



ALCYONE RESOURCES LTD

ABN 53 056 776 160

NOTICE OF ANNUAL GENERAL MEETING INCORPORATING EXPLANATORY STATEMENT AND PROXY FORM

TIME: 3.00pm (WST)

DATE: Tuesday, 29th November 2011

PLACE: Level 1
50 Kings Park Road
West Perth WA 6005

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Shareholders will be held at
Level 1, 50 Kings Park Road, West Perth
at 3.00 pm on Tuesday 29th November 2011.

AGENDA

Ordinary Business

1. DISCUSSION OF FINANCIAL STATEMENTS AND REPORTS

To receive and consider the Directors' Report, the Financial Statements, the Directors' Declaration and the Independent Audit Report for the year ending 30 June 2011.

To consider and if thought fit to pass with or without modification, the following resolutions as ordinary resolutions:

2. REMUNERATION REPORT

"That the Remuneration Report as set out in the Company's Annual Report for the year ended 30 June 2011 be adopted."

Note: the vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report;*
- or*
- (b) a Closely Related Party of such a member.*

However, a person described above may vote on this Resolution if:

- (a) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and*
- (b) the vote is not cast on behalf of a person described in sub-paragraphs (a) or (b) above.*

3. RE-ELECTION OF DIRECTOR – MR CHARLES MORGAN

To consider and, if thought fit, to pass with or without modification the following ordinary resolution:

"That Mr Charles Morgan, who retires in accordance with clause 13.2 of the Company's Constitution and, being eligible, offers himself for re-election, be re-elected as a Director."

4. RE-ELECTION OF DIRECTOR – MR ANDREW RICHARDS

To consider and, if thought fit, to pass with or without modification the following ordinary resolution:

"Mr Andrew Richards, appointed a Director since the last Annual General Meeting retires in accordance with clause 13.4 of the company's constitution and, being eligible offers himself for re-election, be re-elected as a Director."

5. REMUNERATION OF NON-EXECUTIVE DIRECTORS

To consider, and if thought fit, to pass, with or without modification, the following ordinary resolution:

"That pursuant to clause 13.7 of the Company's Constitution and in accordance with ASX Listing Rule 10.17, Non-Executive Directors fees be payable to an amount not exceeding \$400,000 per annum".

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report;*
- or*
- (b) a Closely Related Party of such a member.*

Notice of Annual General Meeting

Ordinary Business

5. REMUNERATION OF NON-EXECUTIVE DIRECTORS (continued)

However, a person described above may vote on this Resolution if:

- (a) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and
- (b) the vote is not cast on behalf of a person described in sub-paragraphs (a) or (b) above.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any Director of the Company and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

6. APPROVAL OF THE GRANT OF OPTIONS AND PERFORMANCE RIGHTS TO DIRECTOR – MR ANDREW RICHARDS

To consider, and if thought fit, to pass, with or without modification, the following ordinary resolution:

“That pursuant to and in accordance with ASX Listing Rule 10.14 and for all other purposes, Shareholders approve the issue of 500,000 unlisted options and 500,000 performance rights under the Alcyone Resources Limited Incentive Option Scheme and Performance Rights Plan respectively to Mr Andrew Richards in accordance with the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by all the Directors (except one who is ineligible to participate in the Incentive Option Scheme and Performance Rights Plan) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person described above may vote on this Resolution if:

- (a) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and
- (b) the vote is not cast on behalf of a person described in sub-paragraphs (a) or (b) above.

7. APPROVAL OF THE GRANT OF OPTIONS TO DIRECTOR – MR CHARLES MORGAN

To consider, and if thought fit, to pass, with or without modification, the following ordinary resolution:

“That pursuant to and in accordance with ASX Listing Rule 10.14 and for all other purposes, Shareholders approve the issue of 5,000,000 unlisted options under the Alcyone Resources Limited Incentive Option Scheme to Mr Charles Morgan in accordance with the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by all the Directors (except one who is ineligible to participate in the Incentive Option Scheme) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person described above may vote on this Resolution if:

- (a) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and
- (b) the vote is not cast on behalf of a person described in sub-paragraphs (a) or (b) above.

Notice of Annual General Meeting

General Notes

Explanatory Statement

The Explanatory Statement to Shareholders attached to this Notice of Annual General Meeting is hereby incorporated into and forms part of this Notice of Annual General Meeting.

Voting Entitlement

The Directors have determined in accordance with Regulation 7.11.37 of the Corporations Regulations that, for the purposes of attending and voting at the meeting, Shares will be taken to be held by the registered holders at 5.00pm 27th November 2011.

Voting Exclusions

With respect to Agenda item 2, the vote on this item is advisory only and does not bind the Directors of the Company. However the Board will take the outcome of the vote into consideration when reviewing remuneration practices and policies of the company.

The Chairman of the meeting intends to vote undirected proxies, that are able to be voted, in favour of the adoption of the remuneration report.

Proxy

A member entitled to attend to vote at the meeting is entitled to appoint a proxy to attend and to vote instead of the member. The proxy need not be a member of Alcyone Resources Ltd. Proxy Forms must be lodged at the principal office of Alcyone Resources Ltd at Level 1, 50 Kings Park Road, West Perth, WA, 6005/PO Box 928, West Perth WA 6872 or by facsimile (+61 8 9322 8912) **no later than 48 hours** before the time of the meeting. A Proxy Form accompanies this Notice of Meeting.

New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Annual General Meeting. Broadly, the changes mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes is set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - o the proxy is not recorded as attending the meeting;
 - o the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

Dated this 25th day of October 2011.

By order of the Board of Directors

KEVIN HART

Company Secretary

Explanatory Statement

Agenda Item 2

REMUNERATION REPORT

“That the Remuneration Report as set out in the Company’s Annual Report for the year ended 30 June 2011 be adopted.”

The vote on this resolution is advisory only and does not bind the Directors of the Company. However, the Board will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Company.

The Remuneration Report is set out in the Alcyone Resources Ltd Annual Report 2011 and is available on the Company’s web site (www.alcyone.com.au).

The report:

- explains the Board’s policies in relation to the nature and level of remuneration paid to Directors of Alcyone Resources Ltd;
- sets out the remuneration details for each Director; and
- sets out the details of any Share based compensation.

The Board considers that its current practices of setting executive and non executive remuneration are within normal industry expectations, and provide an effective balance between the need to attract and retain the services of the highly skilled key management personnel that the Company requires. As such the directors recommend that shareholders vote in favour of the Company’s remuneration report at Agenda item 2.

Under the Corporations Act 2001, if 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive AGM’s, shareholders will be required to vote at the second of those AGM’s on a resolution (**‘Spill Resolution’**) that another meeting be held within 90 days of the Company’s 2012 AGM at which time all of the Company’s directors (excluding the Managing Director) must offer themselves for re-election.

If more than 50% of Shareholders vote in favour of the Spill Resolution, the Company must convene the general meeting (**‘Spill Meeting’**) within 90 days of the Company’s 2012 annual general meeting. All of the Directors who were in office when the Company’s 2012 Directors’ report was approved, other than the managing director of the Company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the Spill Meeting those persons whose election or re-election as Directors is approved will be the Directors of the Company.

The remuneration report sets out the Company’s remuneration arrangements for the Directors and senior management of the Company. The remuneration report is part of the Directors’ report contained in the annual financial report of the Company for the financial year ending 30 June 2011.

A reasonable opportunity will be provided for discussion of the remuneration report at the Annual General Meeting.

If you choose to appoint a proxy you are encouraged to direct your proxy how to vote on Agenda Item 2 by marking either **For**, **Against** or **Abstain** on the voting form.

If you appoint the Chairman as your proxy, and you do not direct them how to vote, you must mark the box on the proxy form acknowledging that the Chairman (a member of the key management personnel) may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as a proxy holder will be disregarded because of that interest.

If you do not mark this box then your votes will not be counted for Agenda Item 2.

The Chairman of the meeting intends to vote undirected proxies, that are able to be voted, in favour of the adoption of the remuneration report.

Agenda Item 3

RE-ELECTION OF DIRECTOR

“That Mr Charles Morgan, who retires in accordance with clause 13.2 of the Company’s Constitution and, being eligible, offers himself for re-election, be re-elected.”

Mr Charles Morgan retires from office in accordance with the constitution and being eligible offers himself for re-election.

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 has been a strong supporter of the Company in its recent capital raisings and a key player in the growth of the Company over the last 18 months.

The directors recommend that the shareholders vote **in favour** of the appointment of Mr Charles Morgan.

Explanatory Statement

Agenda Item 4

RE-ELECTION OF DIRECTOR

“Mr Andrew Richards appointed a Director since the last Annual General Meeting retires in accordance with the Company’s Constitution and, being eligible offers himself for re-election”.

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.

The directors recommend that the shareholders vote **in favour** of the appointment of Mr Andrew Richards.

Agenda Item 5

REMUNERATION OF NON-EXECUTIVE DIRECTORS

“That pursuant to the Company’s Constitution, Non-Executive Directors fees be payable to an amount not exceeding \$400,000 per annum”.

The Company’s Constitution requires Shareholder approval be obtained in respect of the maximum Director fees payable to Non-Executive Directors. Agenda Item 5 proposes to set the maximum amount to be \$400,000 per annum an increase of \$250,000. This revised amount will cater for the future expansion of the Alcyone Resources Board due to the increased activities of the Company in respect of the transition of the Texas Silver Project to a mining operation.

The Directors recommend that the Shareholders vote **in favour** of this Resolution.

Agenda Items 6 & 7

APPROVAL OF GRANT OF OPTIONS AND PERFORMANCE RIGHTS TO DIRECTORS – MR ANDREW RICHARDS AND MR CHARLES MORGAN

Agenda item 6 seeks Shareholder approval to allow the Company to issue Mr Andrew Richards (or his nominee):

- (a) 500,000 unlisted options pursuant to the Alcyone Resources Limited Incentive Option Scheme (**Option Scheme**) and on the terms and conditions set out below (**Options**); and
- (b) 500,000 performance rights pursuant to the Alcyone Resources Limited Performance Rights Plan (**Performance Rights Plan**) and on the terms and conditions set out below (**Performance Rights**).

Agenda item 7 seeks Shareholder approval to allow the Company to issue Mr Charles Morgan or his nominee 5,000,000 Options under the Option Scheme.

ASX Listing Rule 10.14 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities under an employee incentive scheme to a director of the entity, an associate of the director, or a person whose relationship with the entity, director or associate of the director is, in ASX’s opinion, such that approval should be obtained.

The granting of the Options and Performance Rights as contemplated by Resolution 6 and Options as contemplated by Resolution 7 is considered to constitute reasonable remuneration in accordance with Section 211 of the Corporations Act, having regard to the circumstances of the Company. Accordingly, Shareholder approval is not being sought for the grant of the Options or Performance Rights to Mr Andrew Richards or grant of the Options to Mr Charles Morgan under section 208 of the Corporations Act.

Explanatory Statement

Agenda Items 6 & 7 (continued)

Listing Rule 10.15

The following information is provided to Shareholders in accordance with Listing Rule 10.15:

- (a) the maximum number Options to be issued to Andrew Richards (or his nominee) is 500,000 and the maximum number of Performance Rights to be granted to Andrew Richards (or his nominee) (and Shares to be issued on exercise of the Performance Rights) is 500,000;
- (b) the maximum number Options to be issued to Charles Morgan (or his nominee) is 5,000,000;
- (c) the Options will be issued for nil consideration;
- (d) the Performance Rights will be issued for nil consideration and no consideration will be payable upon vesting of the Performance Rights on the achievement of the specified performance hurdles;
- (e) 2,000,000 Options have been issued under the Option Scheme since its approval at the Company's annual general meeting held on 25 November 2010 namely:
 - (i) 1,000,000 options with an exercise price of \$0.11 per option, expiring 31 March 2015 to Mr Trevor Harris, for nil consideration; and
 - (ii) 1,000,000 options an exercise price of \$0.15 per option, expiring 31 August 2015 to Mr Michael Reed, for nil consideration;
- (f) the Board may determine in its discretion who is entitled to participate in the Option Scheme and issue an invitation to that person. As at the date of this Notice of Meeting Andrew Richards and Charles Morgan are entitled to participate in the Option Scheme;
- (g) no Performance Rights have been issued under the Performance Rights Plan since its approval at the Company's annual general meeting held on 25 November 2010;
- (h) the Board may determine in its discretion who is entitled to participate in the Performance Rights Plan and issue an invitation to that person. As at the date of this Notice of Meeting Andrew Richards is entitled to participate in the Performance Rights Plan; and
- (i) the Company will issue the Options and Performance Rights within twelve months of the date of the meeting.

Additional Information

The following additional information is provided to Shareholders in relation to the approval of the grant of Options and the issue of the Performance Rights:

- (a) The 500,000 Options to be granted to Mr Andrew Richards will have an exercise price of 150% of the market closing price of the Company's ordinary fully paid shares for the trading day prior to issue (**Exercise Price**). The 5,000,000 Options to be granted to Charles Morgan will have an exercise price of 15 cents per Option.
- (b) The Options will have an expiry date of 29 November 2015 and will be issued in accordance with the terms and conditions set out in Appendix A of this Explanatory Statement. The Options will vest as follows:

Mr Andrew Richards – 500,000 will vest on issue

Mr Charles Morgan - 2,000,000 will vest on issue, 1,500,000 will vest in 12 months and 1,500,000 in 24 months from the date of issue.

- (c) The Performance Rights to be granted to Mr Andrew Richards will vest equally over 3 years and have an expiry date of 29 November 2015. Mr Andrew Richards must be a Non-Executive Director at each vesting date for his Performance Rights to vest and become exercisable. Otherwise, the Performance Rights will be issued in accordance with the terms and conditions set out in Appendix B of this Explanatory Statement.

Explanatory Statement

Agenda Items 6 & 7 (continued)

- (d) The Directors of the Company consider the indicative theoretical value attributable to the Options at a valuation date of 19 October 2011 to be as follows, notwithstanding that the Options will not be issued until after 29 November 2011, being the date of the Annual General Meeting of the Shareholders of the Company.

	Exercise Price	Expiry	Theoretical Value
Options	\$0.15	29 November 2015	4.9 cents per Option
Performance Rights	\$0.00	29 November 2015	9.6 cents per Performance Right

- (e) The Black and Scholes valuation methodology was used as a basis for the calculations using the following assumptions:
- The share price of a fully paid Alcyone Resources Limited share as at the valuation date of 19 October 2011 was \$0.096.
 - The risk free interest rate used was 3.64% (based on the 3 year Australian Treasury bond rate).
 - A volatility factor of 80% was used to value the options as determined based on the Company's previous history and the market generally.
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- (f) Based on the above assumptions, the value of the 500,000 Options and 500,000 Performance Rights to be granted to Mr Andrew Richards and the 5,000,000 Options to be granted to Mr Morgan, using the indicative values attributed, is as follows:

	Theoretical Value (cents)	Number of Options/Rights issued	Total value (\$)	
			Andrew Richards	Charles Morgan
Options	4.9 cents	500,000 and 5,000,000	24,500	245,000
Performance Rights	9.6 cents	500,000	48,000	-

- (g) The primary purpose of the grant of the Options and Performance Rights to Mr Andrew Richards and grant of Options to Mr Charles Morgan is to provide a performance linked incentive component in the remuneration package for Mr Andrew Richards and Mr Charles Morgan to motivate and reward the performance of Mr Andrew Richards and Mr Charles Morgan in their respective roles as Directors.
- (h) The Board acknowledges the grant of Options and Performance Rights to Mr Andrew Richards and grant of Options to Mr Charles Morgan is contrary to Recommendation 8.2 of the ASX Corporate Governance Principles and Recommendations. However, the Board considers the grant of Options and Performance Rights to Mr Andrew Richards and grant of Options to Mr Charles Morgan is reasonable in the circumstances for the reason set out below.

Directors Recommendations

- (a) Andrew King is not a beneficiary in the proposed issue of Options and Performance Rights and recommends that Shareholders vote in favour of Agenda item 6 & 7 for the following reasons:
- (i) the issue of the Options and Performance Rights is in the best interests of the Company because they provide Mr Richards and Mr Morgan with an incentive to enhance the future value of the Company's Shares for the benefit of all Shareholders; and
 - (ii) the issue of the Options and Performance Rights is a reasonable and appropriate way to retain Mr Richard's and Mr Morgan's professional services at reasonable market rates;
 - (iii) the grant of the Options and Performance Rights is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to Mr Andrew Richards and Mr Charles Morgan; and
 - (iv) it is not considered that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Options and Performance Rights upon the terms proposed.
- (b) Charles Morgan is not a beneficiary in the proposed issue of Options and Performance Rights under Agenda item 6 and recommends that Shareholders vote in favour of Agenda item 6 for the reasons set out in sub-paragraphs (a)(i) to (iv) above.

Explanatory Statement

Agenda Items 6 & 7 (continued)

- (c) In forming their recommendation in relation to Agenda item 6, Mr Andrew King and Mr Charles Morgan considered the experience of Mr Richards and the considerable ongoing responsibilities in his role as Non-Executive Director. The number of Options and Performance Rights has also been determined having regard to providing ongoing equity incentives over time to advance the Company and its assets. Regard has also been given to less tangible issues such as alignment of interests to the Company through an equity holding.
- (d) Mr Richards declines to make a recommendation on Resolution 6 because he has a material personal interest in the outcome of the resolution, on the basis that he will be granted Options and Performance Rights in the Company should the resolution be passed. Therefore, he is not in a position to recommend either for or against the proposed resolution.
- (e) Mr Andrew Richards is not a beneficiary in the proposed issue of Options under Agenda item 7 and recommends that Shareholders vote in favour of Agenda item 7 for the reasons set out in sub-paragraphs (a)(i) to (iv) above.
- (f) In forming their recommendations in relation to Agenda item 7, Mr Andrew King and Mr Andrew Richards considered the extensive experience of Mr Charles Morgan and his considerable ongoing responsibilities in his role as Non-Executive Chairman. The number of Options has also been determined having regard to providing ongoing equity incentives over time to advance the Company and its assets. Regard has also been given to less tangible issues such as alignment of interests to the Company through an equity holding.
- (g) Mr Morgan declines to make a recommendation on Resolution 7 because he has a material personal interest in the outcome of the resolution, on the basis that he will be granted Options in the Company should the resolution be passed. Therefore, he is not in a position to recommend either for or against the proposed resolution.

Other information reasonably required by the members to make a decision and that is known to the Company or any of its Directors

The Options and Performance Rights form part of the Company's long term incentive program and are to be granted in addition to the total fixed remuneration set out below. The exercise price of the Options is linked to improved share price performance. Importantly, this provides ongoing incentive to increase shareholder value over time and the exercise price reflects levels in excess of the current market price of the Company's shares.

Exercise of the Options will only be likely to occur if there is sustained upward movement in the Company's share price.

If the Options proposed to be granted to Mr Richards and Mr Morgan are exercised, the Company's issued shares would increase by 5,500,000 shares to a total of issued capital of 1,326,566,488 shares (assuming no other outstanding options are exercised and no further shares are issued), with the effect that the shareholding of the existing Shareholders would be diluted by 0.4% (0.04% for Mr Andrew Richards and 0.36% for Mr Charles Morgan).

The exercise of the Options will provide the Company with additional working capital of approximately \$798,000 (assuming the Options have an exercise price of \$0.145 each) and will represent approximately 0.39% of the total issued capital of the company on a fully diluted basis.

If the Performance Rights proposed to be granted to Mr Richards are exercised vest on satisfaction of the vesting conditions, the Company's issued shares would increase by 500,000 shares to a total of issued capital of 1,322,066,488 shares (assuming no other outstanding options are exercised and no further Shares are issued), with the effect that the shareholding of the existing Shareholders would be diluted by 0.04%.

As at 19 October 2011, the issued capital of the Company comprised 1,321,066,488 ordinary fully paid shares plus;
65,500,000 Unlisted Options expiring 30 September 2012 exercisable at \$0.01;
250,000 Unlisted Options expiring 9 November 2012 exercisable at \$9.60;
1,000,000 Unlisted Options expiring 31 March 2015 exercisable at \$0.11; and
1,000,000 Unlisted Options expiring 31 August 2015 exercisable at \$0.15.

Explanatory Statement

Agenda Items 6 & 7 (continued)

The following table sets out Mr Richards and Mr Morgan's current entitlement to shares and options.

Director	Number of Shares	Options
Andrew Richards	-	-
Charles Morgan	29,389,741	-

Under the terms of Mr Richards's employment contract, his annual remuneration is \$50,000 per annum.

Under the terms of Mr Morgan's employment contract, his annual remuneration is \$80,000 per annum.

The table below sets out the remuneration provided to the Directors of the Company during the last financial year prior to the date of this Notice of Meeting and their current remuneration at the date of this Notice of Meeting, inclusive of superannuation, directors' fees and consultancy fees.

Director	Current Financial Year YTD	Previous Financial Year
Andrew Richards (i)	\$13,750	-
Charles Morgan	\$22,004	\$78,330

(i) Appointed 6 May 2011

The market price of the Company's shares during the term of the Options will ordinarily determine whether or not option holders exercise the Options.

If the market price of the Company's Shares is in excess of the exercise price of the Options it is likely that the Options will be exercised. A benefit would accrue on the exercise of the Options by the payment of the amount determined under this Notice and the sale of the ordinary shares for an amount in excess of these amounts.

In the last 12 months, the highest price for ordinary fully paid shares in the company trading on ASX was \$0.145 which occurred on 15 and 21 April 2011. The lowest price was \$0.035 cents which occurred on 23 December 2010. On 19 October 2011 the closing price was \$0.096.

All Shares issued pursuant to the exercise of Options and Performance Rights under Agenda item 6 & 7 will rank pari passu with the existing ordinary shares on issue.

There is no other information known to the Directors that is reasonably required by Shareholders to make a decision whether or not it is in the Company's interest to pass Agenda item 6 & 7.

GLOSSARY

\$ means Australian dollars.

Annual General Meeting means the meeting convened by the Notice of Meeting.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Closely Related Party of a member of the Key Management Personnel means:

- a) a spouse or child of the member;
- b) a child of the member's spouse;
- c) a dependent of the member or the member's spouse;
- d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- e) a company the member controls; or
- f) a person prescribed by the *Corporations Regulations 2001 (Cth)*.

Company means Alcyone Resources Limited (ACN 056 776 160).

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

Key Management Personnel has the same meaning as in the accounting standards and broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

Notice of Meeting or **Notice of Annual General Meeting** means this notice of annual general meeting including the Explanatory Statement.

Remuneration Report means the remuneration report set out in the Director's report section of the Company's annual financial report for the year ended 30 June 2011.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

WST means Western Standard Time as observed in Perth, Western Australia.

SCHEDULE 1 – TERMS AND CONDITIONS OF INCENTIVE OPTION SCHEME

The following is a summary of the key terms and conditions of the Scheme pursuant to Agenda Item 6 and 7:

- (a) **Entitlement to Participate:** the Board will determine in its discretion who is entitled to participate in the Scheme and issue an invitation to that person. The Board will consider factors such as seniority and position of the potential participant, length of service, record of employment and potential contribution to growth and profitability of the Company.
- (b) **Exercise Price:** the Board will determine in its discretion the exercise price of the Options. To the extent that the Listing Rules specify or require a minimum price, the exercise price must not be less than any minimum price specified.
- (c) **Lapsing Date:** the lapsing date of an Option issued under the Scheme is two (2) years after the date of the grant of the Option, or such other date as the Board determines in its discretion at the time of the grant of that Option (**Lapsing Date**).
- (d) **Lapsing of Options:** the options of any participant in the Scheme will lapse where:
 - (i) the relevant person ceases to be an employee or director of, or to render services to, the company for any reason whatsoever and the Exercise Conditions have not been met;
 - (ii) the Exercise Conditions are unable to be met;
 - (iii) the Lapsing Date has passed, or
 - (iv) the relevant person ceases to be an employee or director of, or to render services to, the Company for any reason whatsoever, and the Exercise Conditions have been met,
- (e) **Exercise of Options:** Options granted under the Scheme are exercised by delivering to the Company's secretary (at a time when the Options may be exercised):
 - (i) the certificate for the Options or, if the certificate for the Options is destroyed or lost, a declaration to that effect, accompanied by an indemnity in favour of the Company against any loss, costs or expenses which might be incurred by the Company as a consequence of its relying on the declaration;
 - (ii) a notice in the form set out in the Scheme addressed to the Company and signed by the participant stating that the participant exercises the Options and specifying the number of Options being exercised and specifying the subregister of the Company in which the Shares are to be recorded in; and
 - (iii) payment to the Company of the an amount equal to the Option Exercise Price multiplied by the number of Options which are being exercised unless there is no exercise price payable in respect of the Options being exercised.
- (f) **Quotation:** The Company will not apply for quotation of the Options on ASX but the Company will make an application for the Shares issued as a result of the Options being exercised to be quoted in accordance with the Listing Rules.
- (g) The Options are not transferable except with the prior written consent of the board of directors of the Company.
- (h) All Shares allotted upon the exercise of Options will upon allotment rank pari passu in all respects with other Shares.
- (i) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction
- (j) **New Issues:** There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
- (k) An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

SCHEDULE 2 – TERMS AND CONDITIONS OF PERFORMANCE RIGHTS PLAN

The following is a summary of the key terms and conditions of the Plan pursuant to Agenda Item 6:

- (a) **Entitlement to Participate:** the Board will determine in its discretion whom is entitled to participate in the Plan and issue an invitation to that person. The Board will consider factors such as seniority and position of the potential participant, length of service, record of employment and potential contribution to growth and profitability of the Company.
- (b) **Rights:** each Performance Right issued under the Plan is a right to be issued with or transferred a single Share, free of encumbrances.
- (c) **Expiry Date:** means the date on which a Performance Right lapses (if it has not already lapsed in accordance with the Plan) as specified in the offer made to the participant.
- (d) **Vesting Conditions:** the Board will determine the Vesting Conditions that must be satisfied by a participant before the Performance Right vests in the holder.
- (e) **Vesting:** a Performance Right will vest in a participant where the Vesting Conditions are satisfied or waived by the Board or where the Performance Right vests as a result of Accelerated Vesting.
- (f) **Accelerated Vesting:** The Board may in its discretion determine that all or a specified number of a participant's unvested Performance Rights vest where:
 - (i) the participant dies;
 - (ii) the participant ceases to be employed by the Company;
 - (iii) a takeover bid for the Company's issued Shares is declared unconditional and the bidder has acquired a relevant interest in at least 50.1% of the Company's issued Shares;
 - (iv) a court approves under Section 411(4)(b) of the Corporations Act a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies; or
 - (v) the Company passes a resolution for voluntary winding up or an order is made for the compulsory winding up of the Company.
- (g) **Lapse of an unvested Performance Right:** A Performance Right that has not vested will lapse upon the earlier to occur of:
 - (i) a failure to meet the Performance Right's Vesting Conditions;
 - (ii) the Expiry Date;
 - (iii) the Participant ceasing to be an employee;
 - (iv) the Performance Right lapsing due to the Participant ceasing to be an employee or due to the occurrence of a Takeover Bid, compromise or arrangement or winding up;
 - (v) the Performance Right lapsing due to an unauthorised transfer, or purported transfer, of the Performance Right;
 - (vi) a determination of the Board that the Performance Right is to lapse due to fraud or dishonesty; or
 - (vii) the day before the end of the 7 year anniversary of the date of grant of the Performance Rights.

SCHEDULE 2 – TERMS AND CONDITIONS OF PERFORMANCE RIGHTS PLAN (CONTINUED)

- (h) **Lapse of a vested Performance Right:** A Performance Right that has vested but not been validly exercised will lapse upon the earlier to occur of:
- (i) the Expiry Date (if any);
 - (ii) the Performance Right lapsing due to an unauthorised transfer, or purported transfer, of the Performance Right;
 - (iii) a determination of the Board that the Performance Right is to lapse due to fraud or dishonesty; or
 - (iv) the day before the end of the 7 year anniversary of the date of grant of the Performance Right
- (i) **Exercise of Performance Right:** A participant may exercise a Performance Right that is entitled to exercised by lodging with the Company a notice of exercise of the Performance Right in the form (if any) prescribed by the Company, and the certificate for the Performance Right.
- (j) **Quotation:** If Shares of the same class as those allotted under the Plan are listed on the ASX the Company will apply to the ASX within a reasonable time after they are allotted for those Shares to be listed.
- (k) **New Issues:** Other than adjustments for bonus issues and reorganisation of the issued capital of the Company, participants are not entitled to participate in any new issue of securities of the Company as a result of their holding Performance Rights during the currency of any Performance Rights and prior to vesting. In addition, participants are not entitled to vote nor receive dividends as a result of their holding Performance Rights.