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UPDATE ON CAPITAL RAISING AND OPERATIONS

Further to the announcement of 7 May 2012, **Alcyone Resources Limited (ASX: AYN; 'Alcyone' or 'the Company')** advises that, due to the recent adverse conditions and instability in global financial markets, the Company's share placement will now be undertaken at an issue price of **4.8 cents** per share and raise a total of **\$3.5 million**.

The revised share placement will comprise 72,916,667 shares at an issue price of 4.8 cents per share, plus one free attaching option for each two new shares issued, exercisable at 6 cents per share and expiring on 14 May 2015, to raise a total of \$3.5 million. Casimir Capital LP was Lead Manager to the share placement.

A number of international institutions and high net worth investors, including several existing long-standing shareholders, are participating in the share placement. Subject to shareholder approval, Alcyone's Chairman, Mr Charles Morgan, has also applied for \$500,000 in the placement, reflecting his confidence in the future of the Company.

As outlined in the announcement of 7 May 2012, Alcyone will also undertake a Share Purchase Plan (SPP) to provide existing shareholders with the opportunity to invest at the same price as the placement.

Under the SPP, which will raise up to a **further \$3 million**, eligible Alcyone shareholders will be able to subscribe for up to \$15,000 of Alcyone shares each at an issue price of 4.8 cents per share. In addition, the Company will separately offer one free attaching option for two new shares issued, exercisable at 6 cents per share and expiring on 14 May 2015.

Documentation relating to the SPP and a Prospectus for the issue of the options will be sent to eligible shareholders shortly.

The share placement is not subject to shareholder approval as it falls within Alcyone's 15% placement capacity under Listing Rule 7.1. A Notice of Meeting to approve the issue of shares and options to Mr Charles Morgan and deal with other matters as necessary will be circulated in due course.

As previously outlined, the proceeds of the share placement will be used for the following purposes:

- **to bring forward the commissioning of Leach Pad 4 (LP4)**, enabling Alcyone to accelerate the ramp-up of production at the Twin Hills heap leach silver mine – the first layer of ore has been placed on Leach Pad 3 and civils for Leach Pad 4 are already starting (see details below);
- **to fund connection to the State electricity grid in South East Queensland**, which will reduce operating costs at the Texas Project. Alcyone estimates that the capital outlay for this initiative will be repaid within approximately 12 months;
- **to expand and accelerate exploration activities at the Texas Project**, including drilling of recent near-mine discoveries and targets such as the exciting new Silver Spur North silver discovery and Hornet copper prospect, and to fund broader regional exploration activities within the newly acquired adjacent tenements – RAB drilling has already started (see detail below); and
- to further strengthen the Company's working capital position.

Update on Operations

Ore mined since the commencement of mining operations at the end of September 2011 to the 31st March 2012 has totalled 364,148 tonnes at an average grade of 75g/t. There is approximately a 10% positive reconciliation of mined ounces to the ore reserve model, providing a high degree of confidence in the integrity of the original reserve calculations. Waste movements have been low in these early operating months due to the high quantities of ore

immediately available. This has allowed the mining fleet to be utilised for the construction of Leach Pad 3, saving in excess of \$500k. Waste mining is scheduled to increase significantly in the current and future quarters to be closer to the average strip ratio of 1.65 to 1 (Waste to Ore)

Initial figures indicate that overall silver recoveries from the newly stacked leach pads during the March Quarter have already passed the 50 per cent point, and the pads continue to leach well as they trend towards the overall planned recovery of 65 to 70%. Silver production for the month of April has been confirmed at 75,082oz, which is in line with the guidance issued last week.

As outlined recently, cash operating costs are continuing to trend downwards towards the long-term target of A\$15/oz. Unaudited daily costs during April were as low as A\$15/oz, and are expected to average A\$21/oz for the month. This downward trend in costs towards A\$15/oz is pleasing and will ensure that Alcyone can maintain a robust cash operating margin despite the recent pull-back in the silver price. The Company also has 50% of its silver production to 31 December 2012 hedged at approximately \$A33.80 per ounce Ag.

During the last week, the area for Leach Pad 4 (LP4) has been cleared with civil construction works scheduled to commence this week. The timeline for completion will be finalised once delivery has been confirmed on the plastic liner and irrigation works but is anticipated that first ore will be stacked on LP4 during September 2012.

The commissioning of LP4 is expected to make a significant contribution to the ramp-up of silver production at Twin Hills.

The first 5 metre layer of Leach Pad 3 has now also been completed and is under full irrigation. Stacking of high-grade ore at over 120g/t has continued on the cut down Leach Pad 1. The top section of Leach Pad 1 had been shifted to form the base of Leach Pad 3.

The connection to grid power has progressed to the final design stage with firm orders to be placed within the next couple of weeks. The final connection date will be dependent on the delivery of the transformers but it is anticipated that the line will be energised during October 2012.

On the exploration front, Alcyone's Rotary Air Blast (RAB) rig had been working on the Silver Spur North prospect to investigate strike extensions on the mineralisation identified in the previous RAB programme. This drilling should be completed by the end of May with results available approximately 6-8 weeks later.

The RAB rig will move straight onto drilling the first holes in the Vampire target. Vampire has been identified by a copper in soils anomaly with associated strong silica-iron signature which potentially indicates proximity to copper rich massive sulphides. Alcyone is eager to test this prospect as it is its first attempt at this style of deposit and there are two other similar signatures within the Texas Project area.

Drilling contracts for the Reverse Circulation (RC) and diamond drill programmes are currently being finalised. It is proposed that the RC drill rig will commence drilling the Hornet Project and then move on to Silver Spur and Hawker. The diamond drill rig will follow on behind the RC rig with a view to undertaking resource drilling, assuming success with the RC drilling.

Alcyone's Managing Director, Andrew King, said: "I would like to take the opportunity to thank both existing shareholders and incoming investors for their support of the Company during what has proven to be an extremely turbulent and difficult past week for global equity and commodity markets. We are particularly grateful to the Chairman for his unwavering support.

"The funds raised will support our production and operational ramp-up, which is continuing to gather momentum and which will ensure that Alcyone is in future largely insulated from the sort of market shocks we've seen over the past week."

ENDS

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About Alcyone

Alcyone Resources (ASX Ticker: AYN) commenced silver production in July 2011 at its Texas Silver & Polymetallic Project in south-east Queensland, and is currently ramping up to an annualised production level of 1.2 to 1.5Moz Ag per annum. Alcyone has embarked on an exciting new growth phase with aggressive exploration programs underway aiming to establish a 7-10 year mine life and targeting new silver and base metal discoveries within its now 1,100 sq km tenement holding.

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

The Company has upgraded the existing 1Mtpa Twin Hills processing plant, including the installation of new crushing circuit and a commercial-scale Merrill Crowe silver recovery circuit, which has been successfully commissioned and is now operating at design processing capacity. Alcyone is on track to achieve steady-state commercial production by Q4 2012.

Competent Person Statements

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 and Director of DataGeo a mining and exploration consultancy.

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.

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.