



TEXAS SILVER OPERATIONS AND CORPORATE UPDATE

HIGHLIGHTS

- **Alcyone extends its existing hedging and pre-paid facility with Credit Suisse for a further seven months until July 2013, comprising:**
 - *Forward sales totalling 118,500oz of silver over a 7-month period at an average price of \$31.33 per ounce; and*
 - *A pre-pay arrangement realising A\$2M in up-front cash, to continue exploration activities and provide general working capital.*
 - **Optimisation of production continuing at Texas Silver Operations, with production of silver bullion for the December 2012 Quarter expected to be in the range of 200,000-220,000oz.**
 - **Irrigation of first cells on Leach Pad 4 underway with silver production already achieved.**
 - **Pre-strip of next ore blocks to be mined well advanced.**
 - **Production guidance of 1.0-1.2Moz for FY 2013 reaffirmed.**
 - **Performance Rights and Long Term Incentive (LTI) scheme implemented for all employees to incentivise and reward loyalty, commitment and achievement.**
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Alcyone Resources Ltd (ASX: AYN – “Alcyone” or “the Company”) provides the following corporate and operational update for its 100%-owned Texas Silver Project in south-east Queensland.

Credit Suisse Pre-Pay Facility Extended

Alcyone has agreed to extend its existing forward sales and pre-pay facility with Credit Suisse International through to July 2013.

Under the 7-month Forward Structure and Pre-pay, Alcyone has agreed to sell a total of 118,500 ounces of silver commencing in January 2013 at an average price of A\$31.33/oz, with the pre-pay realising a total of A\$2 million in cash. The facility is a continuation of the arrangements already in place and is fully secured by way of the current charge over the Company’s assets.

Alcyone now has a total of 578,539 ounces of silver deliverable at an average \$28.55/oz under the forward sale structure through to September 2013.

The final repayment of ounces under the existing \$3 million pre-payment facility implemented in November 2011 will be completed on schedule. The funds from the extension of the facility will be utilised to fund ongoing exploration activities at the Texas Project and for general working capital purposes.

Texas Operations Update

Stacking and irrigation of the newly constructed Leach Pad 4 (LP4) is underway. The first 5 metre bench has been completed on Cells 1 and 2, and breakthrough of silver-enriched solution has already occurred from these cells. Stacking of Cell 3 is underway (see picture below) with a further 9 cells to be filled to complete the first 5 metre bench on LP4.



Stacking Cell 3 of Leach Pad 4 – Cells 1 & 2 in background

With a total of 12 cells on LP4, there will be **over 72,000 square metres under irrigation** on this leach pad by the time this bench is completed in approximately July 2013.

Both LP3 and LP4 have been fully integrated into the production cycle, underpinning a continued build-up in leachable silver inventory; Alcyone will continue to focus on delivering efficiencies and enhancements with the longer term stacking sequence. Once the first bench on LP4 has been completed, **there will be over 140,000 square metres under irrigation at the Texas Operations**. The combined Leach Pads 1 to 4 will provide enough stacking capacity for 18 months at current production rates.

Production Guidance Update

The December 2012 Quarter is expected to deliver production of **between 200,000 and 220,000oz** of silver bullion, compared with production for the September Quarter of 229,670oz.

Production in the latter part of the Quarter has been below budget, mainly due to equipment breakdowns in the mining fleet which resulted in mining operations being limited for a period of 18 days and a shortfall in high grade ore deliveries to the ROM pad during this period.

As a result, the processing plant was temporarily fed from lower grade ROM stockpiles dating back to the pre-Alcyone period of operations at Texas, rather than higher grade ore direct from the Twin Hills mine. The grade of this ore parcel was below forecast based on previously assayed ore grades from the stockpile, resulting in a short term impact on the overall level of ounces produced.

To recover the mining shortfall, the second excavator in the Company's mining fleet has been commissioned and two extra trucks hired. In addition, the mine has moved to 24 hour operations until the shortfall is made up, which is expected to occur by early in the New Year. We have also put in place contingencies regarding mining equipment that should minimise the impact of breakdowns in the future.

By the end of December 2012, the mining operation is scheduled to have advanced to the next major ore mining sequence at the Twin Hills open pit. This will be the ore supply for the Texas Operations over the balance of FY 2013 with approximately 2 million ounces scheduled to be mined to June 2013.

With the recovery in mining and the successful commissioning of LP4, the Company reaffirms its previously announced production guidance for **FY 2013 of 1.0-1.2 million ounces of silver bullion**.

LTI and Performance Rights

Alcyone is pleased to advise that it has implemented an Employee Performance Rights Scheme for all employees as part of the overall Long Term Incentive Scheme. This is in accordance with the Scheme previously approved by shareholders at the AGM on 25th November 2010. No members of the Board are participants in the current allocations.

The scheme is designed to incentivise and reward employee loyalty and commitment and appropriately align the goals and objectives of the Company with those of its employees. The Scheme allocates various levels of Performance Rights subject to the achievement of agreed targets by both the employee and the Company.

Alcyone's Managing Director, Andrew King, said the Company was pleased to offer all of its employees a Performance Rights Scheme to incentivise and reward loyalty and commitment.

"This is an important development for the Company as we work hard to strengthen our position as a successful and growing silver producer at the Texas Project," he said. "We have made further operational progress during the December Quarter with the successful completion and commissioning of Leach Pad 4, which will become an important new contributor to our production cycle.

"While production for the December Quarter has been below expectation due to some short-term mining issues which have now been addressed, we expect to see a strong increase in silver bullion production in the first two Quarters of the New Year as we continue to increase the leachable silver inventory, with Leach Pads 1-4 underpinning our FY 2013 production profile of 1-1.2Moz.

"This puts us in a very solid position moving into 2013 and beyond. In conclusion, I would like to thank our operations team, led by Mike Reed, for their hard work during the year, and to wish them and our shareholders a safe and happy Christmas and New Year."

ENDS

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About Alcyone

Alcyone Resources (ASX Ticker: AYN) commenced silver production in July 2011 at its Texas Silver & Polymetallic Project in south-east Queensland, and is currently targeting an annualised production level of 1.2 to 1.4 Moz Ag per annum. Alcyone has embarked on an exciting new growth phase with aggressive exploration programs underway aiming to establish a 7-10 year mine life and targeting new silver and base metal discoveries within its tenement holding.

The Texas Silver & Polymetallic Project includes the Twin Hills Silver Mine and a portfolio of advanced silver and polymetallic base metal exploration targets. Alcyone has moved rapidly from acquisition of the Project in November 2009, through re-assessment and feasibility and into production.

The Company has upgraded the existing 1Mtpa Twin Hills processing plant, including the installation of new crushing circuit and a commercial-scale Merrill Crowe silver recovery circuit, which has been successfully commissioned and is now operating at design processing capacity.