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ASX/MEDIA RELEASE

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Khnaiguiyah Project Update Post DFS

Perth: Alara Resources Limited (ASX: AUQ) (**Alara**) provides the following update post the completion of a positive Definitive Feasibility Study (**DFS**) for the Khnaiguiyah Zinc-Copper Project in Saudi Arabia (**Project**).¹

The Khnaiguiyah Project is operated by Khnaiguiyah Mining Company LLC (**KMC**) a 50:50 joint venture between Alara and United Arabian Mining Company LLC (**Manajem**), a privately owned Saudi Arabian mining company.

With the successful completion of the DFS, the focus of Alara has shifted from that of an explorer to that of potential producer seeking completion of project financing and ultimately commencement of mine construction and operation through KMC.

Strengthening of the Alara Board

The recent addition of internationally experienced mining executive Mr Philip Hopkins as Director², who the Board is pleased to announce is transitioning into an Executive Director with oversight for the development and construction of the Project, has strengthened the foundation for Khnaiguiyah to advance to mine construction.

Alara is also in discussions to appoint a commercially experienced, highly regarded Saudi Arabian national to further strengthen the Board. Such appointment will provide a local influential and trusted presence to advise and assist in relation to securing project financing locally/regionally and obtaining various regulatory approvals required for Khnaiguiyah mine development.

SIDF Project Financing

To achieve the target of mine construction as soon as possible to take advantage of a projected 'peak' in Zinc prices in 2017³, the primary focus of Alara in the short term will be to advance funding options with the <u>Saudi Industrial Development Fund</u> (**SIDF**). SIDF has the mandate and capacity to provide loans for local Saudi projects of up to 75% of the capital cost of mine development at nominal interest rates.

SIDF has previously indicated to Alara that it would be interested in providing such financing for the development of the Khnaiguiyah Project.

To that end, Alara has been in discussions with the Riyadh office of KPMG to advise and assist KMC on the SIDF loan application process.

Alara is currently making preparations for the initiation of the SIDF application process.

Refer Alara's ASX market announcement dated 30 April 2013 and entitled "Positive Definitive Feasibility Study Confirms Khnaiguiyah Project as Technically and Financially Robust"

Refer Alara's market announcements dated 2 May 2013 and entitled "Appointment of Director"

Source: CRU Strategies (an international marketing and market forecasting firm on long term zinc, copper and TC/RC charges) engaged by KMC to prepare a marketing report on zinc and copper markets during the life cycle of the Khnaiguiyah Zinc-Copper Project for the DFS

Transfer of Mining Licence

Under a Shareholders Agreement (**SHA**) between Alara and Manajem for the formation and operation of joint venture company KMC⁴, Manajem was to transfer the Khnaiguiyah Mining Licence (and other Exploration Licences within the Project area held by Manajem) to KMC.

After the formation of KMC, the parties entered into a further Mining Rights Agreement (**MRA**) in recognition that the transfer of these licences was in progress and to provide that until such time as the Project licences have been transferred to KMC, KMC shall be contractually entitled to develop the Project consistent with the joint venture contemplated under the SHA.

The Mining Licence and related Exploration Licences are pending completion of transfer to KMC and are currently before the Saudi Department of Mines and Mineral Resources (**DMMR**).

Alara's understanding is that SIDF project financing will generally be provided to the relevant mining licence holder – this means that KMC will need to formally become holder of the Mining Licence, notwithstanding the MRA provides KMC with contractual commercial and exploitation rights over the Project. Furthermore, Alara's understanding is that other relevant regulatory approvals and permits required for the development of the Project are also generally required to be filed in the name of the mining licence holder. Putting aside the SIDF requirements referred to above, Alara's desire is for the Mining Licence to be held in the name of KMC.

There appears to be a number of outstanding issues in relation to the completion of the transfer of the Mining Licence from Manajem to KMC. Alara is working with Manajem to address and resolve these issues vis a vis satisfying DMMR requirements and pursuant to Manajem's obligations under the SHA to effect the licence transfers and to assist in securing all relevant Government and regulatory approvals.

Further to the above, Alara has also formally given notice to Manajem to request that they comply with their obligations under the SHA and rectify the matter of transfer of the Mining Licence (insofar as it relates to their involvement to facilitate the process). Alara has the option, inter alia, to suspend its obligations under the SHA if Manajem fails to address this issue to its satisfaction within 60 days.

Joint Venture Management

Alara acknowledges the assistance of all internal and external contributors in advancing the Khnaiguiyah Project to completion of a positive DFS in a relatively short period of two and a half years since the formation of the joint venture.

Being a 50:50 overseas based joint venture, there has been a number of issues regarding management of the joint venture/KMC which have arisen and have/are being addressed.

Earlier in the year, Alara relocated its General Counsel, Justin Richard, to Riyadh to assume a 'Country Manager' role and represent Alara's interests in the Khnaiguiyah/KMC joint venture specifically and Alara's interest in the region generally. Mr Richard has been working closely with Manajem in resolving these KMC management issues and to progress the development of the Khnaiguiyah Project.

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About Alara Resources

Alara Resources Limited (ASX: AUQ) is an Australian-based minerals exploration and development company with a diverse portfolio of projects in Saudi Arabia and Oman.

Alara has recently completed a DFS on its flagship Khnaiguiyah Zinc-Copper Project in Saudi Arabia and is moving towards establishing itself as an emerging base and precious metals development company.

For more information, please visit: www.alararesources.com.

Refer Alara's market announcements dated 5 October 2010 and entitled "Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia" and dated 25 October 2010 and entitled "Execution of Joint Venture Agreement - Khnaiguiyah Zinc Copper Project in Saudi Arabia"