776 160

Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2010

	Note	Issued Capital Ordinary \$	Accumulated Losses \$	Options Reserve \$	Total \$
Balance at 1.7.2009		71,524,407	(82,472,668)	2,271,451	(8,676,810)
Total comprehensive income for the half year					
Profit		-	8,439,079	-	8,439,079
Other comprehensive income		-	-	-	-
		-	8,439,079	-	8,439,079
Transactions with owners in their capacity as owners					
Issue of ordinary shares		4,600,000	-	-	4,600,000
Transaction costs arising on share issue		(380,647)	-	-	(380,647)
Movement in equity compensation reserve	6	-	-	428,784	428,784
		4,219,353	-	428,784	4,648,137
Balance at 31.12.2009		75,743,760	(74,033,589)	2,700,235	4,410,406
Balance at 1.7.2010		78,912,310	(74,579,628)	2,700,235	7,032,917
Total comprehensive income for the period					
Loss		-	(502,005)	-	(502,005)
Other comprehensive income		-	-	-	-
		-	(502,005)	-	(502,005)
Transactions with owners in their capacity as owners					
Issue of ordinary shares		4,842,791	-	-	4,842,791
Transaction costs arising on share issue		(303,318)	-	-	(303,318)
		4,539,473	-	-	4,539,473
Balance at 31.12.2010		83,451,783	(75,081,633)	2,700,235	11,070,385

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

Alcyone Resources Ltd
ABN 53 056 776 160

Consolidated Statement of Cash Flows
For the half-year ended 31 December 2010

	31 December 2010 \$	31 December 2009 \$
Cash flows from operating activities		
Cash receipts in the course of operations (inclusive of goods and services tax)	-	757,312
Interest received	128,306	89,359
Payments to creditors' trust	-	(1,606,259)
Interest paid	(4,278)	-
Payments to suppliers and employees	(756,358)	(1,236,975)
Net cash outflow from operating activities	(632,330)	(1,996,563)
Cash flows from investing activities		
Exploration and evaluation activities	(1,606,897)	(110,149)
Development activities	(1,614,040)	(239,638)
Payments for property, plant and equipment	(65,627)	(12,196)
Proceeds from the sale property, plant and equipment	480,000	20,909
Proceeds from sale of available-for-sale financial assets	-	26,111
Net cash outflow from investing activities	(2,806,564)	(314,963)
Cash flows from financing activities		
Proceeds from the issue of shares (net of share issue costs)	4,558,592	3,869,353
Proceeds from share applications	77,174	-
Repayments of borrowings	(1,060)	(107,671)
Net inflow from financing activities	4,634,706	3,761,682
Net increase/(decrease) in cash and cash equivalents held	1,195,812	1,450,156
Cash and cash equivalents at the beginning of the period	3,742,232	1,124,589
Cash and cash equivalents at the end of the period	4,938,044	2,574,745

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

Notes to the Interim Financial Statements
For the half-year ended 31 December 2010

Note 1 Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Alcyone Resources Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

The consolidated interim financial statements were approved by the Board of Directors on 28th February 2011.

Adoption of new and revised accounting standards

In the half year ended 31 December 2010, 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 2010. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and therefore no change is necessary to Group accounting policies.

Recoverability of Mineral Development Expenditure and Going concern

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

At 31 December 2010, the Group had cash assets of \$4,938,044 (30 June 2010: \$3,472,232) and working capital of \$4,059,236 (30 June 2010: \$3,354,519).

Based on the known potential to raise the additional working capital, the directors are confident of securing funds if and when necessary to meet the Group's obligations as and when they fall due, and consider it appropriate that the financial statements be prepared on a going concern basis.

Note 2 Segment information

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

	For the six months ended 31 Dec 2010 \$	For the six months ended 31 Dec 2009 \$
Revenue from external sources	366,546	757,312
Reportable segment profit	191,291	458,253
	At 31 Dec 2010 \$	At 30 Jun 2010 \$
Reportable segment assets	13,417,169	7,670,804
Reportable segment liabilities	4,028,973	4,028,973

Notes to the Interim Financial Statements
For the half-year ended 31 December 2010

Note 2 Segment information (continued)

	For the six months ended 31 Dec 2010	For the six months ended 31 Dec 2009
	\$	\$
Reportable segment revenue is reconciled to total revenue as follows:		
Segment revenue	366,546	757,312
Corporate Revenue:		
Interest received	129,370	110,709
Debt forgiveness	-	9,835,741
Gain on sale of plant and equipment	-	8,909
Gain on disposal of investment	-	26,111
Sundry Items	-	500
Total Corporate revenue	129,370	9,981,970
Total revenue as per the Statement of Comprehensive Income	495,916	10,739,282
Reportable segment profit is reconciled to total (loss) / profit before income tax as follows:		
Segment profit	191,291	458,253
Corporate revenue	129,370	9,981,970
Corporate Expenses:		
Corporate compliance	(250,717)	(177,796)
Employee benefit expense	(242,221)	(142,708)
Share based payment expense	-	(428,784)
Finance costs	(4,278)	(79,272)
Office rental and consumables	(74,386)	(24,017)
Creditors claim settled (dividend)	-	(850,000)
Other expenses	(251,064)	(298,567)
Total (loss) / profit as per the Statement of Comprehensive Income	(502,005)	8,439,079
	At 31 Dec 2010	At 30 Jun 2010
	\$	\$
Reportable segment assets are reconciled to total assets as follows:		
Segment assets	13,417,169	7,670,804
Corporate assets:		
Cash and cash equivalents	2,574,745	3,742,232
Trade and other receivables	136,663	229,118
Property, plant and equipment (additions)	105,167	36,567
Total assets as per the Statement of Financial Position	16,233,744	11,678,721
Reportable segment liabilities are reconciled to total liabilities as follows:		
Segment liabilities	4,028,973	4,028,973
Corporate liabilities:		
Financial liabilities	94,882	95,942
Trade and other payables	1,039,504	520,889
Total liabilities as per the Statement of Financial Position	5,163,359	4,645,804

Notes to the Interim Financial Statements
For the half-year ended 31 December 2010

Note 3 Other income

	31 Dec 2010 \$	31 Dec 2009 \$
Debt forgiveness pursuant to settlement of a Deed of Company Arrangement	-	9,835,741
Gain on sale of investments	-	26,111
Gain on sale of plant & equipment	366,546	8,909
Sundry	-	500
	366,546	9,871,261

Note 4 Loss for the period

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

Depreciation	(71,030)	(160,572)
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Note 5 Issued capital

	31 Dec 2010	31 Dec 2009
<i>Ordinary share capital</i>		
Issued and fully paid	83,451,783	75,743,760

	31 Dec 2010 #	31 Dec 2010 \$	31 Dec 2009 #	31 Dec 2009 \$
<i>Movements in ordinary share capital</i>				
At the start of the period	753,555,407	78,912,310	511,098,640	71,524,407
Issued in terms of replacement prospectus			50,000,000	50,000
Issued for nil consideration to offset recapitalisation costs incurred by subscribers			100,000,000	100,000
Share placement			400,000,000	4,000,000
Issued to Creditors' Trust on settlement			25,000,000	250,000
20 to 1 Consolidation			25,555,407	-
20 to 1 Consolidation			(511,098,640)	-
Issued on exercise of options			20,000,000	200,000
Share placement	16,000,000	400,000		
Issued on exercise of options	5,500,000	55,000		
Issued on exercise of options	15,000,000	150,000		
Issued on exercise of options	9,000,000	90,000		
Share placement	118,508,311	4,147,791		
Costs associated with share issues	-	(303,318)	-	(380,647)
At the end of the period	917,563,718	83,451,783	620,555,407	75,743,760

Notes to the Interim Financial Statements
For the half-year ended 31 December 2010

Note 6 Reserves

	31 Dec 2010		31 Dec 2009	
	Accumulated losses	Share based payment reserve	Accumulated losses	Share based payment reserve
	\$	\$	\$	\$
At the start of the reporting period	(74,579,628)	2,700,235	(82,472,668)	2,271,451
(Loss) / profit for the reporting period	(502,005)	-	8,439,079	-
Expense recognised on issue of options as remuneration	-	-	-	428,784
At the end of the reporting period	(75,081,633)	2,700,235	(74,033,589)	2,700,235

Note 7 Mineral exploration

During the six months ended 31 December 2010 the Group capitalised expenditure in respect of mineral exploration of \$1,523,604.

Capitalised mineral exploration expenditure as at 31 December 2010 is \$2,154,105 (30 June 2010: \$630,501).

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

Note 8 Mineral development

During the six months ended 31 December 2010 the Group capitalised expenditure in respect of mineral development of \$1,991,865.

Capitalised mineral development expenditure as at 31 December 2010 is \$5,481,303 (30 June 2010: \$3,489,438).

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

Note 9 Interest bearing liabilities

The Group has a mortgage over the fixed property amounting to \$94,882 and is repayable at variable interest rates within 26 years.

Note 10 Dividends

No dividends were paid or proposed during the period.

The Company has no franking credits available as at 31 December 2009 or 31 December 2010.

Note 11 Contingencies

(i) Contingent liabilities

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

(ii) Contingent assets

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

Notes to the Interim Financial Statements
For the half-year ended 31 December 2010

Note 12 Events occurring after the balance sheet date

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

- The Company completed an entitlement issue in terms of the Prospectus dated 10 December 2010 with the issue of 158,011,081 shares on 21 January 2011 raising \$5,530,388.
- The Company completed tranche 2 of the share placement with the issue of 201,491,689 shares at 3.5 cents per share raising \$7,052,209.
- The Company has commenced purchasing key equipment and spares required for the construction and commissioning of the modified processing circuit at Twin Hills.
- The Company has purchased silver put options over a total of 774,171 ounces of silver at a strike price of \$27 per ounce at a cost of \$1,500,000.

Note 13 Subsidiary Information

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

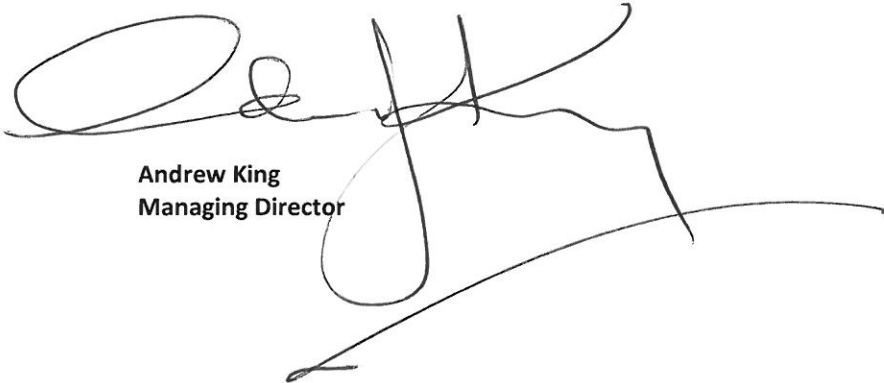
Directors' Declaration

The Directors of Alcyone Resources Ltd declare that:

- (a) the interim financial statements and notes set out on pages 4 to 12 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standard AASB134 – *Interim Financial Reporting*, and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the financial position as at 31 December 2010 and of the performance for the half-year ended on that date and.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Signed at Perth this 28th day of February 2011.



Andrew King
Managing Director

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alcyone Resources Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alcyone Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd

BDO


Peter Toll
Director

Perth, Western Australia
Dated this 28th day of February 2011