



December 2013 Quarterly Report



Alcyone Resources Ltd

Directors:

Paul D'Sylva – Non Exec Chairman
Michael Reed – Managing Director
Tim Morrison – Non Exec Director
Chow Fah Thoo – Non Exec Director

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Capital Structure:

5,358,370,884 Ordinary shares
60,839,105 AYN0 Listed options
1,492,690,333 AYNOA Listed options

Top 10 Shareholders (31 December 2013):

Notion Vtec Berhad	14.36%
JP Morgan Nominees	5.74%
Komodo Capital	4.62%
Celtic Capital Pty Ltd	4.23%
Citicorp Nominees	2.92%
HSBC Custody Nominees – A/C 3	2.44%
HSBC Custody Nominees	2.21%
Chimaera Capital Limited	1.96%
National Nominees	1.63%
Bergen Global Opportunity	1.47%

Total for Top 10 41.58%

ASX Code: AYN

HIGHLIGHTS

Production

- Quarterly silver bullion production of 72,373oz.
- Leaching inventory increased to ~857,028oz at Quarter-end (September Quarter: ~832,364oz).
- Primary Crusher upgrade completed and commissioned.
- Mining restarted to provide ore feed for the crusher.
- Quarterly production increased 325% quarter on quarter.
- Cyanide Mixing Facility constructed and operational.

Corporate

- Alcyone enters into key strategic financial partnership with global partners. Alcyone executes a A\$25 million financing agreement from significant global hedge fund firm, Platinum Partners.
- Alcyone initiates diversification of asset base through key strategic acquisitions.
- Alcyone acquires Red Arrow Gold and Silver mine in US from Platinum Partners for A\$1 million in equity and A\$4 million convertible loan note.
- Alcyone commits debt financing to fund development of 2 US silver projects in exchange for 4.675 million shares and 4.675 million unlisted options (\$0.15:30/11/16) in Black Mountain Resources.
- Alcyone streamlines tenement base in Queensland to concentrate on silver heap leach targets and reduce tenement holding costs and exploration commitments by ~A\$450,000.
- Mr Chow Fah Thoo appointed as a Non-Executive Director representing Alcyone's new Malaysian cornerstone investor (Notion) following successful completion of Rights Issue.

OVERVIEW

Silver production from the Texas Operations for the December Quarter was 72,373 oz. At the end of the Quarter, the leachable silver inventory stood at approximately 857,028oz.

The key achievements were the successful construction and commissioning of the Primary Crusher and the laying of foundations for the High Pressure Grinding Rolls (HPGR).

The Company took a significant leap forward with the commissioning of the Primary Crusher in December 2013. The project was completed on budget and time overruns were minimised by 2 days due to inclement weather where the decision to stop followed Alcyone's Occupational Health & Safety policy around storms and lightning. The upgrade was finished without incident with commissioning and subsequently production exceeding nameplate capacity while averaging 145tph and reaching rates of up to 169tph. Overall, the primary crusher now has the capacity to deliver over 1.1 million tonnes of ore for leaching per annum.

Foundations for the final stage of the crusher upgrade were completed and transportation of the HPGR was finalised with delivery expected in mid-January 2014.

Alcyone also successfully constructed and commissioned the cyanide mixing facility in October 2013. The mixing and storage facility was a key initiative identified by the management team as a way to reduce costs substantially and mitigate risk against heavy rainfall events. This initiative has realised a A\$100,000 saving per month which will equate to approximately A\$10,000,000 in savings over the mine life.

In November 2013, the Board and management completed their operating cost review and confirmed that Alcyone will reduce its tenement base and concentrate on silver heap leach targets as a way to reduce tenement holding costs and exploration commitments by A\$450,000.

Cash reserves were \$284K as at 31 December, 2013. The Company has ongoing funding commitments from its cornerstone investor, Notion Vtec Berhad, as well as funds available under the Platinum Partners Credit facility to ensure the Company's long term future.

1.0 OPERATIONS

1.1 Texas Operations

Stacking and irrigation of Leach Pad 4 (LP4) continued along with stacking new ore on Heap Pad 1. The split in stacking is an initiative to accelerate ounce production in the short term

as a pregnant silver enriched solution can be sourced from dual areas.

The December Quarter delivered production of 72,373 ounces which is an increase of 325% compared to the September Quarter. Production was affected by the shutdown to upgrade the crusher although with production rates increased, ounce production is expected to improve substantially once the additional production is leached and converted to bullion.

During this period, the processing plant treated high and medium grade ore. The average grade since the upgrade has been 74.64g/t and with the increase in tonnage rate the overall ounce yield is forecast to increase towards 100,000 ounces per month in the next quarter.

The final stage of the crusher upgrade has moved forward with the finalisation of design to incorporate the HPGR into the existing circuit. With the foundations already poured and settled and the HPGR in transit, the final stage of the upgrade is planned for the next quarter.

Mining recommenced in the Twin Hills pit with an overall increase of 423% realising 124,826 tonnes of high and medium grade ore. The ore delivered to the ROM represented an increase of over 800%. The mining plans are in line with budget and scheduled to deliver over 200,000 ounces per month for crushing and laying the foundation of the project to yield over 100,000 ounces per month at a cost of A\$15 per ounce.

2.0 CORPORATE

The Company undertook a significant level of corporate activity during the September Quarter.

2.1 Exploration Strategy

The Board of Alcyone Resources as a part of their overall strategy has decided to either sell or relinquish all non-silver and non-economic leases held by the Company. The future strategy will be to concentrate exploration on near mine assets, primarily the extension to the Mt Gunyan Ore body. This will result in a significant saving to the Company and allow it to focus on the extension of mine life for the existing project.

2.2 Financing Agreement with Platinum Partners

In December 2013, Alcyone entered into an agreement with a New York based investment management firm, Platinum Partners, to provide the Company with a A\$25 million revolving credit facility to fund Alcyone's growth by way of value accretive acquisition opportunities in the precious metals sector. In addition, Alcyone agreed to acquire the

Red Arrow Gold Mine in the US for a total consideration of A\$5 million. The acquisition is to be funded by way of a A\$1 million equity issue with Platinum consisting of a placement of 200,000,000 shares at a price of A\$0.05 per share to Platinum and a A\$4 million convertible loan note.

This strategic financing agreement with Platinum Partners provides Alcyone with the opportunity to build a world class portfolio of precious metals projects through the acquisition of high grade and undervalued precious metals assets.

2.3 Black Mountain Debt Financing Agreement

As the first key investment in Alcyone's diversification strategy the Company has committed to take a major stake in Black Mountain Resources Ltd (ASX/AIM: BMZ). The Company entered into an agreement with Black Mountain Resources to provide A\$3 million in long-term debt finance by way of a three year loan to fund the development of Black Mountain's highly prospective New Departure and Conjecture Silver Projects in the US.

Under the terms of the loan facility, the loan and accrued interest will be repaid over 3 years. Additionally, Alcyone is to be issued 4,675,260 fully paid ordinary shares in Black Mountain Resources together with the issue of 4,675,260 unlisted options (A\$0.15; 30 November 2016), subject to shareholder approval.

2.4 Use of Funds

Funds raised from the Rights Issue have been used to implement key operational improvements at the Texas Silver Operations including the Primary Crushing Circuit upgrade and the preparation work for the HPGR installation. In addition, the Cyanide Mixing facility has been constructed and is operational.

2.5 Non-Executive Director Appointment

Mr Chow Fah Thoo joined the Alcyone Board as a Non-Executive Director in November 2013 as a representative of

About Alcyone

Alcyone Resources (ASX:AYN) is a pure play low cost silver producer based in south-east Queensland. Alcyone's Texas Silver Project (100% owned) which includes the Twin Hills Mine and Mount Gunyan commenced silver production in July 2011, with targeted annual silver production levels in excess of 1Moz.

Forward-Looking Statement

Certain statements made during or in connection with this communication, including, without limitation, those concerning exploration targets, contain or comprise certain forward-looking statements regarding Alcyone's exploration operations, economic performance and financial condition. Although Alcyone believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment and other government actions, fluctuations in metals prices and exchange rates and business and operational risk management. Alcyone undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today's date or to reflect the occurrence of unanticipated events.

the Company's new cornerstone investor, Notion VTec Berhad. His experience will strengthen and expand the Board's experience as the Company enters the next phase of its growth strategy.

2.6 Annual General Meeting

Alcyone held its Annual General Meeting on 27 November 2013 and all nine resolutions were successfully passed on a show of hands.

3.0 OUTLOOK

3.1 Operations

The Board and senior management are currently reviewing the potential to extend the mine life and significantly increase contained silver inventory while considering a range of funding options to finance an expansion.

Current exploration is expected to extend the current 8 year mine life to more than 14 years based on extensions of the Mt Gunyan resource.

Silver production is forecast to reach 100,000 ounces per month in the January Quarter with the Company currently selling product into a strengthening market with a silver spot price of more than A\$22 per ounce.

During the January Quarter, Alcyone expects to complete the construction of a new power line to access cheap grid power and commission the final stage of the crusher upgrade. Along with the purchase of hired machinery, these additional operational improvements at the Texas Silver Mine are forecast to reduce C1 operating cash costs to \$15.42 per ounce and further improve profitability.

Michael Reed
Managing Director
31 January 2014

Competent Person Statement

The information in this report that relates to data used for and the resultant Mineral Resources for the Texas Silver project is based on information compiled by Mr Peter Ball who is a Member of the Australasian Institute of Mining and Metallurgy, a Director of DataGeo Geological Consultants and Geology Manager for Alcyone Resources.

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 Exploration is based on information also compiled by Mr Ball.

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.

APPENDIX 1: TWIN HILLS MINERAL RESOURCE AND ORE RESERVE

Table 1: Twin Hills Mineral Resource – 26.5g/t Ag cut-off

Category	Tonnes	Grade (g/t Ag)	Contained Silver (Moz)
Measured	1,716,000	77	4.2
Indicated	5,718,000	44	8.1
Inferred	931,000	53	1.6
Total	8,365,000	52	13.9

The Mineral Resource stated in Table 1 is total in situ remaining at end of June 2013 and INCLUDES the Ore Reserve quoted in Table 2 following.

Table 2: Twin Hills Ore Reserve

Category	Tonnes	Grade (g/t Ag)	Contained Silver (Moz)	Recovered Silver (Moz)
Proved	1,420,000	782	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 of 26.5g/t Ag and from the base of the pit as at the end of June 2013. The expected recoverable Ag is determined at a recovery rate of 65%.

APPENDIX 2: MT GUNYAN MINERAL RESOURCE AND SCOPING STUDY RESULTS

Table 1: Mount Gunyan Mineral Resource Estimate \geq 30g/t Ag

Class	Tonnes	Grade (g/t Ag)	Contained Silver (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

APPENDIX3: MINING AND EXPLORATION TENEMENTS

The mining and exploration tenements held by Alcyone Resources at the end of the December 2013 quarter are as follows:

Tenement	Beneficial Interest
ML 50161	100%
ML 5932	100%
EPM 8854	100%
EPM 11455	100%
EPM 12858	100%
EPM 14092	100%
EPM 18193	100%
EPM 18195	100%
EPM 18196	100%
EPM 18382	100%
EPM 18950	100%
EPM 19608	100%
EPM 19669	100%

No mining tenements were acquired or disposed of during the current quarter.

Alcyone Resources does not hold any beneficial interests in farm-in or farm-out agreements.

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Alcyone Resources Ltd

ABN

53 056 776 180

Quarter ended ("current quarter")

December 2013

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to Date (6 months) \$A'000
1.1 Cash flows related to operating activities		
Receipts from product sales and related debtors	1,525	1,889
1.2 Payments for		
(a) exploration & evaluation	(142)	(348)
(b) development	-	-
(c) production	(6,606)	(11,160)
(d) administration	(751)	(1,336)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	21	21
1.5 Interest and other costs of finance paid	(2)	(4)
1.6 Income taxes paid	-	-
1.7 Other	-	-
Net Operating Cash Flows	(5,955)	(10,938)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(615)	(772)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other – Environmental & security deposits	(1)	(2)
Net investing cash flows	(616)	(774)
1.13 Total operating and investing cash flows (carried forward)	(6,571)	(11,712)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(6,571)	(11,712)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	5,075	9,431
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	2,200	3,175
1.17	Repayment of borrowings	(560)	(800)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	6,715	11,806
	Net increase (decrease) in cash held	144	94
1.20	Cash at beginning of quarter/year to date	140	190
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	284	284

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	109
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	<i>Remuneration of Directors. All transactions involving Directors and associates were on normal commercial terms.</i>	

Non-cash financing and investing activities

2.1	Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows
	<i>None.</i>
2.2	Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest
	<i>None.</i>

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	25,000	-

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	170
4.2	Development	-
4.3	Production ⁽ⁱ⁾	1,976
4.4	Administration	670
	Total	2,816

(i) Note production represents forecast net proceeds from sales

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

		Current quarter \$A'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	284	140
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	284	140

Appendix 5B
Mining exploration entity quarterly report

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			<i>No changes.</i>	
6.2	Interests in mining tenements acquired or increased			<i>No changes.</i>	

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference + securities <i>(description)</i>	-	-		
7.2	Changes during quarter				
	(a) Increases through issues	-	-		
	(b) Decreases through returns of capital, buy-backs, redemptions	-	-		
7.3	+Ordinary securities	6,789,896,435	6,789,896,435		Fully paid
7.4	Changes during quarter				
	(a) Increases through issues	998,000,000 1,889,325,231	998,000,000 1,889,325,231	\$0.005 \$0.00	\$0.005 \$0.00
	(b) Decreases through returns of capital, buy-backs	-	-	-	-

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

	*Convertible debt securities				
	The face value of the Convertible Security is \$1,062,500 and has a maturity date of 24 February 2015.	1	-	\$1,062,500	-
7.5	The face values of the Convertible Securities are \$1 and their maturity date is 31 December 2013.	1,800,000	-	\$1,800,000	-
	The face values of the Convertible Securities are \$1 and their maturity date is 28 January 2014.	1,790,000	-	\$1,790,000	-
	Changes during quarter:				
	(a) Increases through issues	1,500,000	-	\$1,500,000	-
7.6	(b) Decreases through securities matured, converted	1,050,002	-	(\$1,412,500)	-
	Options (<i>description and conversion factor</i>)			<u>Exercise Price</u>	<u>Expiry Date</u>
7.7		60,839,105	60,839,105	6 cents each	14 May 2015
		1,000,000	-	11 cents each	31 Mar 2015
		1,000,000	-	15 cents each	31 Aug 2015
		1,493,790,333	1,493,790,333	1 cent each	31 July 2015
		26,000,000	-	4.96 cents each	26 Feb 2016
		88,000,000	-	0.64 cents each	14 Aug 2018

+ See chapter 19 for defined terms.


Appendix 5B
Mining exploration entity quarterly report

7.8	Issued during quarter	637,802,664	637,802,664	1 cent each	31 July 2015
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	-	-	-	-
7.11	Debentures (totals only)	1,050,000	-	-	-
7.12	Unsecured notes (totals only)	-	-	-	-
7.13	Performance Share Rights (grant dates):			<u>Vesting Date</u>	<u>Expiry Date</u>
	- 30 Nov 2011	166,666	-	29 Nov 2012	29 Nov 2015
	- 13 Aug 2013	177,252,724	-	Performance Milestones	15 Jul 2014
	- 27 Nov 2013	88,287,496	-	Performance Milestones	27 Nov 2014
7.14	Issued during quarter:				
	- 27 Nov 2013	88,287,494	-	04 Dec 2013	27 Nov 2014
	- 27 Nov 2013	88,287,494	-	Performance Milestones	27 Nov 2014
7.15	Exercised during quarter:				
	- 27 Nov 2013	(88,287,492)	-	04 Dec 2013	27 Nov 2014
7.16	Expired during quarter	-	-	-	-

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~/does not~~* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:  Date: 31 January
2014
(~~Director~~/Company secretary)

Print name: Trevor Harris

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** - The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.