



ABN 53 056 776 160

**ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2013**

CORPORATE DIRECTORY

DIRECTORS

Paul D'Sylva - Non-Executive Chairman
Michael Reed - Managing Director
Timothy Morrison - Non-Executive Director

COMPANY SECRETARY

Trevor Harris

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CONTENTS

	Page
Review of Operations and Activities	1 – 6
Corporate Governance Statement	7 – 15
Directors' Report	16 – 36
Auditors' Independence Declaration	37
Financial Report	
Consolidated Statement of Profit or Loss and Other Comprehensive Income	38
Consolidated Statement of Financial Position	39
Consolidated Statement of Cash Flows	40
Consolidated Statement of Changes in Equity	41
Notes to the Consolidated Financial Statements	42 – 89
Directors' Declaration	90
Independent Audit Report to the Members	91 – 92

ALCYONE RESOURCES LTD

REVIEW OF OPERATIONS AND ACTIVITIES

REVIEW OF OPERATIONS 2013

The 2012/13 financial year has seen the Company go through transformation and rebirth as it dealt with flood events and a change of Board and management. The previous Board of Directors resigned their positions in March 2013 and the new Board, led by Chairman Dr Paul D'Sylva and the new Managing Director Mr Michael Reed have, with the support of senior management, begun the process of directing the Company towards what is expected to be a stable and profitable operation.

The review completed by the new team has brought new perspectives, identifying major cost cutting opportunities and a defined process of increased silver production to make Alcyone Resources a low cost, high yielding producer with a clean balance sheet to underpin the overall viability of the business.

The Company remains committed to the objective of becoming a profitable, world-class Australian silver producer. This requires further capital investment to achieve an increase in silver production to name plate producing capacity (with the focus on profitability) and to increase mine life through successful exploration. The Board is confident of gaining the required support via a combination of placing the shortfall remaining under the non-renounceable entitlement offer, a silver streaming deal and/or ongoing debt facilities.

Working capital constraints have been addressed with the support of shareholders via the closure of the Company's non-renounceable entitlement offer and a staged re-start of operations has commenced, with full operations expected by October 2013.

Twin Hills

The completion of a company review by new management has identified several projects which will enable Alcyone Resources to become a low cost, high producing company. A planned upgrade of the crusher and introduction of a High Pressure Grinding Rolls (HPGR) to supplement the Quad Rolls Crusher, will increase throughput from 700,000 tonnes per annum to 1.1 million tonnes per annum, increasing silver production to over 1.3 million ounces per annum. With the increase to production, a series of cost cutting projects have been identified including: the importation of cyanide; the erection and commissioning of a HV power line and the reduction of reliance on hired equipment, all combined realising a life of mine saving of \$31.1 million dollars.

Mining operations continued with the focus being on ore production to supplement the crusher feed and pre-stripping waste from Stage 2 and 3 to maximise the ore production for the upcoming quarters. Mining was able to achieve full stockpiles throughout the year however, production was hindered by the crusher's ability to process the ore and the mining department's personnel were utilised in other non-core activities. Production for the year from the Twin Hills open cut mine was 847,502 ore tonnes mined realising 1,719,107 ounces available for processing.

Crushing and processing operations continued with the focus on throughput and mechanical availability of the Quad Rolls crusher. While overall availability did improve over the year, problems with gearboxes and shafts caused periodic downtime. The crusher was able to stack 697,634 tonnes with a total of 1,527,877 ounces in total stacked. The ounces that are accessible for leaching were 886,932. The total number of ounces available for leaching will improve with the introduction of the HPGR due to increased recoveries.

Silver production for the year totalled 703,470 ounces, with a further 755,090 ounces in recoverable silver inventory on the leach pads as at 30 June, 2013. This will establish a solid basis for silver production during the 2014 fiscal year.

ALCYONE RESOURCES LTD
REVIEW OF OPERATIONS AND ACTIVITIES

Mineral Resource and Ore Reserve

Twin Hills

Mineral Resource

The Twin Hills in situ mineral resource has been depleted to the surface representing the June 2013 end of month survey. The result at the mining cut-off is shown in Table 1.

Table 1: Twin Hills in Situ Mineral Resource $\geq 26.5\text{g/t Ag}$ depleted to EOM June 2013 survey.

Class	Tonnes	Ag g/t	Ag Moz
Measured	1,716,000	76.6	4.23
Indicated	5,718,000	44.1	8.11
Inferred	931,000	52.6	1.58
TOTAL	8,365,000	51.7	13.92

The information included is based on modelling and reporting which complies with the 2004 JORC Code.

The Mineral Resource stated in Table 1 is total in situ remaining at 30 June 2013 and is inclusive of the Ore Reserve quoted elsewhere in this Report.

Ore Reserve

Table 2: Twin Hills Ore Reserve June 2013

Category	Tonnes	Grade (g/t Ag)	Contained Silver (Moz)	Recovered Silver (Moz)
Proved	1,420,000	78	3.6	2.3
Probable	3,240,000	46	4.8	3.1
Total	4,660,000	56	8.4	5.4

The above Ore Reserve is reported at a cut-off grade of 26.5g/t Ag and from the base of the pit as at 30 June 2013. The expected recoverable Ag is determined at a recovery rate of 65%.

Mt Gunyan

Mineral Resource

In the December Quarter of 2012, the Company was pleased to announce an upgrade to the Mt Gunyan Mineral resource as follows:

Table 3: Mount Gunyan Mineral Resource Estimate $\geq 30\text{g/t Ag}$

Class	Contained		
	Tonnes	Ag	Ag Moz
Measured	754,000	56	1.3
Indicated	2,884,000	55	5.2
Inferred	302,000	48	0.5
Total	3,940,000	55	7.0

ALCYONE RESOURCES LTD
REVIEW OF OPERATIONS AND ACTIVITIES

The mineral resource was estimated by Alcyone Resources personnel using the Vulcan geological modelling package and the following techniques:

- Validated drill hole data set composited within the mineralisation interpretation to 2m down hole;
- Mineralisation determined by a combination of geology, structure and grade for Ag and Au separately. Domains assigned by location and characteristic similarity;
- Grade continuity statistics and geo-statistical assessment utilised to determine search orientation and distance by domain; and
- Ag grade estimated by ordinary kriging using a grade continuity established by domain.
- Reporting cut-off for Ag selected to provide similar average in situ grade as for the nearby Twin Hills Deposit given the geological and likely similar leaching characteristics of the material.

Mt Gunyan Mining Study

The Company undertook a scoping study based on the mineral resource detailed above with parameters obtained from the Twin Hills operation to determine that part of the mineral resource which is potentially economic to extract. The result of this are study in shown in Table 4.

Table 4: Mt Gunyan Scoping Study Results

Class	Tonnes	Ag	Contained Ag Moz	Recovered Ag Moz
Measured	701,000	52.2	1.2	0.7
Indicated	1,676,000	58.4	3.1	1.9
Inferred	28,000	53.7	0.0	0.0
TOTAL	2,405,000	56.5	4.3	2.6

The mineral resource identified in Table 1 above is reported at 30g/t Ag with the expected recovered ounces determined at 60%.

The information provided is not an Ore Reserve as Alcyone Resources does not as yet have sufficient data to make supportable economic assumptions regarding the parameters required to define such.

EXPLORATION OVERVIEW

Alcyone Resources continued its exploration program by drilling at selected silver and base metals prospects as well as in and around the Twin Hills mine.

At various times during the period, Alcyone Resources utilised two drill rigs. The company-owned Rotary Air Blast (RAB) drilling rig carried out minor regional exploration in the corridor between Twin Hills and Mt Gunyan. Alcyone Resources contracted a Reverse Circulation (RC) rig for exploration drilling at the Falcon, Hornet and Mt Gunyan South East Prospects in order to assess silver and base metals potential in these locations. In addition, this type of rig was used within the southern end of the Twin Hills final pit design area for mineral resource confidence assessment and further south in order to review additional mineral resource potential.

1.0 Drilling

Reverse Circulation (RC) drilling was undertaken at Twin Hills, Falcon, Hornet and Mt Gunyan SE location – locations in Figure 1.

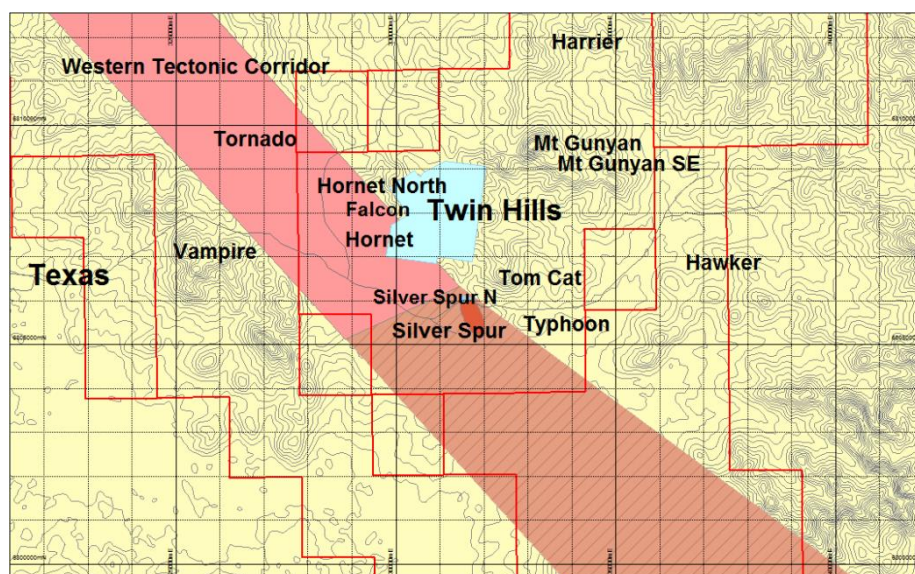


Figure 1: Location Plan

1.1 Twin Hills

Reverse Circulation (RC) drilling was undertaken at the Twin Hills Deposit aimed at increasing the confidence level of the southern end of the Mineral Resource estimate in the planned final pit and exploring for southern extensions to the current known limits of the mineralisation.

A total of 13 holes (THRC033 to 045) were drilled totalling 1,024m in the two locations.

The best intercepts reported below (determined using Twin Hills “ore” boundaries sample grade $\geq 26\text{g/t Ag}$, a minimum length of 2m, a minimum average grade of 40g/t Ag and inclusion [if an intercept is $>2\text{m}$ in length] of only one sub- 26g/t Ag grade sample), are based on uncut assay results with individual samples with grade $\geq 250\text{g/t Ag}$ identified.

Southern end of Mineral Resource within the planned pit (Holes THRC 37 to 40):

- THRC037 – 9m @ 51g/t Ag from 10m down hole; 3m @ 45.9g/t Ag from 23m; 4m @ 41.1g/t Ag from 29m and 10m @ 74g/t Ag from 50m
- THRC038 – 5m @ 44g/t Ag from 33m
- THRC039 – 2m @ 136g/t Ag from surface; 21m @ 57g/t Ag from 28m down hole; 5m @ 88g/t Ag from 59m and 11m @ 89g/t Ag from 69m

ALCYONE RESOURCES LTD

REVIEW OF OPERATIONS AND ACTIVITIES

- THRC040 – 4m @ 50g/t Ag from surface; 13m @ 55g/t Ag from 8m down hole; 5m @ 116g/t Ag from 37m (including 1m @ 250g/t Ag) and 2m @ 51g/t Ag from 67m

These results highlighted near-surface mineralisation which may lead to increased confidence in this part of the Twin Hills Mineral Resource.

Southern extension of Mineral Resource (Holes THRC033 to 036 and 041 to 045):

- THRC034 – 2m @ 79.1g/t Ag from 7m down hole and 3m @ 44.7g/t Ag from 11m
- THRC035 – 15m @ 66g/t Ag from 17m down hole (including 1m @ 413g/t Ag) and 4m @ 78g/t Ag from 42m
- THRC041 – 4m @ 86g/t Ag from 5m down hole; 2m @ 50g/t Ag from 17m; 2m @ 46g/t Ag from 35m and 6m @ 121g/t Ag from 83m (including 1m @ 309g/t Ag)
- THRC043 – 5m @ 56g/t Ag from 58m down hole
- THRC044 – 3m @ 60g/t Ag from 36m down hole

These results, for holes drilled outside the current pit design, provide evidence of mineralisation which may enhance the mineral resource in this area.

1.2 Falcon Prospect

This six hole RC program (holes FARC001 to 006) which totalled 600m was aimed at exploring in and around old workings which returned, from surface grab sampling, anomalous base metal results.

Two (2) metre down hole composite samples were collected (from samples were taken at 1m intervals) and sent for analysis. The results returned identified low to moderate tenor base metal mineralisation with the best results being 2m @ 3.2%Zn and 1.9%Pb from 14m down hole in FARC002.

No follow up work in this area is planned given the modest base metal grades returned, the lack of significant silver and apparent narrowness of the feature.

1.3 Hornet Prospect

Two phases of drilling were undertaken on this copper Prospect.

Firstly a six hole RC (HORC004 to 009) program was completed totalling 1,192m which was designed to test the internal consistency within the central zone of mineralisation intersected in previous drilling.

Significant intercept (determined using a 0.1% Cu boundary condition) results include:

- HORC009 - 10m @ 1.24% Cu from 154m *including* 2m @ 4.9% Cu
- HORC005 - 6m @ 1.75% Cu from 120m *including* 2m @ 4.3% Cu

A follow up program of nine (9) hole RC holes (HORC010 to 018) totalling 1,105m targeted both potential along strike extension and the infill of previous drilling which has identified significant copper mineralisation.

The samples from this program have not yet been assayed but from observation of the chips some copper sulphides were present.

1.4 Mt Gunyan South East

Mt Gunyan SE Prospect is an area of silver anomalism identified from surface soil sampling, a coincident geophysical anomaly and shallow RAB drilling. It is located approximately 1Km east of Mt Gunyan.

ALCYONE RESOURCES LTD

REVIEW OF OPERATIONS AND ACTIVITIES

A total of 11 RC holes (MTGE001 to 011) totalling 1,067m, were drilled with selected 2m composite samples sent for analysis with the best intercepts (determined using a 30g/t Ag, a minimum length of 4m and a minimum average grade of 30g/t Ag) returned being:

- MTGE001 – 12m @ 38g/t Ag from 6m down hole
- MTGE004 – 6m @ 53g/t Ag from 20m down hole
- MTGE006 – 6m @ 35g/t Ag from 14m down hole; 6m @ 36g/t Ag from 24m; 8m @ 35g/t Ag from 46m and 6m @ 35g/t from 70m
- MTGE009 – 4m @ 48g/t Ag from 24m down hole and 4m @ 113g/t Ag from 40m
- MTGE010 – 10m @ 47g/t Ag from 44m down hole and 12m @ 47g/t Ag from 70m
- MTGE011 – 4m @ 60g/t Ag from 12m down hole and 4m @ 98g/t Ag from 28m

The results have confirmed the similarity of the mineralisation in terms of grade to the main Mt Gunyan deposit.

GREENHOUSE REPORTING

The Group has reviewed the updated greenhouse reporting requirements and determined that the current energy use remains below the reporting thresholds. This will be reviewed on an ongoing basis to ensure the appropriate compliance with the National Greenhouse and Energy Reporting Act 2007.

COMPETENT PERSON STATEMENTS

The information in this report that relates to exploration results has been 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.

The information in this report that relates to data used for and the resultant Mineral Resource for the Texas Silver project is based on information also compiled by Mr Peter Ball.

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 information in this report that relates to data used for and the resultant Ore Reserve for the Texas Silver project is based on information compiled by Mr Ian Huitson who is a Fellow of the Australasian Institute of Mining and Metallurgy and Director of Mining Solutions Pty Ltd a mining and management consultancy.

Mr Huitson is a mining engineer with over 25 years' experience in underground and open pit environments and has sufficient experience which is relevant to this type of mineral deposit and mining methodology 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 Huitson consents to the inclusion in this Report of the information compiled in the form and context in which they appear.

ALCYONE RESOURCES LTD CORPORATE GOVERNANCE

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 shareholding 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 that could interfere with the exercise of independent judgment.

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 evaluates its ongoing needs post fundraising, the Board composition and number of Directors will be subject to 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 their 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. This Code of Conduct 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 Company.

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.

The recommendations of the Corporate Governance Council relating to reporting require the Board to set measurable objectives for achieving diversity within the organisation, and to report against them on an annual basis. The Company has implemented measurable objectives as follows:

Measurable Objective	Objective Satisfied	Comment
Adoption and promotion of a Formal Diversity Policy.	Yes	The Company has adopted a formal diversity policy which has been made publicly available via the ASX and the Company's website.
To ensure Company policies are consistent with and aligned with the goals of the Diversity Policy.	Yes	The Company's selection, remuneration and promotion practices are merit based and as such are consistent with the goals of the Company's Diversity Policy.
To provide flexible work and salary arrangements to accommodate family commitments, study and self-improvement goals, cultural traditions and other personal choices of current and potential employees.	Yes	The Company does, where considered reasonable, and without prejudice, accommodate requests for flexible working arrangements.
To implement clear and transparent policies governing reward and recognition practices.	Yes	The Company grants reward and promotion based on merit and responsibility as part of its annual and ongoing review processes.
To provide relevant and challenging professional development and training opportunities for all employees.	Yes	The Company seeks to continually encourage self-improvement in all employees, irrespective of seniority, ability or experience, through external and internal training courses, regular staff meetings and relevant on job mentoring.

Gender Diversity

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 2013.

	Male	Female	Total	Proportion Female
Board	3	-	3	0%
Senior Management	1	-	1	0%
Balance of Employees	46	10	56	22%
Total	50	10	60	22%

The Company has not implemented specific measurable objectives regarding the proportion of females to be employed within the organisation, nor implemented requirements for a proportion of female candidates for employment and Board positions. The Board considers that the setting of quantitative gender based measurable targets is not consistent with the merit and ability based policies currently implemented by the Company.

The Board will consider the future implementation of gender based diversity measurable objectives when more appropriate to the size and nature of the Company's operations.

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 and Risk Management Committee

In March 2012, the Board established an Audit and Risk Management Committee comprised of 3 Non-Executive, independent Directors. The Chairman of the Audit and Risk Management Committee is not the Board Chairman. This complies with Recommendations 4.1 and 4.2 of the Corporate Governance Council. All of the members of the Audit and Risk Management Committee resigned in March 2013 and from that point, the full Board assumed the Committee's functions.

The Company also has an Audit Committee Charter, which can be found on the Company's website.

External audit recommendations, internal control matters and any other matters arising from the half-year audit review and the annual statutory audit are discussed with the Audit and Risk Management Committee and the audit engagement partner prior to presentation to the full Board.

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 Audit and Risk Management Committee. 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 report 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 operations and exploration project areas, reviewing operational and development activities, geological practices, environmental and safety aspects of operations.
- Environment and Safety
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 Company uses external consultants to review its activities to assist in maintaining a best practice approach.

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 to 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 Director's (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. The Board, where appropriate, accesses external remuneration reports as a means of benchmarking the Executive and Senior Management remuneration levels.

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 Director's contracts and employment arrangements may include performance based components, designed to reward and motivate, including the granting of share options

ALCYONE RESOURCES LTD CORPORATE GOVERNANCE

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. Share options and performance rights which are issued to Non-Executive Directors are subject to shareholder approval and issued with vesting conditions based upon continuity of engagement.

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.

ALCYONE RESOURCES LTD

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred hereafter as the Group) consisting of Alcyone Resources Limited (referred hereafter as the Company) and the entity it controlled at the end of, or during, the year ended 30 June 2013.

DIRECTORS

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

Paul D'Sylva (Non-Executive Chairman)	(Appointed 13 March 2013)
Timothy Morrison (Non-Executive Director)	(Appointed 13 March 2013)
Michael Reed (Managing Director)	(Appointed 15 March 2013)
Charles Morgan (Non-Executive Chairman)	(Resigned 8 March 2013)
Andrew King (Managing Director)	(Resigned 13 March 2013)
Andrew Richards (Non-Executive Director)	(Resigned 15 March 2013)
Ian McCubbing (Non-Executive Director)	(Resigned 8 March 2013)

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were the production of silver at the Twin Hills Mine near Texas, Queensland, as well as the ongoing exploration and evaluation of gold, silver and other base metal projects.

OPERATING AND FINANCIAL REVIEW

This review should be read in conjunction with the Review of Operations as well as the Financial Statements and accompanying notes.

During the financial year, the Company mined 847,502 tonnes of ore from its Twin Hills Mine (2012: 556,612 tonnes) and processed 697,634 tonnes (2012: 554,809 tonnes) from both existing stockpiles and fresh ore.

Silver production from leaching operations was 703,470oz (2012: 630,062oz), with silver inventory of 82,429 (2012: 72,299) ounces in-circuit at 30 June 2013. A further 755,090oz (2012: 540,000oz) of recoverable silver remained on the leach pads at 30 June 2013.

Revenue from operations for the year was \$20,691,583 (2012*: \$10,528,296), with costs of sales being \$19,366,148 (2012*: \$8,049,129), delivering a gross margin of \$1,325,435 (2012*: \$2,479,167) before royalties.

(* The 2012 comparative figures reflect the period 1 January 2012 to 30 June 2012 as 1 January was the date from which steady state production commenced and costs were released to the Statement of Profit or Loss and Other Comprehensive Income)

The Group's loss after income tax for the year is \$10,377,424 (2012: loss of \$3,119,744).

The Group's result was affected by the non-cash amortisation and depreciation of mining assets totalling \$6,067,497 (2012: \$1,504,596) and by the increase in financing costs of \$2,900,697 to \$2,950,615 (2012: \$49,918). Further significant costs were royalties of \$1,295,239 (2012: 1,082,521) and the write-down of inventory of \$1,263,948 (2012: nil).

FINANCIAL POSITION

As at the end of the financial year, the Group had \$190,355 (2012: \$2,121,068) in cash and cash equivalents. Deferred mineral development expenditure at 30 June 2013 was \$5,103,508 (2012: \$3,848,313) and the Group's net assets were \$13,387,460 (2012: \$21,123,004).

ALCYONE RESOURCES LTD

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

DIVIDENDS

No dividends have been paid since the end of the previous financial year and no dividends are recommended for the current year. No dividends were paid during the previous financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The significant changes in the state of affairs of the Group during the financial year are as follows:

The Company held a General Meeting of Shareholders on 4 July 2012. Based on shareholder approval at this meeting the following securities were issued to Directors:

	No of Shares	No of Options	No of Performance Rights
Mr Charles Morgan ⁽ⁱ⁾	10,416,666	5,208,333	-
Mr Ian McCubbing ⁽ⁱⁱ⁾	-	500,000	500,000

- (i) Issued under the placement announced on 7 May 2012 for the sum of \$500,000. The options were free attaching and do not effect remuneration.
- (ii) Issued as remuneration.

On 11 July 2012, the Company issued a prospectus relating to the offer of up to 31,250,000 free options exercisable at \$0.06c each, expiring 14 May 2015 on the basis of one (1) free option for every 2 shares subscribed for by subscribers under the May 2012 Share Purchase Plan ("SPP") or the SPP shortfall. The Company issued 52,036,409 options under this plan prior to 30 September 2012.

On 1 October 2012, the Company announced the extension of the Twin Hills ore reserve by 30% to 5.5mt @ 57g/t for 6.6Moz of recoverable silver (10.2Moz contained).

In March 2013, Mr Charles Morgan, Mr Ian McCubbing, Mr Andrew King and Mr Andrew Richards resigned as Directors of the Company. Dr Paul D'Sylva, Mr Timothy Morrison and Mr Michael Reed were appointed Directors. Mr Kevin Hart resigned as Company Secretary and Mr Trevor Harris was appointed to the dual role of Chief Financial Officer and Company Secretary.

Throughout the financial year, a number of financing facilities were undertaken. These are as follows:

- On 19 December 2012: a \$2m prepay facility with Credit Suisse. This was subsequently repaid during the year via a combination of silver repayments and the financial close-outs of the Company's hedge position as announced on 18 April 2013.
- On 26 February 2013: a convertible note facility for \$5.5m with YA Global Master Fund and Bergen Global Opportunity Fund. The first tranche of \$2.5m was drawn in February 2013 and the agreement subsequently terminated at the request of the Company on 22 March 2013. The termination occurred prior to any further drawdowns of funds.
- On 26 March 2013: bridge funding totalling \$475,000 by way of a share placement of \$225,000 and \$250,000 by way of a convertible note facility, both to a private investor.
- On 26 March 2013: a \$250,000 convertible note with Bergen Global Opportunity Fund.

ALCYONE RESOURCES LTD DIRECTORS' REPORT

- On 27 March 2013: a \$750,000 convertible note with Bergen Global Opportunity Fund.
- On 10 April 2013: a line of stand-by funding for up to \$10m via an Equity Placement Facility. At the date of this report, these funds have not been drawn.
- On 17 April 2013: a \$1.8m promissory note with Celtic Capital Limited.
- On 9 May 2013: a \$1.4m convertible note with Celtic Capital Limited.
- On 9 May 2013: a \$1.2m debt security with Bergen Global Opportunity Fund.

In conjunction with these fundraising efforts, on 15 April 2013 the Company announced the intention to undertake a non-renounceable, pro rata entitlement offer to its existing shareholders via the issue of a prospectus. Final terms were an offer of 2 shares at \$0.005 for every 1 share held, with a 1 for 2 free attaching listed option, exercisable at \$0.01, expiring on 31 July 2015, to raise a maximum of \$16.25m and a minimum of \$6m.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 1 August 2013, the Company entered into a convertible note with Platinum Ltd with a face value of \$1.5m. 9,000,000 commencement shares, 117,647,059 collateral shares and 36,000,000 unlisted options, exercisable at \$0.01, expiring 31 July 2015, were issued as part of the agreement.

On 17 July 2013, the Company entered into a loan agreement with the Company CFO, Mr Trevor Harris, for the sum of \$200,000. The \$200,000 principal of this loan has been repaid prior to the date of this report, with the interest component remaining outstanding. A further loan of \$200,000 on duplicate terms was made on 11 September 2013. The funds were used for working capital.

The above loan transactions were made on normal commercial terms and conditions and at market rates.

On 14 August 2013, the Company successfully completed the non-renounceable, pro-rata entitlement offer, raising \$7.4m. The total securities issued were 1,765,749,895 shares and 882,874,948 free attaching options. \$3.6m of the amount raised was through conversion of various convertible note securities outstanding at reporting date.

As a result of the successful closure for the entitlement offer and on the basis of shareholder approval gained at the general meeting held on 15 July 2013, the Company issued the following performance rights to Directors on 14 August 2013:

	No of Shares	No of Options	No of Performance Rights
Dr Paul D'Sylva	-	-	88,626,364
Mr Timothy Morrison	-	-	88,626,364
Mr Michael Reed	-	-	88,626,364

50% of these vested immediately, with the remainder subject to performance hurdles. The following rights were exercised and converted into ordinary shares on 2 September 2013:

Dr Paul D'Sylva	44,313,182	-	(44,313,182)
Mr Timothy Morrison	44,313,182	-	(44,313,182)
Mr Michael Reed	44,313,182	-	(44,313,182)

ALCYONE RESOURCES LTD
DIRECTORS' REPORT

LIKELY DEVELOPMENTS AND FUTURE RESULTS

The Company expects to finalise its fundraising in October 2013.

Subject to the completion of this fundraising, the Company expects to shut down operations at the Twin Hills Mine in Texas, Queensland in October 2013 and undertake the required upgrade to the crushing circuit. Capital projects designed to reduce operating costs will be on-going up to the end of the 2013 calendar year.

Upon completion of the upgrade to the crushing circuit, the Company expects to ramp-up production volumes in the December 2013 quarter, to an annualised volume of 1.2Moz of silver for the 2014 financial year.

INFORMATION ON CURRENT DIRECTORS

	Particulars of Director's Interest		
	Ordinary Shares	Performance Rights	Options
<p>Dr Paul D'Sylva (Appointed 13 March 2013) Non-Executive Chairman</p> <p><u>Directorships in the last 3 years:</u></p> <ul style="list-style-type: none"> - One North Entertainment Limited – 01/01/2012 - 30/08/2012. - Kaboko Mining Limited – September 2013 - Current. <p>Dr Paul D'Sylva, PhD is a Venture Partner at Empire Equity Ltd, which is an independent advisory firm with offices in Perth and London.</p> <p>At Empire Equity, Dr D'Sylva has led and arranged over A\$500M in funding transactions since 2008 for a diverse range of resource and energy companies in equity, debt and structured financings on a proprietary basis as well as from a network of institutional funding partners. He is an invited consultant to the Gerson Lehrman Group in the United States and in this capacity consults to investment banks and industrial clients on a range of investment topics. Dr D'Sylva received a PhD from the University of Arizona in Public Finance and Econometrics.</p>	44,313,182	44,313,182	-
<p>Mr Michael Reed (Appointed 15 March 2013) Managing Director</p> <p><u>Directorships in the last 3 years:</u></p> <p>Nil.</p> <p>After being appointed to the Board on 15 March 2013, Mr Reed was appointed Managing Director on 15 April 2013, having previously held the role of Executive Director of Operations. He is a metallurgist with over 20 years' experience over a wide range of commodities including precious and base metals. He has held senior positions including General Manager at the Twin Hills Minesite along with General Manager and Principal Metallurgist for Norseman Gold as well as other senior operational and corporate roles.</p> <p>Mr Reed's experience includes both open cut and narrow vein underground mining methods. This is complimented by intimate knowledge of processing facilities including refractory ore types and commissioning of new or refurbished processing plants. Mr Reed's proven track record will add experience and synergies between operations and corporate, to the Board.</p>	44,313,182	44,313,182	1,000,000

ALCYONE RESOURCES LTD
 DIRECTORS' REPORT

	Particulars of Director's Interest		
	Ordinary Shares	Performance Rights	Options
<p>Mr Timothy Morrison (Appointed 13 March 2013) Non-Executive Director</p> <p><u>Directorships in the last 3 years:</u></p> <ul style="list-style-type: none"> - Algae Tec Limited – 2010 - 2013. - One North Entertainment Limited – 2010 - 2012. <p>Mr Morrison is a Venture Partner at Empire Equity Ltd, a boutique corporate advisory group. He has extensive experience in structuring equity debt financing for mid-tier ASX listed companies and was previously CEO and Executive Chairman for listed and unlisted companies. He previously served as a member of the investment committee for a superannuation funded private equity investment vehicle.</p>	44,313,182	44,313,182	-

INFORMATION ON FORMER DIRECTORS

	Particulars of Directors' Interest		
	Ordinary Shares	Performance Rights	Options
<p>Mr Charles Morgan (Resigned 08.03.13) Non-Executive Chairman</p> <p>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.</p> <p>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.</p> <p>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.</p>	-	-	-
<p>Mr Andrew King (Resigned 13.03.13) Managing Director AssDip Min Eng, Grad Acct & Fin Mgt, MAusImm, MAIE MAICD</p> <p>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.</p> <p>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.</p> <p>Previously, he held senior positions with Goldstar Resources NL, Tectonic Resources NL, and Mt Edon Gold Mines (Aust) Pty Ltd.</p>	-	-	-

ALCYONE RESOURCES LTD
 DIRECTORS' REPORT

	Particulars of Directors' Interest		
	Ordinary Shares	Performance Rights	Options
<p>Mr Andrew Richards (Resigned 15.03.13) Non-Executive Director BSC(Hons), Dip Ed, MAusIMM, MAIG, MSEG</p> <p>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.</p> <p>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.</p>	-	166,666	-
<p>Mr Ian McCubbing (Resigned 08.03.13) Non-Executive Director B.Com (Hons) , MBA (Ex), CA, MAICD</p> <p>Mr McCubbing is a Chartered Accountant with more than 25 years corporate experience, principally in the areas of corporate finance, mergers and acquisitions.</p> <p>Mr McCubbing has spent more than 14 years working with ASX 200 and other listed companies in senior finance roles, including positions as Finance Director and Chief Financial Officer in mining and industrial companies.</p>	-	-	-

COMPANY SECRETARY – QUALIFICATIONS & EXPERIENCE

Trevor Harris (Appointed 26 March 2013)

Mr Harris has over 20 years' experience in financial management in a wide variety of industry sectors. As well as being a CPA qualified accountant, Mr Harris holds a postgraduate qualification in Commercial Law and is a Chartered Company Secretary. He has filled multi-disciplinary roles within companies such as BGC Australia and Toll Holdings.

Mr Harris's mining experience includes senior financial roles in the West African Gold and Iron Ore sectors with Shield Mining Limited (ASX: SHX) and Sphere Minerals Limited (ASX: SPH).

Mr Harris has also been the Chief Financial Officer of the Company since March 2011.

Kevin Hart (Resigned 26 March 2013)

B.Com FCA

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 and consulting services to ASX listed entities.

ALCYONE RESOURCES LTD

DIRECTORS' REPORT

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

The Group currently has exploration and mining tenements in Queensland, Australia. The Group 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 that apply during the developmental and operational phase of the project.

MEETINGS OF DIRECTORS

The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the year ended 30 June 2013 are set out below:

	Eligible to Attend	Attended
Mr Charles Morgan	6	5
Mr Andrew King	8	8
Mr Andrew Richards	8	8
Mr Ian McCubbing	6	5
Dr Paul D'Sylva	2	2
Mr Michael Reed	1	1
Mr Timothy Morrison	3	3

An Audit and Risk Management committee was established in March 2012 however, as all the members of the committee resigned in March 2013, the full Board now assumes these responsibilities.

ALCYONE RESOURCES LTD

DIRECTORS REPORT

AUDITED REMUNERATION REPORT

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; and
- (e) Additional information.

Directors and executives disclosed in this report

Name	Position	
<i>Directors</i>		
Charles Morgan	Non-Executive Chairman	(Resigned 8 March 2013)
Paul D'Sylva	Non-Executive Chairman	(Appointed 13 March 2013)
Andrew King	Managing Director	(Resigned 13 March 2013)
Michael Reed	Managing Director	(Appointed 15 March 2013)
Andrew Richards	Non-Executive Director	(Resigned 15 March 2013)
Ian McCubbing	Non-Executive Director	(Resigned 8 March 2013)
Timothy Morrison	Non-Executive Director	(Appointed 13 March 2013)
<i>Other Key Management Personnel</i>		
Trevor Harris	Chief Financial Officer & Company Secretary	(Appointed 26 March 2013)
Kevin Hart	Company Secretary	(Resigned 26 March 2013)

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 to 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; and
- 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.

AUDITED REMUNERATION REPORT (CONTINUED)

Remuneration Governance

Due to the changes to the Board in March 2013, the full Board of Directors currently assumes the role of a remuneration committee. Once the Company has completed its fund raising and finalised any required changes to the Board and its structure, the Group will establish a separate remuneration committee. Such a committee will provide the full Board with advice on remuneration and incentive policies and practices, as well as specific recommendations on remuneration packages and other terms of employment for Executive Directors, Non-Executive directors and senior executives. The committee may also oversee the remuneration policies for employees.

Non-Executive Directors

Total remuneration for all Non-Executive Directors, as voted upon by shareholders at an Annual General Meeting, is not to exceed \$400,000 per annum. Fees are set at appropriate levels for the Chairman and other Non-Executive Directors. Non-Executive Directors do not receive bonuses. Director's fees cover all main Board activities.

Executive pay

The combination of the following comprises the executives' 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 as agreed with the Company from time to time.

Superannuation

Retirement benefits are paid to complying superannuation funds nominated by the executives. During the period ended 30 June 2013, the Company's 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 ('STIP'). 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 126,303,934 performance rights as Director incentive remuneration. This incentive is provided under the terms and conditions of the Employee Performance Rights Plan. Both the Employee Performance Rights Plan and the incentive for Mr Reed were approved by shareholders at the General meeting held on 15 July 2013.

AUDITED REMUNERATION REPORT (CONTINUED)

- At the date of the report, the Company has entered into an agreement with the Chief Financial Officer which includes a performance based component. Upon meeting certain key performance criteria set by the Chairman and the Board, the Chief Financial Officer can earn up to 126,303,934 performance rights as key management incentive remuneration. This incentive is provided under the terms and conditions of the Employee Performance Rights Plan. The Employee Performance Rights Plan was approved by shareholders at the General Meeting held on 15 July 2013.

The Board is responsible for assessing whether the KPI's are met. To help make this assessment, the Board receives detailed reports on performance from management where required. 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.

No remuneration consultants have been retained by the Company to date, but this may occur as a Remuneration committee considers its requirements.

Long-term incentives

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

The Performance Rights plan was approved by shareholders at the Annual General Meeting held on 25 November 2010, and again at the General Meeting held on 15 July 2013. The Incentive Option Scheme is now no longer current.

Voting and comments made at the Group's 2012 Annual General Meeting

Alcyone Resources received more than 83% of "yes" votes on its remuneration report for the 2012 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

ALCYONE RESOURCES LTD
DIRECTORS' REPORT

AUDITED REMUNERATION REPORT (CONTINUED)

(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 years ended 30 June 2012 and 2013 are set out in the following tables:

2013	Short-term employee benefits				Post-employment benefits	Share based payments		Total	Share based payments as a % of total
	Cash salary and fees	Cash bonus	Termination benefits	Non-monetary benefits	Super-annuation	Equity-settled options	Equity-settled rights		
Name	\$	\$	\$	\$	\$	\$	\$	\$	
Directors									
C Morgan ⁽ⁱ⁾	86,347	-	-	-	-	7,203	-	93,550	8%
A King ⁽ⁱⁱ⁾	288,168	-	269,616	-	11,831	-	-	569,615	-
A Richards ⁽ⁱⁱⁱ⁾	71,222	-	-	-	-	-	(5,532)	65,690	(8%)
I McCubbing ^(iv)	35,000	-	-	-	3,150	8,385	-	46,535	18%
M Reed ^(v)	309,807	13,522	-	8,557	25,476	-	-	357,362	-
P D'Sylva ^(vi)	-	-	-	-	-	-	-	-	-
T Morrison ^(vii)	-	-	-	-	-	-	-	-	-
Other Key Management Personnel of the Group									
T Harris	219,474	-	-	-	19,753	-	-	239,227	-
K Hart ^(viii)	68,063	-	-	-	-	-	-	68,063	-
Total	1,078,081	13,522	269,616	8,557	60,210	15,588	(5,532)	1,440,042	1%

- (i) Resigned 8 March 2013. 5,000,000 options received in the 2012 financial year lapsed due to resignation. 1,500,000 of these options remained unvested as at the reporting date and the associated expense was reversed accordingly.
- (ii) Resigned 13 March 2013. The termination payments remain unpaid at 30 June 2013.
- (iii) Resigned 15 March 2013. 500,000 options and 333,334 performance rights received in the 2012 financial year lapsed due to resignation. The lapsed performance rights were unvested as at the reporting date and the related expense was reversed.
- (iv) Resigned 8 March 2013. 500,000 options and 500,000 performance rights received in the 2013 financial year lapsed due to resignation.
- (v) Appointed 15 March 2013.
- (vi) Appointed 13 March 2013.
- (vii) Appointed 13 March 2013.
- (viii) Resigned 26 March 2013.

2012	Short-term employee benefits			Post-employment benefits	Share based payments		Total	Share based payments as a % of total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Equity-settled options	Equity-settled rights		
Name	\$	\$	\$	\$	\$	\$	\$	
Directors								
C Morgan	81,670	-	-	-	192,083	-	273,753	70%
A King ⁽ⁱ⁾	444,251	-	-	14,461	-	-	458,712	-
A Richards	50,000	-	-	-	21,185	40,500	111,685	55%
I McCubbing ⁽ⁱⁱ⁾	20,405	-	-	1,836	-	-	22,241	-
Other Key Management Personnel of the Group								
T Harris	201,835	-	-	18,165	-	-	220,000	-
M Reed	281,466	-	3,475	22,707	49,489	-	357,137	14%
K Hart	69,875	-	-	-	-	-	69,875	-
Total	1,149,502	-	3,475	57,169	262,757	40,500	1,513,403	20%

- (i) Differs to base annual salary value due to consulting fees from previous year paid prior to the commencement of Mr King's employment agreement.
- (ii) Appointed 17 February 2012.

ALCYONE RESOURCES LTD
DIRECTORS' REPORT

AUDITED REMUNERATION REPORT (CONTINUED)

The relative proportion of remuneration that is linked to retention incentives and those that are fixed are as follows:

Name	Fixed Remuneration		At Risk – STI		At Risk – LTI	
	2013	2012	2013	2012	2013	2012
Directors						
C Morgan	100%	30%	-	-	-	70%
A King	100%	100%	-	-	-	-
A Richards	100%	45%	-	-	-	55%
I McCubbing	100%	100%	-	-	-	-
M Reed	100%	86%	-	-	-	14%
P D'Sylva	-	-	-	-	-	-
T Morrison	-	-	-	-	-	-
Other Key Management Personnel of the Group						
T Harris	100%	100%	-	-	-	-
K Hart	100%	100%	-	-	-	-

Since retention incentives are provided exclusively by way of performance rights and options, the percentages disclosed also reflect the value of remuneration consisting of rights and options, based on the value of options expensed during the year. The reversal of options expensed in prior years has not been reflected in the relative proportion of remuneration in 2013.

(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 participation, when eligible, in the Alcyone Resources Ltd Incentive Option Scheme (the "Scheme") and Performance Rights Plan (the "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.

Michael Reed, Managing Director

- Term of agreement – no fixed term commencing 15 April 2013.
- Termination notice – 1 months' notice.
- Salary packaged vehicle benefits within base salary.
- Long and Short Term Incentives – 25,000,000 performance rights to be issued on commencement of position as Managing Director. Subsequent performance rights entitlements are subject only to continuity of employment and are as follows:
 - 5,000,000 rights to be issued on 15 September 2013
 - 5,000,000 rights to be issued on 15 March 2014
- Base salary inclusive of superannuation of \$437,000 to be reviewed annually.
- Payment of a termination benefit by the employer, other than for gross misconduct, of 12 month's salary.

The initial performance rights component of this agreement was superseded by shareholder approval on 15 July 2013. Mr Reed may earn up to 126,303,934 performance rights by the achievement of performance milestones. The subsequent rights that were to be issued on 15 September 2013 and 15 March 2014 remain in place but will be subject to Board review prior to issue.

AUDITED REMUNERATION REPORT (CONTINUED)

Trevor Harris, Chief Financial Officer & Company Secretary

- Term of agreement – no fixed term commencing 26 March 2013.
- Termination notice – 1 months' notice.
- Salary packaged vehicle benefits within base salary.
- Long and Short Term Incentives – 10,000,000 performance rights to be issued upon refreshment of 15% capacity on 15 July 2013. Subsequent performance rights entitlements are subject only to continuity of employment and are as follows:
 - 2,500,000 rights to be issued on 15 September 2013
 - 2,500,000 rights to be issued on 15 March 2014
- Base salary inclusive of superannuation of \$286,000 to be reviewed annually.
- Payment of a termination benefit by the employer, other than for gross misconduct, of 12 month's salary.

The initial performance rights component of this agreement was superseded by the Board under the Alcyone Performance Rights Plan on 15 July 2013. Mr Harris may earn up to 126,303,934 performance rights by the achievement of performance milestones. The subsequent rights that were to be issued on 15 September 2013 and 15 March 2014 remain in place but will be subject to Board review prior to issue.

Andrew King, Managing Director (resigned 13 March 2013)

- Term of Agreement – No fixed term commencing 1 August 2011.
- Termination Notice – 3 months.
- 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.

(d) Share-based compensation

Options and Performance Rights

Options and performance rights over shares in Alcyone Resources Ltd are granted under the Alcyone Resources Ltd Incentive Option Scheme (the "Scheme") and the Alcyone Resources Ltd Performance Rights Plan (the "Plan") which were both approved by shareholders at an Annual General Meeting of shareholders of the Company held on 25 November 2010. The Scheme and the Plan are both designed to provide long term incentives for executives to deliver long term shareholder returns and participate 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 are designed to ensure the retention of Directors and key staff and have vesting periods of between 12 and 24 months, except under certain circumstances whereby rights may be capable of exercise prior to the expiry of the vesting period. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits.

ALCYONE RESOURCES LTD
DIRECTORS' REPORT

AUDITED REMUNERATION REPORT (CONTINUED)

Options

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 during the years ended 30 June 2012 and 2013 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 26 to the Financial Statements.

2013

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 \$
Directors					
C Morgan (Resigned 08.03.13)	-	-	-	5,000,000	192,083
A King (Resigned 13.03.13)	-	-	-	-	-
A Richards (Resigned 15.03.13)	-	-	-	500,000	21,083
I McCubbing (Resigned 08.03.13)	500,000	8,385	500,000	500,000	8,385
M Reed (Appointed 15.03.13)	-	-	-	-	-
P D'Sylva (Appointed 13.03.13)	-	-	-	-	-
T Morrison (Appointed 13.03.13)	-	-	-	-	-
Other Key Management Personnel of the Group					
T Harris	-	-	-	-	-
K Hart (Resigned 26.03.13)	-	-	-	-	-
Total	500,000	8,385	2,000,000	6,000,000	221,551

ALCYONE RESOURCES LTD
DIRECTORS' REPORT

AUDITED REMUNERATION REPORT (CONTINUED)

2012

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 \$
Directors					
C Morgan	5,000,000	192,083	5,000,000	-	-
A King	-	-	-	-	-
A Richards	500,000	21,083	500,000	-	-
I McCubbing	-	-	-	-	-
Other Key Management Personnel of the Group					
T Harris	-	-	-	-	-
M Reed	1,000,000	49,489	1,000,000	-	-
K Hart	-	-	-	-	-
Total	6,500,000	262,655	6,500,000	-	-

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 *
31 March 2011	31 March 2011	31 March 2015	\$0.11	\$0.04
12 August 2011	12 August 2011	31 August 2015	\$0.15	\$0.05
30 November 2011	30 November 2011	29 November 2015	\$0.15	\$0.04
30 November 2011	30 November 2011	29 November 2015	\$0.12	\$0.04
4 July 2012	4 July 2012	4 July 2016	\$0.05	\$0.02

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

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 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.

ALCYONE RESOURCES LTD
DIRECTORS' REPORT

AUDITED REMUNERATION REPORT (CONTINUED)

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

	2013
Exercise Price	\$0.054
Grant date	4 July 2012
Expiry date	4 July 2016
Share price at grant date	\$0.036
Expected price volatility	80%
Expected dividend yield	0%
Risk free interest rate	2.47%

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

Performance Rights

Details of performance rights in the Company provided to each Director of Alcyone Resources Ltd and each of the Key Management Personnel of the Group during the years ended 30 June 2012 and 2013 are set out below. When exercisable, each right is convertible into one ordinary share of Alcyone Resources Ltd.

2013

Name	Number of performance rights granted during the year	Value of performance rights at grant date	Number of performance rights vested during the year	Number of performance rights lapsed during the year	Value of performance rights at lapse date
		\$			\$
Directors					
C Morgan (Resigned 08.03.13)	-	-	-	-	-
A King (Resigned 13.03.13)	-	-	-	-	-
A Richards (Resigned 15.03.13)	-	-	166,666	333,334	27,000
I McCubbing (Resigned 08.03.13)	500,000	18,000	-	500,000	18,000
M Reed (Appointed 15.03.13)	-	-	-	-	-
P D'Sylva (Appointed 13.03.13)	-	-	-	-	-
T Morrison (Appointed 13.03.13)	-	-	-	-	-
Other Key Management Personnel of the Group					
T Harris	-	-	-	-	-
K Hart (Resigned 26.03.13)	-	-	-	-	-
Total	500,000	18,000	166,666	833,334	45,000

ALCYONE RESOURCES LTD
DIRECTORS' REPORT

AUDITED REMUNERATION REPORT (CONTINUED)

2012

Name	Number of performance rights granted during the year	Value of performance rights at grant date	Number of performance rights vested during the year	Number of performance rights lapsed during the year	Value of performance rights at lapse date
Directors					
C Morgan	-	-	-	-	-
A King	-	-	-	-	-
A Richards	500,000	40,500	-	-	-
I McCubbing	-	-	-	-	-
Other Key Management Personnel of the Group					
T Harris	-	-	-	-	-
M Reed	-	-	-	-	-
K Hart	-	-	-	-	-
Total	500,000	40,500	-	-	-

Further information on performance rights is set out in Note 26 to the Financial Statements. The terms and conditions of each grant of performance rights 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 *
30 November 2011	29 November 2012	29 November 2015	\$0.00	\$0.081
30 November 2011	29 November 2013	29 November 2015	\$0.00	\$0.081
30 November 2011	29 November 2014	29 November 2015	\$0.00	\$0.081
4 July 2012	4 July 2012	4 July 2016	\$0.00	\$0.036
4 July 2012	4 July 2012	4 July 2016	\$0.00	\$0.036
4 July 2012	4 July 2012	4 July 2016	\$0.00	\$0.036

* The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date of each tranche and the full amount is included in the remuneration tables above. Fair values at grant date are determined using the share price of a fully paid Alcyone Resources Limited share as at the grant date.

On 14 August 2013, the following performance rights were issued to Directors and Key Management Personnel of the Group:

	No of Performance Rights
P D'Sylva	88,626,364
T Morrison	88,626,364
M Reed	88,626,364
T Harris	88,626,364

50% of these vested immediately and were converted into shares on 2 September 2013. The remainder are subject to performance hurdles.

ALCYONE RESOURCES LTD

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT (CONTINUED)

Shares Provided on Exercise of Remuneration Options or Rights

No shares were issued on exercise of options or rights under the Option Scheme or Performance Rights Plan during the year (2012: nil). No amounts are unpaid on any shares issued on the exercise of options.

For the year ended 30 June 2013 no options or rights granted as remuneration were exercised by any Directors or Key Management Personnel (2012: nil).

(e) Additional information

The Directors have not provided information regarding the earnings and share price for the last 6 years as the Group has been in various stages of administration, development and then production ramp up. Over this period, the Group incurred significant losses as recorded on the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

END OF THE AUDITED REMUNERATION REPORT

LOANS TO DIRECTORS AND EXECUTIVES

No loans have been made during the year 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 the Company under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
30 March 2011	31 Mar 2015	\$0.11	1,000,000
12 August 2011	31 Aug 2015	\$0.15	1,000,000
15 May 2012	14 May 2015	\$0.06	30,125,004
22 May 2012	14 May 2015	\$0.06	1,104,167
11 July 2012	14 May 2015	\$0.06	20,786,405
26 February 2013	26 February 2016	\$0.0496	26,000,000
26 March 2013	14 May 2015	\$0.06	8,823,529
1 August 2013	31 July 2015	\$0.01	36,000,000
13 August 2013	31 July 2015	\$0.01	778,217,769
13 August 2013	14 August 2018	\$0.064	88,000,000
		Total	991,056,874

Option holders do not have any rights to participate in any other share issues or interests of the Company or any other entity.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

During the financial year, the following ordinary shares of the Company were issued on the exercise of options. 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	61,166,667
15 May 2012	\$0.06	20,833

ALCYONE RESOURCES LTD

DIRECTORS' REPORT

DIRECTORS REPORT (CONTINUED)

There have been no shares issued on the exercise of options subsequent to the end of the financial year and up to the date of this report.

PERFORMANCE SHARE RIGHTS

Unissued ordinary shares of the Company under performance right at the date of this report are as follows:

Date rights granted	Expiry date	Issue price of shares	Number under right
30 March 2011	29 Nov 2015	\$0.00	166,666
		Total	166,666

Performance rights holders do not have any rights to participate in any other share issues or interests of the Company or any other entity.

SHARES ISSUED ON THE EXERCISE OF PERFORMANCE RIGHTS

No ordinary shares were issued on the exercise of performance rights during the year (2012: nil) and 1,000,000 performance rights lapsed on resignation of Directors (2012: nil).

Between the end of the financial year and the date of this report, a total of 354,505,452 performance share rights have been issued to Directors and Key Management Personnel. Of these performance rights, 177,252,728 have vested, been exercised, and shares issued accordingly.

Unvested performance rights of the Company at the date of this report are as follows:

Date rights granted	Expiry date	Number
13 August 2013	15 July 2014	177,252,724

No performance rights have been cancelled between the end of the financial year and the date of this report.

INSURANCE OF OFFICERS

During the year, the Company paid an insurance premium to insure certain officers of the Company. The officers of the Company covered by the insurance policy include the Directors named in this report.

The Directors and Officers Liability insurance provides cover against all costs and expenses that may be incurred in defending civil or criminal proceedings that fall within the scope of the indemnity and that may be brought against the officers in their capacity as officers of the Company. The insurance policy does not contain details of the premium paid in respect of individual officers of the Company. The contracts of insurance contain confidentiality provisions that preclude disclosure of the premiums paid, the nature of the liability covered by the policies, the limit of the liability and the name of the insurer.

The Company has entered into an agreement to indemnify all Directors and Officers against all indemnifiable losses or liabilities incurred by each Director or Officer in their capacities as Directors and Officers of the Company. The Company has not provided any indemnity or insurance for the auditor of the Company.

ALCYONE RESOURCES LTD

DIRECTORS' REPORT

DIRECTORS REPORT (CONTINUED)

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 Group are important and it can occur without affecting the Auditor's independence.

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

The Directors are 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 nature and the scope of each type of non-audit service provided means that the auditor independence was not compromised.

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.

During the year the following fees were paid or are payable for non-audit services provided by BDO:

	2013	2012
	\$	\$
1. Taxation Services		
BDO Corporate Tax (WA) Pty Ltd	5,278	-
Total remuneration for taxation services	5,278	-

AUDITOR INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37. This declaration forms part of the Directors' Report.

PROCEEDINGS ON BEHALF OF THE 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*.

ALCYONE RESOURCES LTD
DIRECTORS' REPORT

DIRECTORS REPORT (CONTINUED)

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'MR', is positioned above the name Michael Reed.

Michael Reed
Managing Director

Perth, Western Australia

Dated this 27th of September 2013

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**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 2013, 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, 27 September 2013

ALCYONE RESOURCES LTD
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 \$	2012 \$
Revenue from continuing operations	4	20,691,583	10,528,296
Other income	4	1,471,337	673,098
Cost of sales		(19,366,148)	(8,049,129)
Royalties		(1,295,239)	(1,082,521)
Corporate compliance, insurance, shareholder relations, conference and promotion		(721,163)	(988,933)
Consulting fees		(87,760)	(220,493)
Depreciation and amortisation	5	(6,067,497)	(1,504,596)
Employee benefit expense		(1,624,516)	(1,442,638)
Share based payment expense		(15,520)	(211,497)
Financing costs		(2,950,615)	(49,918)
Office rental, communication and consumables		(229,804)	(272,945)
Exploration expenditure written off	14	(9,336)	(246,250)
Other expenses		(172,746)	(252,218)
Loss from continuing operations before income tax		(10,377,424)	(3,119,744)
Income tax (expense) / benefit	6	-	-
Loss after income tax		(10,377,424)	(3,119,744)
Loss attributable to the members of Alcyone Resources Ltd		(10,377,424)	(3,119,744)
Other comprehensive income, net of tax		-	-
Total comprehensive loss, net of tax		(10,377,424)	(3,119,744)
Total comprehensive loss attributable to the members of Alcyone Resources Ltd		(10,377,424)	(3,119,744)
Loss per share for the year attributable to the ordinary equity holders of Alcyone Resources Ltd		Cents	Cents
Basic and diluted loss per share	29	(0.68)	(0.24)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

ALCYONE RESOURCES LTD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Notes	2013 \$	2012 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	190,355	2,121,068
Trade and other receivables	8	813,889	597,685
Inventories	9	5,676,807	5,710,145
Financial assets at fair value through profit or loss	10	15,059	25,098
Total Current Assets		<u>6,696,110</u>	<u>8,453,996</u>
Non-Current Assets			
Receivables	11	2,142,982	2,090,462
Property, plant and equipment	12	11,274,231	11,516,252
Finance lease asset	13	914,717	1,257,736
Mineral exploration and evaluation expenditure	14	6,453,717	4,599,623
Mineral development expenditure	15	5,103,508	3,848,313
Total Non-Current Assets		<u>25,889,155</u>	<u>23,312,386</u>
TOTAL ASSETS		<u><u>32,585,265</u></u>	<u><u>31,766,382</u></u>
LIABILITIES			
Current Liabilities			
Trade and other payables	16	7,874,192	4,515,008
Financial liabilities at fair value through profit or loss	17	3,921,204	1,500,000
Borrowings	18	698,713	546,748
Total Current Liabilities		<u>12,494,109</u>	<u>6,561,756</u>
Non-Current Liabilities			
Financial liabilities at fair value through profit or loss	17	2,867,599	-
Borrowings	18	183,152	794,917
Provisions	19	3,652,945	3,286,705
Total Non-Current Liabilities		<u>6,703,696</u>	<u>4,081,622</u>
TOTAL LIABILITIES		<u>19,197,805</u>	<u>10,643,378</u>
NET ASSETS		<u><u>13,387,460</u></u>	<u><u>21,123,004</u></u>
EQUITY			
Contributed equity	20	101,948,235	99,803,875
Reserves	21(a)	3,452,274	2,954,754
Accumulated losses	21(b)	(92,013,049)	(81,635,625)
TOTAL EQUITY		<u><u>13,387,460</u></u>	<u><u>21,123,004</u></u>

The above consolidated statement of financial position 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 2013**

	Notes	2013 \$	2012 \$
Cash Flows from Operating Activities			
Cash receipts in the course of operations		22,043,967	22,532,700
Interest received		99,116	181,706
Payments to suppliers and employees		(19,427,897)	(19,798,425)
Payment to creditors' trust		-	(600,000)
Interest and other costs of finance		(114)	(18,201)
Net Cash Inflow from Operating Activities	31	<u>2,715,300</u>	<u>2,297,780</u>
Cash Flows from Investing Activities			
Payments for exploration and evaluation expenditure		(1,863,431)	(1,832,220)
Payments for development expenditure		(5,170,618)	(5,292,715)
Security deposits paid		(52,520)	(660)
Proceeds from sale of property, plant and equipment		30,947	190,000
Payments for property, plant and equipment		(1,664,003)	(1,578,218)
Net Cash Outflow from Investing Activities		<u>(8,719,626)</u>	<u>(8,513,813)</u>
Cash Flows from Financing Activities			
Proceeds from issue of shares (net of share issue costs)		1,362,313	4,386,903
Proceeds from borrowings		6,990,000	4,250,000
Repayment of borrowings		(4,278,701)	(3,336,388)
Net Cash Inflow from Financing Activities		<u>4,073,613</u>	<u>5,300,515</u>
Net Decrease in Cash and Cash Equivalents		(1,930,713)	(915,518)
Cash and cash equivalents at the beginning of the financial year		<u>2,121,068</u>	<u>3,036,586</u>
Cash and Cash Equivalents at the End of the Financial Year	7	<u><u>190,355</u></u>	<u><u>2,121,068</u></u>

The above consolidated statement of cash flows 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 2013

	Issued Capital	Accumulated Losses	Share Based Payments Reserve	Option Reserve	Total Equity
	\$	\$	\$	\$	\$
At 1 July 2011	95,585,386	(78,515,881)	2,743,256	-	19,812,761
Loss for the year	-	(3,119,744)	-	-	(3,119,744)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	(3,119,744)	-	-	(3,119,744)
Transactions with owners in their capacity as owners					
Shares issued during the year, net of costs	4,218,489	-	-	-	4,218,489
Share based payments	-	-	211,498	-	211,498
At 30 June 2012	99,803,875	(81,635,625)	2,954,754	-	21,123,004
At 1 July 2012	99,803,875	(81,635,625)	2,954,754	-	21,123,004
Loss for the year	-	(10,377,424)	-	-	(10,377,424)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	(10,377,424)	-	-	(10,377,424)
Transactions with owners in their capacity as owners					
Shares issued during the year, net of costs	1,362,313	-	-	-	1,362,313
Fair value adjustment for convertible notes	782,047	-	-	-	782,047
Share based payments	-	-	15,520	-	15,520
Fair value of unissued collateral relating to convertible notes	-	-	108,000	-	-
Fair value of options issued with convertible notes	-	-	-	374,000	482,000
At 30 June 2013	101,948,235	(92,013,049)	3,078,274	374,000	13,387,460

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

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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.

(a) Basis of preparation

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 Suite 2, Level 4, 85 South Perth Esplanade, South Perth. Alcyone Resources Ltd is a for-profit entity for the purposes of preparing the financial statements.

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 2012. 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 on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

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.

Going concern

The Group incurred a net loss of \$10,377,424 for the year ended 30 June 2013 and had a net cash inflow from operations of \$2,715,300. Notwithstanding this, the financial report has been prepared on a going concern basis. The ability of the Company to continue as a going concern is dependent upon the future successful raising of necessary funding through equity and successful and subsequent exploitation of the Company's tenements as well as increasing production to economic levels.

The Directors believe that the consolidated entity will continue as a going concern and therefore no adjustments have been made relating to the recoverability and classification of liabilities.

On 14 August 2013 the Company successfully completed the non-renounceable, pro-rata entitlement offer, raising \$7.4m. The total securities issued were 1,765,749,895 shares and 882,874,948 free attaching options. \$3.6m of the amount raised was through conversion of various convertible note securities outstanding at reporting date, extinguishing the liabilities outstanding at 30 June 2013.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Alcyone Resources Ltd ("company" or "parent entity") as at 30 June 2013 and the results of the subsidiary 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.

(ii) Joint ventures

Joint venture operations

The proportionate interests in the assets, liabilities and expenses of any joint venture operations 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.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 entity 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) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand with financial institutions and petty cash.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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.

Collectability 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.

(j) 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 Ore Stocks, Silver in Circuit and Dore Bars.

Cost is determined on the following basis:

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

(k) 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.

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

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Impairment

The Group assesses at each reporting 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.

(l) 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.

(m) 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.

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 for plant and equipment are between 4 years and 7 years.

Plant and equipment reclassified during the 2012 reporting period is depreciated over the useful life of the Twin Hills mine, depreciation rates are calculated based on ounces produced proportionate to the total measured ounces remaining in the JORC resource, see note 3b(iii).

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.

Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (refer to Note 13). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. Each lease payments is allocated between the liability and finance costs. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(n) 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 60 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.

(o) 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. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

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.

(p) Convertible Note Liabilities and Derivatives

Convertible notes issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder or at the option of the issuer in certain circumstances. The notes include embedded derivatives relating to the option to convert to variable number of shares in the parent entity. The Company has elected upon initial recognition of the convertible notes (including its multiple embedded derivatives) to recognise the whole instrument as a financial liability carried at fair value through profit or loss. On initial recognition, the convertible notes (including their facility costs as discussed below) are carried at fair value and will subsequently be measured at fair value at each reporting period or until settlement and fair value movements will be recognised in the profit or loss as a finance cost.

Included in the convertible note contracts entered into by the Group are costs associated with entering the facility such as commencement options and shares, royalty options and collateral shares. These costs are not recognised as a share based payment but rather as a financial liability carried at fair value through profit or loss (if it results in variable number of shares to be issued) or equity (if number of shares to be issued is fixed). The facility costs, which are classified as liabilities, will be fair valued at each reporting period, with movements recognised in profit or loss.

(q) 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.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(r) Provisions

A provision is recognised in the Statement of Financial Position 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.

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.

(s) 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 reporting 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 26.

The fair value of options 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.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(t) 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.

(u) 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 and rights 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.

(v) 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.

(w) 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.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) 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.

(y) 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.

(z) Comparatives

Where appropriate, comparatives have been reclassified to be consistent with the current year presentation. The reclassification does not have an impact on the results presented.

(aa) 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 2013, 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	AASB standard affected	Nature of change	Application date of standard	Impact on Alcyone Resources Ltd's financial statements	Application date for Alcyone Resources Ltd
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Under AASB 9, there are three categories of financial assets: - Amortised cost - Fair value through profit or loss - Fair value through other comprehensive income. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9: - Classification and measurement of financial liabilities; and - Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Annual reporting periods beginning on or after 1 January 2015	Adoption of AASB 9 is only mandatory for the year ending 30 June 2016. The Group has not yet made an assessment of the impact of these amendments.	1 July 2015

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

AASB reference	AASB standard affected	Nature of change	Application date of standard	Impact on Alcyone Resources Ltd's financial statements	Application date for Alcyone Resources Ltd
AASB 10 (issued August 2011)	Consolidated Financial Statements	<p>Introduces a single 'control model' for all entities, including special purpose entities (SPE's), whereby all of the following conditions must be present:</p> <ul style="list-style-type: none"> - Power over investee (whether or not power used in practice) - Exposure, or rights, to variable returns from investee - Ability to use power over investee to affect the Group's returns from investee. - Introduces the concept of 'defacto' control for entities with less than 50% ownership interest in an entity, but which have a large shareholding compared to other shareholders. This could result in more instances of control and more entities being consolidated. 	Annual reporting periods beginning on or after 1 January 2013	<p>When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the Group does not have any special purpose entities.</p> <p>The Group does not have 'defacto' control of any entities with less than 50% ownership interest in an entity.</p>	1 July 2013
AASB 11 (issued August 2011)	Joint Arrangements	<p>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).</p> <p>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).</p> <p>However, where terms of the contractual arrangement, or other facts and circumstances indicate that the parties have rights to assets and obligations for liabilities of the arrangement, rather than rights to net assets, the arrangement will be treated as a joint operation and joint venture parties will account for the assets, liabilities, revenues and expenses in accordance with the contract.</p>	Annual reporting periods beginning on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity has not entered into any joint arrangements.	1 July 2013
AASB 12 (issued August 2011)	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.	Annual reporting periods beginning on or after 1 January 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.	1 July 2013

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

AASB reference	AASB standard affected	Nature of change	Application date of standard	Impact on Alcyone Resources Ltd's financial statements	Application date for Alcyone Resources Ltd
AASB 13 (issued September 2011)	Fair Value Measurement	<p>AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements.</p> <p>Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements.</p> <p>Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments.</p>	Annual reporting periods beginning on or after 1 January 2013	When this standard is adopted for the first time for the year ended 30 June 2014, additional disclosures will be required about fair values.	1 July 2013
AASB 119 (reissued September 2011)	Employee Benefits	Employee benefits expected to be settled (as opposed to due to settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used wholly within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual periods beginning on or after 1 January 2013	When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012 as long-term benefits because they are not expected to be settled wholly within 12 months after the end of the reporting period. This will result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.	1 July 2013
AASB 2011-4 (issued July 2011)	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	Amendments to remove individual key management personnel (KMP) disclosure requirements from AASB 124 to eliminate duplicated information under the <i>Corporations Act 2001</i> .	Annual periods beginning on or after 1 July 2013	When this standard is first adopted for the year ended 30 June 2014, the Group will show reduced disclosures under the Key Management Personnel note in the financial statements.	1 July 2013

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

AASB reference	AASB standard affected	Nature of change	Application date of standard	Impact on Alcyone Resources Ltd's financial statements	Application date for Alcyone Resources Ltd
Interpretation 20 (issued November 2011)	Stripping Costs in the Production Phase of a Surface Mine	Clarifies that costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine must be capitalised as inventories under AASB 102 Inventories if the benefits from stripping activity is realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met.	Annual periods beginning on or after 1 January 2013	When this standard is adopted, this may result in the transfer of capitalised waste costs from Mineralised Development assets to Inventory.	1 July 2013
AASB 2012-5 (issued June 2012)	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	Non-urgent but necessary changes to standards: AASB 101; AASB 116 and AASB 132.	Annual reporting periods beginning on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no material impact.	1 July 2013
AASB 2012-6 (issued September 2012)	Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	Defers the effective date of AASB 9 to 1 January 2015. Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.	Annual reporting periods beginning on or after 1 January 2015	As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.	1 July 2015

NOTE 2 FINANCIAL RISK MANAGEMENT

General objectives, policies and processes

The Group's activities expose it to a variety of financial risks: market risks (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 Group. Risk management is carried out by the finance department under policies approved by the Board of Directors. The Board identifies and evaluates financial risks and provides written principles for overall risk management.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk exposures and responses

a) Credit risk

Credit risk is the risk that counterparties to financial instruments 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 \$3,147,226 (2012: \$4,809,215) represent the Group's maximum exposure to credit risk in relation to financial assets. No impairment expense or reversal of impairment charge has occurred during the reporting period.

The Group's bankers are National Australia Bank Limited and Westpac Bank Limited. At reporting date all operating accounts and bonds held on deposit are with these 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.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings:

	2013	2012
	\$	\$
Cash at bank and short-term bank deposits		
A-1+	190,355	2,121,068
	190,355	2,121,068

b) 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 financial 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.

Financial instrument maturity analysis

The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Total
2013					
Financial Liabilities					
<i>Non-interest bearing</i>					
Accounts payable and other creditors	(7,484,302)	-	-	-	(7,484,302)
Convertible Note	(3,200,000)	-	(3,625,000)	-	(6,825,000)
Debt Security	(1,200,000)	-	-	-	(1,200,000)

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Total
<u>Fixed interest rate</u>					
Finance lease liability	(283,455)	(328,310)	(183,152)	-	(794,917)
<u>Variable interest rate</u>					
Bank loans	(86,948)	-	-	-	(86,948)
	(12,254,705)	(328,310)	(3,808,152)	-	(16,391,167)

2012

Financial Liabilities

Non-interest bearing

Accounts payable and other creditors	(4,149,638)	-	-	-	(4,149,638)
Commodity loan	(1,500,000)	-	-	-	(1,500,000)

Fixed interest rate

Finance lease liability	(211,292)	(244,727)	(611,765)	(183,152)	(1,250,936)
<u>Variable interest rate</u>					
Bank loans	(90,729)	-	-	-	(90,729)
	(5,951,659)	(244,727)	(611,765)	(183,152)	(6,991,303)

c) 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. \$86,948 was outstanding at 30 June 2013 (2012: \$90,729) 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 2013 was 5.63%. 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.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposures in existence at reporting date. At 30 June 2013, 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 shown.

	Weighted Average Interest Rate %	Carrying Amount AUD \$	+ 50 basis points		- 50 basis points	
			Profit / (Loss) \$	Equity \$	Profit / (Loss) \$	Equity \$
2013						
Financial assets						
Cash and cash equivalents	3.1%	190,355	952	952	(952)	(952)
Receivables	4.4%	10,000	50	50	(50)	(50)
Security deposits	4.4%	2,132,982	10,665	10,665	(10,665)	(10,665)
Financial liabilities						
Interest-bearing loans and borrowings	5.9%	(86,948)	(435)	(435)	435	435
After tax increase / (decrease)			11,232	11,232	(11,232)	(11,232)

	Weighted Average Interest Rate %	Carrying Amount AUD \$	+ 50 basis points		- 50 basis points	
			Profit/ (Loss) \$	Equity \$	Profit / (Loss) \$	Equity \$
2012						
Financial assets						
Cash and cash equivalents	4.4%	2,121,068	10,605	10,605	(10,605)	(10,605)
Receivables	5.1%	10,000	50	50	(50)	(50)
Security deposits	5.1%	2,080,462	10,402	10,402	(10,402)	(10,402)
Financial liabilities						
Interest-bearing loans and borrowings	7.2%	(90,729)	(454)	(454)	454	454
After tax increase / (decrease)			20,603	20,603	(20,603)	(20,603)

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment and represents Management's assessment of the possible change in interest rates.

(ii) Currency risk

Neither the Group nor the Parent had any financial instruments with foreign currency exposure in the 2013 financial year (2012: none).

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(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.

As at reporting date the Group had not established any hedging obligations.

(iv) Equity price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the Statement of Financial Position at fair value through profit or loss.

The Group's holdings are in Cove Resources who are publicly traded on the Australian Stock Exchange. The value of this holding was assessed at fair value by reference to a level 1 active market (refer to (d) below) for the investment (ASX). A sensitivity analysis was not performed on these securities as the potential impact was deemed immaterial.

d) Fair value measurements

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

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table represents the Group's assets and liabilities measured and recognised at fair value at 30 June 2013 and 30 June 2012.

30 June 2013	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets				
Financial assets at fair value through profit or loss	15,059	-	-	15,059
	15,059	-	-	15,059
Financial Liabilities				
Financial liabilities at fair value through profit or loss	-	6,788,803	-	6,788,803
	-	6,788,803	-	6,788,803

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

30 June 2012

Financial assets

Financial assets at fair value through profit or loss	25,098	-	-	25,098
	<u>25,098</u>	<u>-</u>	<u>-</u>	<u>25,098</u>

Financial Liabilities

Financial liabilities at fair value through profit or loss	-	1,500,000	-	1,500,000
	<u>-</u>	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. The Group makes a number of assumptions based on observable market data existing at each reporting date, such as: credit risk; market interest risk and the Company's share price and volatility. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The fair values of convertible notes and facility costs carried at fair value through profit or loss are computed using the present values of cash flows which take into account the credit risk; market interest risk and the Company's share price and volatility. The fair value of the royalty option attached to one of the convertible notes (refer to Note 17) outstanding at year end, also takes the Company's budgeted production profile into account.

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 19. There was a \$317,832 increase in the restoration provision in 2013 (2012: decrease of \$850,664).

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(j) for further details.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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 ounces produced. 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.

(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 and mineral exploration and evaluation expenditure

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

(vii) Heap Leaching Recovery Curve

A change was made to the heap leaching recovery curve from five months to twelve months since the start of the current reporting period. The change was made based on current metallurgical data collected since the recommencement of mining production which more suitably reflects the leaching profile of the heaps.

(viii) Fair value of financial liabilities carried at fair value through profit or loss

The fair values of financial liabilities carried at fair value through profit or loss (i.e. the convertible note portion) are calculated based on the present value of estimated cash flows taking into account credit risk profile of the Company, market interest rates and share price of the Company.

The fair values of the facility costs, which are the commencement options and collateral shares, are computed using an option pricing model. These valuation methodologies take into account the exercise price, the term of the option, the Company's share price at issue date and simulated future price, the expected volatility of the underlying share price and the risk-free interest rate (based on government bonds). The expected volatility is based upon historic volatility (based on the remaining life of the options) adjusted for abnormal movements in the Company's share price.

The fair value movement on commencement shares released from escrow (if applicable) is based on the difference between Company's share price at the date of issue and the date of release from escrow.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 4 REVENUE

	2013	2012
	\$	\$
Revenue from Continuing Operations		
Sales revenue	20,572,707	10,351,870
Interest received	118,876	176,426
	20,691,583	10,528,296
Other Income		
Net gain on sale of plant and equipment	-	146,419
Proceeds from sale of tenements	-	50,000
Gain on settlement of supply contract	-	172,997
Machinery hire	-	114,515
Hedge gains	1,378,027	-
R&D tax refund	88,004	120,366
Sundry	5,306	68,801
	1,471,337	673,098

NOTE 5 EXPENSES

	2013	2012
	\$	\$
Loss before income tax includes the following specific expenses:		
Depreciation	1,834,241	911,053
Amortisation – mine development	433,549	214,713
Amortisation – deferred waste	3,481,875	-
Amortisation – rehabilitation provision	317,832	378,830
Rental expenses on operating leases	122,111	128,072
Defined contribution superannuation expense	60,645	53,535
Net loss on revaluation of financial assets at fair value through profit or loss	10,039	24,902

NOTE 6 INCOME TAX

	2013	2012
	\$	\$
(a) Numerical reconciliation of income tax expense to prima facie tax payable / (tax loss)		
(Loss) from continuing operations before income tax expense	(10,377,424)	(3,119,744)
Tax at the Australian tax rate of 30% (2012 – 30%)	(3,113,227)	(935,923)
<u>Tax effect of amounts which are not deductible (taxable) in calculating taxable income:</u>		
Share based payment expense	4,656	63,449
Other	888,057	(35,225)
Recognition of deferred tax asset not previously brought to account	-	(723,277)
	(2,220,514)	(1,630,976)
	-	-
Deferred tax asset not brought to account	2,220,514	1,630,976
Income tax expense	-	-

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 6	INCOME TAX (CONTINUED)	2013	2012
		\$	\$
	(b) Tax losses		
	Unused tax losses for which no deferred tax asset has been recognised	79,013,953	73,065,436
	Potential tax benefit at 30% (2012 – 30%)	23,704,186	21,919,631
	<u>This benefit for tax losses will only be obtained if:</u>		
	<ul style="list-style-type: none"> • 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		
	<u>Amounts recognised in profit or loss:</u>		
	Exploration and evaluation and development costs	6,453,717	4,599,623
	Mineral development and evaluation expenditure	2,744,444	(967,758)
	Interest receivable	21,782	994
	Provisions and sundry items	(5,222,046)	(3,378,566)
		<u>3,997,897</u>	<u>254,294</u>
	Potential tax benefit at 30% (2012 – 30%)	1,199,369	76,288
	Set-off deferred tax assets associated with carried forward losses not recognised	(1,199,369)	(76,288)
	Deferred tax assets (excluding tax losses) not brought into account	-	-
	Net deferred tax liability	<u>-</u>	<u>-</u>

NOTE 7 CURRENT ASSETS: CASH & CASH EQUIVALENTS

	2013	2012
	\$	\$
Cash at bank and on hand	<u>190,355</u>	<u>2,121,068</u>

The cash at bank earns floating interest at 2.6% (2012: 3.5%). The Group's risk exposure to interest rate risk is discussed in Note 2.

NOTE 8 CURRENT ASSETS: TRADE AND OTHER RECEIVABLES

	2013	2012
	\$	\$
Other receivables	398,432	439,979
Prepayments	415,457	157,706
	<u>813,889</u>	<u>597,685</u>

As at 30 June 2013 there were no trade receivables that were passed due or impaired. A significant portion of the balance relates to GST receivable and share issue costs. Share issue costs were classified this way due to the uncertainty around the outcome of the Non-Renounceable Rights Issue that was finalised in August 2013. The Group's risk exposure to credit risk is discussed in Note 2.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 9 INVENTORIES

	2013 \$	2012 \$
Materials and supplies	308,137	309,197
Ore stocks	3,832,931	3,232,209
Silver in circuit	1,326,691	1,264,760
Silver in precipitate	100,035	439,264
Dore bars	109,013	464,715
	5,676,807	5,710,145

Materials and supplies comprise of storeroom stock, diesel, cyanide, reagents and work in progress and are stated at the lower of cost and net realisable value. Ore stocks are valued at the lower of cost and net realisable value, while silver in circuit, silver in precipitate and dore bars are all valued at net realisable value. During the year, an impairment expense of \$1,263,948 (2012: nil) was required to value silver in circuit, silver in precipitate and dore bars at their net realisable value.

The Group's risk exposure to commodity price risk is discussed in Note 2. Note 3 highlights the Group's critical accounting estimates that relate to inventories.

NOTE 10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 \$	2012 \$
Australian listed equity securities	15,059	25,098

Financial assets at fair value through profit or loss are all held for trading. Changes in fair values of financial assets at fair value through profit or loss are recorded in other income or expense in profit or loss. Information about the Group's exposure to price risk and about the methods and assumptions used in determining fair value is provided in Note 2.

NOTE 11 NON-CURRENT ASSETS: RECEIVABLES

	2013 \$	2012 \$
Security Deposits – tenements and premises	2,142,982	2,090,462

Refer to Note 2 for information on the Company's credit risk management policies.

NOTE 12 NON CURRENT ASSETS: PLANT AND EQUIPMENT

	2013 \$	2012 \$
Property		
Residential property at cost	134,992	134,992
Processing plant		
Processing plant at cost	2,148,742	2,148,742
Less accumulated depreciation	(388,423)	(128,651)
	1,760,319	2,020,091
Crushing plant		
Crushing plant at cost	6,147,525	6,147,525
Less accumulated depreciation	(1,111,273)	(368,069)
	5,036,252	5,779,456

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 12 NON CURRENT ASSETS: PLANT AND EQUIPMENT (CONTINUED)

	2013 \$	2012 \$
Plant and equipment		
Less accumulated depreciation	(3,933,936)	(3,116,593)
Less accumulated impairment	(5,343,506)	(5,343,506)
	<u>4,342,668</u>	<u>3,581,713</u>
Total property, plant and equipment	<u>11,274,231</u>	<u>11,516,252</u>

Reconciliation

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

	Property \$	Processing plant \$	Crushing plant \$	Plant and Equipment \$	Total \$
2013					
Carrying amount at the beginning of the financial year	134,992	2,020,091	5,779,456	3,581,713	11,516,252
Additions	-	-	-	1,665,425	1,665,425
Disposals	-	-	-	(73,205)	(73,205)
Depreciation expense	-	(259,772)	(743,204)	(831,265)	(1,834,241)
Carrying amount at the end of the financial year	<u>134,992</u>	<u>1,760,319</u>	<u>5,036,252</u>	<u>4,342,668</u>	<u>11,274,231</u>

	Property \$	Processing plant \$	Crushing plant \$	Plant and Equipment \$	Total \$
2012					
Carrying amount at the beginning of the financial year	134,992	-	-	2,074,161	2,209,153
Transfers from development expenditure	-	2,148,742	6,147,525	252,180	8,548,447
Additions	-	-	-	1,713,286	1,713,286
Disposals	-	-	-	(43,581)	(43,581)
Depreciation expense	-	(128,651)	(368,069)	(414,333)	(911,053)
Carrying amount at the end of the financial year	<u>134,992</u>	<u>2,020,091</u>	<u>5,779,456</u>	<u>3,581,713</u>	<u>11,516,252</u>

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

Plant and equipment additions for the year included costs for assets in the course of construction of \$715,578 (2012: \$240,281).

NOTE 12 NON CURRENT ASSETS: PLANT AND EQUIPMENT (CONTINUED)

The residential property is a house at 22 Severn Street, Texas, Queensland, which is secured by a building mortgaged as disclosed in Note 18. The valuation of the property is considered reasonable based on current prices in an active market for similar properties in the same location and condition.

Plant and equipment assets previously classified as part of the mineral development asset were reclassified during the prior reporting period. The total value of the assets that were reclassified was \$8,548,447 and is included in the tables above at processing plant (\$2,148,742), crushing plant (\$6,147,525) and plant and equipment (\$252,180).

The carrying value of plant and equipment is regularly reviewed by the Directors. The value as at 30 June 2013 is deemed to be reasonable based on its current condition.

NOTE 13 NON CURRENT ASSETS: FINANCE LEASE ASSET

	2013	2012
	\$	\$
Finance lease asset at cost	1,515,000	1,515,000
Less accumulated depreciation	(600,283)	(257,264)
	914,717	1,257,736

NOTE 14 MINERAL EXPLORATION AND EVALUATION EXPENDITURE

Expenditure carried forward in respect of areas of interest in the pre-production (exploration and evaluation phase) is as follows:

	2013	2012
	\$	\$
Balance at the beginning of the financial year	4,599,623	3,044,032
Expenditure capitalised during the year	1,863,430	1,801,841
Expenditure written off	(9,336)	(246,250)
Balance at the end of the financial year	6,453,717	4,599,623

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. Refer to Note 3 for further details.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 15 MINERAL DEVELOPMENT EXPENDITURE

	2013	2012
	\$	\$
Balance at the beginning of the financial year	3,848,313	15,299,302
Expenditure during the year	-	4,821,371
Revenue offset against costs	-	(7,135,408)
Rehabilitation provision write back	-	(850,664)
Reclassification to property, plant and equipment	-	(8,548,447)
Amortisation expense	(433,549)	(214,713)
Capitalised waste costs	5,170,619	855,702
Amortisation of capitalised waste costs	(3,481,875)	(378,830)
Balance at the end of the financial year	5,103,508	3,848,313

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. Refer to Note 3 for further details.

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

Tenements	4,633,508	3,378,313
Properties	470,000	470,000
	5,103,508	3,848,313

NOTE 16 CURRENT LIABILITIES: TRADE AND OTHER PAYABLES

	2013	2012
	\$	\$
Unsecured		
Trade creditors	6,381,987	3,342,173
Other creditors	1,102,315	713,532
Aggregate employee benefit and related on-costs liabilities	389,890	459,303
	7,874,192	4,515,008

NOTE 17 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013	2012
	\$	\$
Current		
Commodity loan	-	1,500,000
Convertible notes ⁽ⁱ⁾	2,291,627	-
Collateral shares derivative liability	333,599	-
Royalty option liability	278,978	-
Debt security ⁽ⁱⁱ⁾	1,017,000	-
	3,921,204	1,500,000
Non-current		
Convertible notes ⁽ⁱ⁾	2,398,849	-
Option liability	468,750	-
	2,867,599	-
	6,788,803	1,500,000

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

**NOTE 17 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS
(CONTINUED)**

Current

- (i) The Company issued convertible notes with the following key details:

	Tranche 1	Tranche 2 ^(a)
Face value	\$1,800,000	\$1,400,000
Execution date	17 April 2013	30 May 2013
Maturity date	11 October 2013	5 October 2013
	Lesser of \$0.01 and 85% of the VWAP for shares over the five days (on which trading occurs) before the receipt of a conversion notice,	Lesser of \$0.0004 and 80% of the VWAP over the ten days (on which trading in shares occurs) before receipt of the conversion notice,
Conversion price	(c)	(c)
Collateral shares issued *	141,176,471	125,000,000
Ordinary shares issued *	9,000,000	-
Unlisted options issued *	36,000,000	-
Security	None	None
Interest	Nil	Interest shares ^(b)
Conversions during year	None	None
Conversions subsequent to year end **	-	\$1,400,000

(a) This note is subject to a royalty liability over the gross operating revenue in respect of the Texas Silver Mine, exercisable through a payment of \$250,000 to the Company.

(b) Interest accrues on the face value of the note and is payable by the Company to Noteholder through the issue of interest shares. At the date of this report and subsequent to year end, 7,000,000 interest shares had been issued to the Noteholder.

(c) Issued post year end.

* Shares and options issued as part of the drawdowns were not treated as share based payments under AASB 2: *Share-based Payment*, rather their fair values have been taken into consideration when calculating the derivatives on these convertible notes. Collateral shares will be retained by the Noteholder if a default event occurs that is not remedied by the Company within the designated time period.

** Any outstanding amounts not converted at maturity date will be paid to the respective investors in cash. Conversions made subsequent to year end were done as part of the rights issue completed in August 2013 at a share price of \$0.005.

- (ii) The Company issued a promissory note with a face value of \$1,200,000 on 30 May 2013. The promissory note may be converted at the option of the holder at the lesser of \$0.01 and 85% of the VWAP for shares over the five days (on which trading occurs) 20 days trading prior to conversion. Shares to the value \$450,000 were issued to the Noteholder as part of the rights issue in August 2013 in lieu of repayment to the same value.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

**NOTE 17 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS
(CONTINUED)**

Non-current

(i) The Company issued convertible notes with the following key details:

	Tranche 1	Tranche 2 ⁽ⁱ⁾	Tranche 3
Face value	\$2,625,000	\$750,000	\$250,000
Execution date	26 February 2013	26 March 2013	26 March 2013
Maturity date	24 February 2015	26 March 2015	26 March 2015
	Either 90% of the average five day VWAP per share during the twenty consecutive trading days immediately prior to the date a conversion notice is given to the Company or 135% of the average daily VWAP per share during the 20 consecutive trading days prior to 26 February 2013.	Either 81% of the average three day VWAP per share during the twenty consecutive trading days immediately prior to the date a conversion notice is given to the Company or the average of the daily VWAP per share during the two consecutive trading days prior to 26 March 2013.	Either 81% of the average three day VWAP per share during the twenty consecutive trading days immediately prior to the date a conversion notice is given to the Company or the average of the daily VWAP per share during the two consecutive trading days prior to 26 March 2013.
Conversion price			
Commencement shares	7,758,620	-	-
Collateral shares issued *	24,800,000	-	-
Ordinary shares issued *	-	-	-
Unlisted options issued *	26,000,000	88,000,000 ***	-
Security	Unsecured	General security deed	General security deed
Interest	None	None	None
Conversions during year	\$450,000	None	None
Conversions subsequent to year end **	\$1,000,000	\$750,000	Nil

(i) The exercise price of the options granted is the lesser of the VWAP per share on the execution date and the VWAP per share on the date immediately prior to the date the options are issued. As these amounts are not known at execution date, a liability for this has been recognised in the financial statements.

* Shares and options issued as part of the drawdowns were not treated as share based payments under *AASB 2: Share-based Payment*, rather their fair values have been taken into consideration when calculating the derivatives on these convertible notes. Collateral shares will be retained by the Noteholder if a default event occurs that is not remedied by the Company within the designated time period.

** Any outstanding amounts not converted at maturity date will be paid to the respective investors in cash. Conversions made subsequent to year end were done as part of the rights issue completed in August 2013 at a share price of \$0.005.

*** Issued subsequent to year end.

NOTE 18 BORROWINGS

	2013	2012
	\$	\$
Current		
<i>Secured</i>		
Building mortgage ⁽ⁱ⁾	86,948	90,729
Finance lease liabilities ⁽ⁱⁱ⁾	611,765	456,019
	698,713	546,748
Non-current		
<i>Secured</i>		
Finance lease liabilities ⁽ⁱⁱ⁾	183,152	794,917
	183,152	794,917

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 18 BORROWINGS (CONTINUED)

- (i) 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. Interest is variable and at reporting date was 5.63% (2012: 6.28%).
- (ii) Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

Interest rate risk exposures

Details of the Group's exposure to potential interest rate changes on borrowings are set out in Note 2.

NOTE 19 NON-CURRENT LIABILITIES: PROVISIONS

	2013	2012
	\$	\$
Mine rehabilitation provision	3,496,141	3,178,309
Long service leave provision	156,804	108,396
	3,652,945	3,286,705

Movements

Mine rehabilitation provision

Balance at beginning of financial year	3,178,309	4,028,973
Increase in provision	317,832	-
Decrease in provision due to change in estimate	-	(850,664)
Balance at end of financial year	3,496,141	3,178,309

Long service leave

Balance at beginning of financial year	108,396	-
Increase in provision	48,408	108,396
Balance at end of financial year	156,804	108,396

Total non-current provisions

3,652,945 3,286,705

NOTE 20 CONTRIBUTED EQUITY

(a) Paid up capital

	2013	Parent Entity	2013	Parent Entity
	Shares	2012	\$	2012
		Shares		\$
Fully paid issued capital	1,625,092,716	1,421,607,960	101,948,235	99,803,875

Ordinary Shares

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.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 20 CONTRIBUTED EQUITY (CONTINUED)

Date	Details	Number of Shares	Issue Price \$	\$
01.07.12	Balance at beginning of financial year	1,421,607,960		99,803,875
10.07.12	Share placement	10,416,666	0.048	500,000
12.07.12	Options exercise	10,000,000	0.01	100,000
17.07.12	Share placement	1,042,000	0.048	50,016
07.09.12	Options exercise	36,000,000	0.01	360,000
12.09.12	Options exercise	5,000,000	0.01	50,000
28.09.12	Options exercise	10,166,667	0.01	101,666
28.09.12	Options exercise	20,833	0.06	1,250
26.02.13	Share issue – deposit for convertible note facilities (at deemed issue price)	7,758,620	0.029	225,000
26.02.13	Collateral share issue – convertible note **	24,800,000	0.00	243,040
22.03.13	Convertible note (part conversion) – non-cash	32,041,541	0.0098	314,007
26.03.13	Share placement	17,647,059	0.013	225,000
15.04.13	Share issue – convertible note commencement shares	9,000,000	0.00	-
17.04.13	Share issue in lieu of finance charges	39,591,370	0.00	-
30.06.13	Costs assoc. with shares issued	-	-	(25,619)
30.06.13	Balance at end of financial year	1,625,092,716		101,948,235

** Even though these shares were issued for nil consideration, they were released from escrow due to the Company breaching a term of the funding agreements. The increase in equity represents the difference in share price from initial valuation of the derivative liability and the share price on the date the shares were released.

Collateral Shares

Collateral shares have been issued to some Noteholders when entering into certain convertible note facilities (refer to Note 17 for more details). These shares are held in escrow until maturity date and Noteholders are required to pay the Company agreed upon values for these shares. However, should a default event occurs prior to this date, the shares are released from Escrow and able to be freely traded by the respective Noteholder.

Date		2013 #	2012 #
01.07.12	Balance at beginning of financial year	-	-
26.02.13	Issue of collateral shares in relation to convertible note facilities *	24,800,000	-
13.03.13	Released from escrow	(24,800,000)	-
30.06.13	Balance at end of financial year	-	-

* Refer to Note 17 for further details.

(b) Capital risk management

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

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 20 CONTRIBUTED EQUITY (CONTINUED)

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

The gearing ratios at 30 June 2013 and 30 June 2012 were as follows:

	Notes	2013 \$	2012 \$
Total borrowings	16,17,18	15,544,860	7,356,673
Less: cash and cash equivalents	7	190,355	2,121,068
Net debt		15,354,505	5,235,605
Total equity		13,387,460	21,123,004
Total capital		28,741,965	26,358,609
Gearing ratio		53%	20%

NOTE 21 RESERVES AND ACCUMULATED LOSSES

(a) Reserves

	2013 \$	2012 \$
Share based payments reserve	3,078,274	2,954,754
Option reserve	374,000	-
	3,452,274	2,954,754
Movements		
<i>Share based payments reserve</i>		
Balance at beginning of financial year	2,954,754	2,743,256
Share based payments expense	15,520	211,498
Collateral shares to be issued with convertible note	108,000	-
Balance at end of financial year	3,078,274	2,954,754
<i>Option reserve</i>		
Balance at beginning of financial year	-	-
Convertible note valuations	374,000	-
Balance at end of financial year	374,000	-

Nature and purpose of reserves

Share based payments reserve

The share based payments reserve is used to record the value of share based payments relating to options and performance rights issued as part of remuneration. During the year, \$48,416 was reversed due to the forfeiture of options and performance rights when Directors resigned.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 21 RESERVES AND ACCUMULATED LOSSES (CONTINUED)

Option reserve

The option reserve is used to record the fair value of options and royalty options issued as part of convertible note issued.

(b) Accumulated losses

	2013 \$	2012 \$
Balance at beginning of financial year	(81,635,625)	(78,515,881)
Net loss for the year	(10,377,424)	(3,119,744)
Balance at end of financial year	(92,013,049)	(81,635,625)

NOTE 22 COMMITMENTS

(a) Operating Lease Commitments

	2013 \$	2012 \$
<u>Future operating lease rentals not provided for in the financial statements and payable are as follows:</u>		
Not later than 1 year	142,590	24,044
Later than 1 year but not later than 5 years	302,520	-
	445,110	24,044

The Company entered into a non-cancellable lease agreement for its office premises for a term of 36 months, with rent payable monthly in advance. There are 34 months remaining in the term.

(b) Finance Lease Commitments

The Group has entered into a finance lease for its mining heavy fleet vehicles with a carrying amount of \$794,917 expiring within two years. Under the terms of the lease, the Group has the option to acquire the leased assets for \$378,750 on expiry of the initial lease term or extend the initial term for an additional 2 years. If the option is not exercised within the first 30 days after the date of expiration of the initial term, the option shall lapse and expire.

	2013 \$	2012 \$
<u>Commitments in relation to finance leases are payable as follows:</u>		
Within one year	769,224	769,224
Later than one year but not later than five years	192,306	961,530
	961,530	1,730,754
Future finance charges	166,613	479,818
Recognised as a liability	794,917	1,250,936
<u>Representing lease liabilities:</u>		
Current	611,765	456,019
Non-Current	183,152	794,917
	794,917	1,250,936

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 23 EVENTS OCCURRING AFTER THE REPORTING DATE

On 1 August 2013, the Company entered into convertible note with Platinum Ltd with a face value of \$1.5m. 9,000,000 commencement shares, 117,647,059 collateral shares and 36,000,000 unlisted options, exercisable at \$0.01, expiring 31 July 2015 were issued as part of the agreement.

On 17 July 2013, the Company entered into a loan agreement with the Company CFO, Mr Trevor Harris, for the sum of \$200,000. The \$200,000 principal of this loan has been repaid prior to the date of this report, with the interest component remaining outstanding. A further loan of \$200,000 on duplicate terms was made on 11 September 2013. The funds were used for working capital.

The above loan transactions were made on normal commercial terms and conditions and at market rates.

On 14 August 2013 the Company successfully completed the non-renounceable, pro-rata entitlement offer, raising \$7.4m. The total securities issued were 1,765,749,895 shares and 882,874,948 free attaching options. \$3.6m of the amount raised was through conversion of various convertible note securities outstanding at reporting date.

As a result of the successful closure for the entitlement offer and on the basis of shareholder approval gained at the general meeting held on 15 July 2013, the Company issued the following performance rights to Directors on 14 August 2013:

	No of Shares	No of Options	No of Performance Rights
Dr Paul D'Sylva	-	-	88,626,364
Mr Timothy Morrison	-	-	88,626,364
Mr Michael Reed	-	-	88,626,364

50% of these vested immediately, with the remainder subject to performance hurdles. The following rights were exercised and converted into ordinary shares on 2 September 2013:

Dr Paul D'Sylva	44,313,182	-	(44,313,182)
Mr Timothy Morrison	44,313,182	-	(44,313,182)
Mr Michael Reed	44,313,182	-	(44,313,182)

NOTE 24 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 2013 consisted of loan funds of \$6,067,938 advanced by Alcyone Resources Ltd (2012: \$51,762).

As at 30 June 2013, the subsidiary owed Alcyone Resources Ltd \$71,322,803 (2012: \$65,306,627). The loan has been fully provided for at 30 June 2013.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 24 RELATED PARTY TRANSACTIONS (CONTINUED)

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

Ownership interests in related parties

Interests held in subsidiaries are set out in Note 33.

Shared Costs

The Group has an arrangement with Base Resources Limited in relation to office rent and associated outgoings where costs are shared on an equal basis. Base Resources Limited was a related party via a common director until 13 March 2013. Receipts associated with this arrangement totalled \$5,535 for the financial year (2012: \$48,858). There were no outstanding balances arising from related party transactions with Base Resources Limited at 30 June 2013 (2012: \$927).

NOTE 25 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel

Charles Morgan	Non-Executive Chairman	(Resigned 8 March 2013)
Paul D'Sylva	Non-Executive Chairman	(Appointed 13 March 2013)
Andrew King	Managing Director	(Resigned 13 March 2013)
Michael Reed	Managing Director	(Appointed 15 March 2013)
Andrew Richards	Non-Executive Director	(Resigned 15 March 2013)
Ian McCubbing	Non-Executive Director	(Resigned 8 March 2013)
Timothy Morrison	Non-Executive Director	(Appointed 13 March 2013)
<i>Other Key Management Personnel</i>		
Trevor Harris	Chief Financial Officer & Company Secretary	(Appointed 26 March 2013)
Kevin Hart	Company Secretary	(Resigned 26 March 2013)

There were no other Key Management Personnel of the Group.

Refer to the Remuneration Report contained in the Directors' Report for details on the remuneration paid or payable to each member of the Group's Key Management Personnel for the year ended 30 June 2013.

(b) Compensation of Key Management Personnel

	2013 \$	2012 \$
Short-term employee benefits	1,369,776	1,152,977
Post-employment benefits	60,210	57,169
Share based payments	10,056	303,257
	1,440,042	1,513,403

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 25 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) 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.

2013

Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
C Morgan (Resigned 08.03.13)	5,000,000	-	-	(5,000,000)	-	-
A King (Resigned 13.03.13)	35,000,000	-	(35,000,000)	-	-	-
A Richards (Resigned 15.03.13)	500,000	-	-	(500,000)	-	-
I McCubbing (Resigned 08.03.13)	-	500,000	-	(500,000)	-	-
M Reed (Appointed 15.03.13)	1,000,000	-	-	-	1,000,000	1,000,000
Other Key Management Personnel of the Group						
T Harris	1,000,000	-	-	-	1,000,000	1,000,000
	42,500,000	500,000	(35,000,000)	6,000,000	2,000,000	2,000,000

2012

Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
C Morgan	-	5,000,000	-	-	5,000,000	2,000,000
A King	35,000,000	-	-	-	35,000,000	35,000,000
A Richards	-	500,000	-	-	500,000	500,000
I McCubbing (Appointed 17.02.12)	-	-	-	-	-	-
Other Key Management Personnel of the Group						
T Harris	1,000,000	-	-	-	1,000,000	1,000,000
M Reed	-	1,000,000	-	-	1,000,000	1,000,000
K Hart	-	-	-	-	-	-
	36,000,000	6,500,000	-	-	42,500,000	39,500,000

ii) Performance rights holdings

The numbers of performance rights 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.

ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2013

NOTE 25 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)
 2013

Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
A Richards (Resigned 15.03.13)	500,000	-	-	(333,334)	166,666	166,666
I McCubbing (Resigned 08.03.13)	-	500,000	-	(500,000)	-	-
	500,000	500,000	-	(833,334)	166,666	166,666

2012

Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
A Richards	-	500,000	-	-	500,000	-
	-	500,000	-	-	500,000	-

On 14 August 2013, the following performance rights were issued to Directors and Key Management Personnel of the Group:

	No of Performance Rights
P D'Sylva	88,626,364
T Morrison	88,626,364
M Reed	88,626,364
T Harris	88,626,364

50% of these vested immediately and were converted into shares on 2 September 2013. The remainder are subject to performance hurdles.

(iii) 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.

2013

Name	Balance at the start of the year	Received during the year on the exercise of options	Changes during the year	Other changes during the year*	Balance held directly at the end of year
Directors					
C Morgan (Resigned 08.03.13)	29,389,741	-	5,208,333	(34,598,074)	-
A King (Resigned 13.03.13)	36,012,500	35,000,000	(10,000,000)	(61,012,500)	-
	65,402,241	35,000,000	(4,791,667)	(95,610,574)	-

* Other changes during the year reflect the share balance held for both Charles Morgan and Andrew King reflect their holdings as at their resignation date.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 25 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2012

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance held directly at the end of year
Directors				
C Morgan	29,389,741	-	-	29,389,741
A King	35,700,000	-	312,500	36,012,500
Other Key Management Personnel of the Group				
T Harris	500,000	-	(500,000)	-
	65,589,741	-	(187,500)	65,402,241

(c) Loans to Directors and Key Management Personnel

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 (2012: Nil).

(d) Other transactions with Key Management Personnel

Refer to Note 24 for details on loan agreements entered into subsequent to year end between the Company and its CFO, Mr Trevor Harris.

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 26 SHARE BASED PAYMENTS

(a) Incentive Options Scheme and Performance Rights Plan

Options and performance rights over shares in Alcyone Resources Ltd are granted under the Alcyone Resources Ltd Incentive Option Scheme (the "Scheme") and the Alcyone Resources Ltd Performance Rights Plan (the "Plan") which were both approved by shareholders at an Annual General Meeting of shareholders of the Company held on 25 November 2010. The Scheme and the Plan are both designed to provide long term incentives for executives to deliver long term shareholder returns and participate 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 are designed to ensure the retention of Directors and key staff and have vesting periods of between 12 and 24 months, except under certain circumstances whereby rights may be capable of exercise prior to the expiry of the vesting period. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits.

(b) 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 were as follows:

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 26 SHARE BASED PAYMENTS (CONTINUED)

	2013	2012
	\$	\$
Options issued	15,588	197,929
Performance rights issued	(68)	13,568
	15,520	211,497

Due to Directors resigning during the year, their options and performance rights expired. The expense relating to the unvested portion of expired options and performance rights was reversed accordingly.

(c) Options

The number of unissued ordinary shares relating to options * outstanding at year end are as follows:

	No. of Options	
	2013	2012
- Non-transferable options exercisable on or before 9 November 2012 at \$9.60	-	250,000
- Options exercisable on or before 30 September 2012 at 1 cent	-	61,166,667
- Options exercisable on or before 31 March 2015 at 11 cents	1,000,000	1,000,000
- Options exercisable on or before 31 August 2015 at 15 cents	1,000,000	1,000,000
- Options exercisable on or before 29 November 2015 at 15 cents	-	5,000,000
- Options exercisable on or before 29 November 2015 at 12 cents	-	500,000
- Options exercisable on or before 14 May 2015 at 6 cents	60,839,105	31,250,004
- Options exercisable on or before 26 February 2016 at 4.96 cents	26,000,000	-
	88,839,105	100,166,671

* This reconciliation relates to options classified as equity only.

Option issues

Date	Details	Number of Options	Exercise Price	Expiry Date
2013				
04.07.12	Issued to Director	500,000	0.06	04.07.16
04.07.12	Issued to Director	5,208,333	0.06	14.05.15
17.07.12	Issued in share placement	521,000	0.06	14.05.15
08.08.12	Issued in share placement	15,057,072	0.06	14.05.15
26.02.13	Issued with convertible note	26,000,000	0.0496	26.02.15
26.03.13	Issued in share placement	8,823,529	0.06	14.05.15
2012				
12.08.11	Issued to Director	1,000,000	\$0.11	31.03.15
12.08.11	Issued to Key Management Personnel	1,000,000	\$0.15	31.08.15
30.11.11	Issued to Director	5,000,000	\$0.15	29.11.12
30.11.11	Issued to Director	500,000	\$0.12	29.11.15
15.05.12	Issued in share placement	31,250,004	\$0.06	14.05.12

Options exercised

During the year a total of 61,187,500 options were exercised (2012: 9,333,333).

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 26 SHARE BASED PAYMENTS (CONTINUED)

Option expiry

During the year 6,250,000 options expired unexercised (2012: 1,091,652).

The options issued under the share placement in August 2013 (and those issued to a Director in July 2012) were free-attaching and do not impact share based payment expense. Likewise, the options issued as part of the convertible note drawdowns have been used in calculating the notes' fair value at reporting date and also do not affect remuneration.

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

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

Grant date	Date vested & exercisable	Expiry date	Exercise price	Value per option at date of grant *
31 March 2011	31 March 2011	31 March 2015	\$0.11	\$0.04
12 August 2011	12 August 2011	31 August 2015	\$0.15	\$0.05
30 November 2011	29 November 2011, 2012, 2013	29 November 2015	\$0.15	\$0.04
30 November 2011	29 November 2011	29 November 2015	\$0.12	\$0.04
4 July 2012	4 July 2012	4 July 2016	\$0.06	\$0.02

*** Fair value of options granted**

The assessed fair value at grant date of options granted to 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 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 options granted during the year are as follows:

	2013
Exercise Price	\$0.054
Grant date	4 July 2012
Expiry date	4 July 2016
Share price at grant date	\$0.036
Expected price volatility	80%
Expected dividend yield	0%
Risk free interest rate	2.47%

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 26 SHARE BASED PAYMENTS (CONTINUED)

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

Details of options

Details of all options under issue are as follows:

2013

Grant Date	Expiry Date	Exercise Price	Fair value per option granting during the year	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
26.02.13	26.02.16	\$0.0496	-	-	26,000,000	-	-	26,000,000	26,000,000
04.07.12	04.07.16	\$0.054	\$0.02	-	500,000	-	(500,000) *	-	-
15.05.12	14.05.15	\$0.06	-	31,250,004	29,609,934	(20,833)	-	60,839,105	60,839,105
30.11.11	29.11.15	\$0.12	-	500,000	-	-	(500,000)	-	-
30.11.11	29.11.12	\$0.15	-	5,000,000	-	-	(5,000,000)	-	-
12.08.11	31.08.15	\$0.15	-	1,000,000	-	-	-	1,000,000	1,000,000
31.03.11	31.03.15	\$0.11	-	1,000,000	-	-	-	1,000,000	1,000,000
18.06.10	09.11.12	\$9.60	-	250,000	-	-	(250,000)	-	-
18.06.10	30.09.12	\$0.01	-	61,166,667	-	(61,166,667)	-	-	-
Total				100,166,671	56,109,934	(61,187,500)	(6,250,000)	88,839,105	88,839,105
Weighted average exercise price				\$0.06	\$0.06	\$0.01	\$0.52	\$0.06	\$0.06

* Options granted during the year and expiring post reporting date expired as the employees they were granted to, resigned from the Company.

2012

Grant Date	Expiry Date	Exercise Price	Fair value per option granting during the year	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
15.05.12	14.05.15	\$0.06	-	-	31,250,004	-	-	31,250,004	31,250,004
30.11.11	29.11.15	\$0.12	\$0.04	-	500,000	-	-	500,000	500,000
30.11.11	29.11.12	\$0.15	\$0.04	-	5,000,000	-	-	5,000,000	2,000,000
12.08.11	31.08.15	\$0.15	\$0.05	-	1,000,000	-	-	1,000,000	1,000,000
31.03.11	31.03.15	\$0.11	\$0.04	1,000,000	-	-	-	1,000,000	1,000,000
18.06.10	09.11.12	\$9.60	-	250,000	-	-	-	250,000	250,000
18.06.10	30.09.12	\$0.01	-	70,500,000	-	(9,333,333)	-	61,166,667	61,166,667
18.06.10	30.09.11	\$1.60	-	667,902	-	-	(667,902)	-	-
18.06.10	14.08.11	\$9.00	-	423,750	-	-	(423,750)	-	-
Total				72,841,652	37,750,004	(9,333,333)	(1,091,652)	100,166,671	97,166,671
Weighted average exercise price				\$0.11	\$0.08	\$0.01	\$4.47	\$0.06	\$0.06

The weighted average remaining contractual life of options outstanding at reporting date is 2.10 years (2012: 1.29 years).

(c) Performance rights

The numbers of unissued ordinary shares relating to performance rights outstanding at year end are as follows:

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 26 SHARE BASED PAYMENTS (CONTINUED)

	No. of Rights	
	2013	2012
- Performance rights vesting on 29 November 2012 and expiring 29 November 2015	166,666	166,666
- Performance rights vesting on 29 November 2013 and expiring 29 November 2015	-	166,667
- Performance rights vesting on 29 November 2014 and expiring 29 November 2015	-	166,667
	166,666	500,000

Performance rights issued

Date	Details	Number of Rights	Date vested and exercisable	Value per right at date of grant	Exercise Price	Expiry Date
2013						
04.07.12	Issued to Director	166,666	04.07.13	\$0.036	\$0.00	04.07.16
04.07.12	Issued to Director	166,667	04.07.14	\$0.036	\$0.00	04.07.16
04.07.12	Issued to Director	166,667	04.07.15	\$0.036	\$0.00	04.07.16
2012						
30.11.11	Issued to Director	166,666	29.11.12	\$0.081	\$0.00	29.11.15
30.11.11	Issued to Director	166,667	29.11.13	\$0.081	\$0.00	29.11.15
30.11.11	Issued to Director	166,667	29.11.14	\$0.081	\$0.00	29.11.15

Performance rights vested and exercisable

During the year 166,666 performance rights vested (2012: Nil).

Performance rights expiry

During the year 1,000,000 performance rights expired upon resignation of directors (2012: Nil).

Shares provided on exercise of remuneration performance rights

No shares were issued on exercise of performance rights under the Plan during the year (2012: nil). No performance rights granted as remuneration were exercised by any Directors or employees (2012: nil).

Performance rights granted under the Plan carry no dividend or voting rights.

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

Grant date	Date vested & exercisable	Expiry date	Exercise price	Value per right at date of grant *
4 July 2012	04 July 2013	04 July 2016	\$0.00	\$0.036
4 July 2012	04 July 2014	04 July 2016	\$0.00	\$0.036
4 July 2012	04 July 2015	04 July 2016	\$0.00	\$0.036
30 November 2011	29 November 2012	29 November 2015	\$0.00	\$0.081
30 November 2011	29 November 2013	29 November 2015	\$0.00	\$0.081
30 November 2011	29 November 2014	29 November 2015	\$0.00	\$0.081

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 26 SHARE BASED PAYMENTS (CONTINUED)

Fair value of rights granted

The assessed fair value at grant date of performance rights 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 determined using the share price of a fully paid Alcyone Resources Limited share as at the grant dates.

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

	2013
Exercise Price	\$0.054
Grant date	4 July 2012
Expiry date	4 July 2016
Share price at grant date	\$0.036

All performance rights are granted for no consideration and vest based on the rules stipulated in the Plan.

NOTE 26 SHARE BASED PAYMENTS (CONTINUED)

Details of performance rights issued under the Plan are as follows:

2013

Grant date	Vesting date	Expiry date	Fair value per right granting during the year	Balance at start of the year	Granted during the year	Expired during the year *	Balance at end of the year	Vested at end of the year
04.07.12	04.07.13	04.07.16	\$0.036	-	166,666	(166,666)	-	-
04.07.12	04.07.14	04.07.16	\$0.036	-	166,667	(166,667)	-	-
04.07.12	04.07.15	04.07.16	\$0.036	-	166,667	(166,667)	-	-
30.11.11	29.11.12	29.11.15	-	166,666	-	-	166,666	166,666
30.11.11	29.11.13	29.11.15	-	166,667	-	(166,667)	-	-
30.11.11	29.11.14	29.11.15	-	166,667	-	(166,667)	-	-
Total				500,000	500,000	(833,332)	166,666	166,666
Weighted average grant price				\$0.081	\$0.036	\$0.054	\$0.081	\$0.081

* 833,332 performance rights with expiry dates post reporting date expired as the employees they were granted to resigned from the Company during the year.

2012

Grant Date	Vesting date	Expiry date	Fair value per right granting during the year	Balance at start of the year	Granted during the year	Expired during the year	Balance at end of the year	Vested at end of the year
30.11.11	29.11.12	29.11.15	\$0.081	-	166,666	-	166,666	-
30.11.11	29.11.13	29.11.15	\$0.081	-	166,667	-	166,667	-
30.11.11	29.11.14	29.11.15	\$0.081	-	166,667	-	166,667	-
Total				-	500,000	-	500,000	-
Weighted average grant price				-	\$0.081	-	\$0.081	-

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 26 SHARE BASED PAYMENTS (CONTINUED)

The weighted average remaining contractual life of performance rights outstanding at reporting date is 2.41 years (2012: 3.41).

On 14 August 2013, the following performance rights were issued to Directors and Key Management Personnel of the Group:

	No of Performance Rights
P D'Sylva	88,626,364
T Morrison	88,626,364
M Reed	88,626,364
T Harris	88,626,364

50% of these vested immediately and were converted into shares on 2 September 2013. The remainder are subject to performance hurdles.\

NOTE 27 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 has one reportable segment being the mineral exploration and development sector within Australia.

i) A reconciliation of reportable segment revenue to total revenue from continuing operations is as follows:

	2013 \$	2012 \$
Total segment revenue	22,147,310	11,060,212
<i>Corporate revenue:</i>		
Interest received	15,610	43,060
Gain on disposal of tenements	-	50,000
Sundry items	-	48,122
Total revenue as per the Statement of Profit or Loss and Other Comprehensive Income	22,162,292	11,201,394

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 27 OPERATING SEGMENTS (CONTINUED)

	2013	2012
	\$	\$
ii) A reconciliation of reporting segment profit / (loss) before income tax to net loss before income tax is as follows:		
Reportable segment profit / (loss)	(4,873,378)	132,425
Corporate revenue	15,610	141,182
<i>Corporate expenses:</i>		
Corporate compliance, conference and promotion	(696,123)	(850,981)
Consulting fees	(87,760)	(220,493)
Employee benefit expense	(1,321,630)	(1,200,500)
Share based payment expense	(15,520)	(211,497)
Finance costs	(2,945,034)	(41,986)
Office rental and consumables	(226,179)	(272,746)
Repairs and maintenance	(3,625)	(199)
Depreciation and amortisation	(86,716)	(107,677)
Exploration expenditure written off	(132)	(242,250)
Loss on disposal of assets	(129)	-
Net loss on revaluation of assets at fair value through profit or loss	(10,039)	-
Other expenses	(126,769)	(245,022)
Total loss as per the Statement of Profit or Loss and Other Comprehensive Income	(10,377,424)	(3,119,744)
	2013	2012
	\$	\$
Segment assets	31,497,939	29,117,179
<i>Corporate assets:</i>		
Cash and cash equivalents	3,775	1,591,581
Trade and other receivables	801,329	629,078
Property, plant and equipment	267,163	403,446
Investments	15,059	25,098
Total assets as per the Statement of Financial Position	32,585,265	31,766,382
Segment liabilities	11,190,967	9,953,004
<i>Corporate liabilities:</i>		
Financial liabilities at fair value through profit or loss	6,788,803	-
Provisions	115,720	114,162
Trade and other payables	1,102,315	576,212
Total liabilities as per the Statement of Financial Position	19,197,805	10,643,378

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 28 AUDITORS' REMUNERATION

During the year, the following fees were paid or are payable for services provided by the auditor of the parent entity and its related practices:

	2013	2012
	\$	\$
Assurance services		
1. Audit Services		
BDO Audit (WA) Pty Ltd	92,892	70,074
Total remuneration for audit services	92,892	70,074
2. Taxation Services		
BDO Corporate Tax (WA) Pty Ltd	5,278	-
Total remuneration for taxation services	5,278	-

NOTE 29 EARNINGS PER SHARE

The following reflects the income used in the basic and diluted loss per share computations:

	2013	2012
	\$	\$
Basic and diluted loss per share (cents per share)	(0.68)	(0.24)
The loss used in calculating basic and diluted losses per share attributable to equity holders of the parent	(10,377,424)	(3,119,744)
Weighted average number of shares for basic loss per share	1,517,858,863	1,326,432,993
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	88,839,105	74,000,250
The number of potential ordinary shares relating to performance rights not exercised at year end. These potential ordinary shares are not dilutive, as conversion would decrease the loss per share	166,666	290,984

NOTE 30 CONTINGENCIES

As at reporting date, the Group had no contingent assets or liabilities.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

**NOTE 31 RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH FLOW
FROM OPERATING ACTIVITIES**

	2013	2012
	\$	\$
(a) Reconciliation of the loss after income tax to the net cash flow from operations:		
Loss after income tax	(10,377,424)	(3,119,744)
<u>Adjustment for non-cash items:</u>		
- Gain on disposal of fixed assets	-	(147,859)
- Loss on disposal of fixed assets	40,838	1,440
- Non cash employee benefits	30,182	21,410
- Depreciation and amortisation expense	6,410,516	1,761,860
- Revenue offset against mineral development	-	7,135,408
- Gain on disposal of investments (relates to investing activities)	-	(50,000)
- Non-cash benefits expense – share based payments	15,520	211,497
- Loss on disposal of exploration tenements	-	246,250
- Write off of exploration expenditure	9,336	-
- Non cash financing costs	3,062,850	-
- Fair value losses on financial assets at fair value through profit or loss	10,039	24,902
<u>Change in operating assets and liabilities:</u>		
- Increase in accounts payable and provisions	3,909,477	1,203,520
- Increase in accounts receivable	(748,270)	(378,320)
- (Increase) / decrease in inventories	33,338	(4,763,741)
- Increase in other operating liabilities	318,898	151,157
Net cash inflow from operating activities	2,715,300	2,297,780

Non-cash activities

Investing: there were no significant non-cash investing activities during the year ended 30 June 2013 (2012: no significant items).

Financing: during the year ended 30 June 2013, 113,191,531 shares were issued for various transactions (commencement and collateral shares and convertible note conversions (refer to Note 17) as well as in lieu of finance charges). There were no such transactions during the 2012 financial year.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 32 PARENT ENTITY DISCLOSURE

As at, and throughout the financial year ending 30 June 2013, the parent company of the Group was Alcyone Resources Limited.

	2013	2012
	\$	\$
Results of the parent entity		
Loss for the year	(5,504,047)	(3,252,169)
Other comprehensive income	-	-
Total comprehensive result for the year	(5,504,047)	(3,252,169)
Financial position of the parent entity at year end		
Current assets	6,802,242	2,128,859
Non-current assets	386,823	554,146
Total assets	7,189,065	2,683,005
Current liabilities	5,110,301	617,699
Non-current liabilities	2,896,537	20,913
Total liabilities	8,006,838	638,612
Total equity of the parent entity comprises:		
Share capital	101,948,235	99,803,875
Reserves	3,452,274	2,954,754
Accumulated losses	(106,218,282)	(100,714,236)
Total Equity	(817,773)	2,044,393

The parent entity has not entered into any guarantees in relation to the debts of its subsidiary.

Contingent Assets and Liabilities

The contingent assets and liabilities of the parent entity are consistent with those disclosed in Note 30.

Commitments

The commitments of the parent entity are consistent with those disclosed in Note 22.

**ALCYONE RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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):

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2013 %	2012 %
Texas Silver Mines Pty Ltd	Australia	Ordinary	100	100

NOTE 34 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 30 June 2013.

DIRECTORS' DECLARATION

In the Directors' opinion:

- a) the financial statements and notes of Alcyone Resources Limited for the financial year ended 30 June 2013, as set out on pages 38 to 93, are in accordance with the *Corporations Act 2001* including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001* and other mandatory professional reporting requirements; 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.

The financial statements and notes also comply with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in Note 1(a).

The Directors have been given the declarations by the Managing Director and Chief Executive Officer as required by s295A of the *Corporations Act 2001*.

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

On behalf of the Board



Michael Reed
Managing Director

Perth, Western Australia

Dated this 27th day of September 2013

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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 2013, the consolidated statement of profit or loss and other 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 entities 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1 (a), 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 company'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 company'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*,

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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 2013 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 (a).

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(a) in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements. These conditions, along with other matters as set out in Note 1(a), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd



Peter Toll
Director

Perth, 27 September 2013