

ASX/MEDIA RELEASE

Tuesday, 3 May 2016

KHNAIGUIYAH ZINC PROJECT – PROJECT UPDATE

Alara Resources Limited (ASX: AUQ) (**Alara** or **Company**) provides this update in response to developments related to the Khnaiguiyah Zinc-Copper Project in Saudi Arabia (the '**Project**') which, following completion of a Definitive Feasibility Study ("DFS") produced by Alara during 2010 to 2013, included a 26Mt JORC Ore Reserve (3.3% Zinc, 0.24% Copper)¹.

DEVELOPMENTS

As reported last December², the Saudi Ministry of Petroleum and Mineral Resources ('**MPMR**') cancelled the prior Mining Licence for the Project. Alara has been advised that:

- Saudi mining regulations prescribe appeal procedures in cases of mining licence cancellation. Pursuant to these procedures, the 60-day period for appealing the cancellation within the MPMR has passed and raising a case with the Saudi Board of Grievances ('**BOG**'), claiming wrongful termination of licence, is the final recourse.
- The former licence holders, United Arabian Mining Company ('**Manajem**'), have initiated a BOG case, claiming wrongful termination of licence. This indicates that whatever efforts Manajem may have made to reverse the cancellation, by administrative appeal to MPMR during the 60-day appeal period, proved unsuccessful.
- While it is not possible to state definitively when the BOG might rule on Manajem's wrongful termination case, a decision should be made before the end of the current Hijri year, i.e., 3 October 2016, if not sooner.
- MPMR is free to reissue the Mining Licence for the Project during the pendency of the BOG proceedings, as the only remedies available to Manajem in a case of this kind are typically of an economic variety.

For the avoidance of confusion, Manajem's BOG action against MPMR is separate from Manajem's BOG action against Alara announced previously³.

Alara has received the following information from Bayan Mining LLC ('**Bayan**')

"Dear Alara Resources Limited,

¹ Refer Alara's ASX market announcement dated 18 April 2013: Maiden JORC Ore Reserves – Khnaiguiyah Zinc-Copper Project

² Refer Alara's ASX market announcement dated 23 December 2015: Potential Breakthrough on Khnaiguiyah Project

³ Refer Alara's ASX market announcement dated 13 November 2014 : Khnaiguiyah Project Update

Pursuant to the Alara-Bayan framework agreement signed last year, we are writing to advise you that we are adding a principal at Bayan. You, of course, already know this, as you lead the day-to-day management of Bayan and have participated in conducting the necessary due diligence and vetting regarding this person and others, whom we considered. For the sake of maintaining formalities, however, we desire to notify Alara about this development in writing.

With the mining licence for the Khnaiguiyah Zinc-Copper Project (the "Project") becoming available again, due to the cancellation of the Manajem licence, we are redoubling our efforts and have brought in a new principal at Bayan, Mr. Mohammed Alalshaikh, to ensure our Project-related applications before the Department of Mining and Mineral Resources receive the attention they deserve and meet with the highest chances of success.

Mr Alalshaikh is a graduate of Queensland University of Technology and, as part of the vetting process, has already been working closely with Bayan on a "show me what you can do basis" to advance goals we share in common with Alara under the framework agreement.

We want you to know that, as part of the formula for Mr. Alalshaikh's participation at Bayan, Bayan is transferring to Mr. Alalshaikh its 10,000,000 fully paid shares in Alara in an off-market transaction. This does not in any way reflect a stepping away from our plans and efforts under the framework agreement, but is rather part of a series of steps we are taking to ensure the alignment of our key personnel with the objectives of the Alara-Bayan framework agreement.

The Alara-Bayan plan is solid and well founded. Under this plan, we combine the strengths of: (1) Bayan, a credible, 100% Saudi-owned mining license applicant; and (2) Alara, a listed, experienced technical partner, which provides not only know-how and market access, but also owns the only bankable DFS for the Project in existence, thereby providing the unique ability for Bayan to apply for a mining licence straight away, rather than seeking an exploration license first. When we add to this plan the right personnel at the right time, good things are bound to happen.

Bayan very much hopes you and all of our partners at Alara will join us in welcoming Mr. Alalshaikh to the team. We are confident that the acumen and initiative already shown by Mr Alalshaikh and the added energy he brings to the equation, will help us advance the Project in the interests of all stakeholders.

Sincerely,

Bayan Mining LLC"

Alara CEO Justin Richard said of this development, "I have had a chance to see Mr. Alalshaikh in action for some weeks now. He brings great energy and acumen in promoting the Khnaiguiyah Zinc project at every level. Mr. Alalshaikh is an excellent and welcome compliment to the Alara-Bayan team. Bayan's move to make Mr Alalshaikh's appointment official and ensure his interests are fully aligned is a positive step forward for the project."

BACKGROUND

The recently cancelled licence, held for five years by Manajem, was based on an inadequate, earlier feasibility study, which proved incapable of attracting the finance necessary to advance the Project.

Seeking to remedy this problem, Manajem, entered into a 50:50 joint venture with Alara in 2010, under which the parties formed a Saudi special purpose vehicle, the Khnaiguiyah Mining Company ('KMC').

The bargain struck in the Alara-Manajem joint venture agreement was relatively simple. For its part, Manajem was to contribute its Mining Licence for the Project to KMC; while Alara was to produce the DFS and then take the lead in providing or securing the finance needed to advance the Project.

Alara made good on its commitment to produce the DFS, doing so in a fashion that met Joint Ore Reserves Committee ('**JORC**') standards⁴. JORC standards are set forth in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, which establishes world-class, mandatory, professional standards for the public reporting of minerals exploration results, mineral resources and ore reserves consistent with levels of confidence in geological knowledge and technical and economic considerations applicable to public reports.

Alara spent three years and upwards of US\$23 Million producing the DFS. When the DFS was complete, Alara desired to move forward under the JV agreement, but Manajem refused to contribute its Mining Licence to KMC. Accordingly, Alara had no choice but to hold back the DFS, while attempting to persuade Manajem to abide by the JV agreement.

Alara persevered for three years seeking to persuade Manajem to contribute the Mining License for the Project as agreed. In the course of these efforts, Alara paid cash to Manajem in exchange for Manajem's promise to transfer its Mining Licence to KMC. Alara also offered other good and valuable consideration to Manajem. None of these efforts, however, bore fruit. Every attempt to persuade Manajem to transfer the Mining License to KMC was met with demands for further consideration.

In 2013, Alara and Manajem sought the mediation of the good offices of His Royal Highness Prince Abdullah bin Mosaad bin Abdulaziz Al Saud, a well regarded Saudi industrialist to see if he could help resolve the impasse.

In March 2014, a resolution to the impasse was brokered with the assistance of His Royal Highness. However, the promise of that resolution proved elusive; as Manajem again showed itself unwilling to cooperate in the transfer of the Mining Licence to KMC.

Towards the end of May 2014, Prince Abdullah was called away from his life-long involvement in the private sector into government service as his nation's President of Youth Welfare (or minister of sport). The prince's entrance into government service meant that His Royal Highness needed to resign from the board of Alara and to decline to assume intended responsibilities at KMC.

⁴ Refer www.jorc.org for further details.

On his departure from the Alara board, the prince took two steps to help Alara:

- First, he proposed that his key advisor, James Phipps (now the non-executive chairman of the board of Alara), take the prince's place on the board of Alara. Mr. Phipps had previously served as the prince's alternate on the board.
- Second, he introduced Alara to the principals of what would become Bayan, suggesting that if the difficulties with Manajem could not be resolved, these principals might work to organise an alternate way forward for the Project.

By the the following Summer, the Alara-Manajem relationship remained stalled; indeed, things had worsened, as Manajem had filed a claim against Alara before the BOG, which necessitated the filing by Alara of certain defences and counterclaims.

With the Alara-Manajem relationship stalled, Alara announced last August that it had entered into a "Plan B" Framework Agreement with Bayan⁵, a Saudi limited liability company headquartered in Riyadh, Saudi Arabia, established in 2014 by reputable, well positioned Saudi business women for the purpose of engaging in mining exploration in Saudi Arabia. Bayan has a paid in capital of SAR 20,000,000.

The Alara-Bayan Framework Agreement is a teaming arrangement designed to provide an alternative means of developing and exploiting potentially significant mining opportunities in Saudi Arabia, including prominently, the Project. The teaming arrangement was further designed to take priority over the Alara-Manajem JV agreement, in the event either: (1) the Alara-Manajem relationship could not be made to work; or (2) Manajem should lose the Mining Licence for the Project. Now that Manajem have lost the Mining License for the Project, the teaming arrangement with Bayan has become Alara's Plan A for Saudi Arabia.

Per the teaming arrangement, Bayan is actively pursuing a Mining Licence for the Project. Bayan has also entered into certain service agreements with Alara⁶. These agreements cover the various technical services, which Alara will provide to Bayan as contemplated in the teaming arrangement.

WAY FORWARD

The Company does not know whether a mining licence for the Project will be reissued before or after the BOG make a determination on Manajem's case against MPMR.

However, it is clear that development of mineral resources is an important part of the Kingdom's "Vision 2030" as unveiled last week⁷. Deputy Crown Prince Mohammed bin Salman identified mining as one of the key areas of growth and job creation as the Kingdom moves to reduce its dependence on oil.

*"We are determined to ensure it (the mining sector) reaches SR 97 billion by **2020**, creating 90,000 job opportunities in the process"* (emphasis added) the Deputy Crown Prince said.

⁵ Refer Alara's ASX Announcements dated 21 July 2015 and 20 August 2015.

⁶ Refer Alara's ASX Announcement dated 2 November 2015.

⁷ Refer <http://english.alarabiya.net/en/perspective/features/2016/04/26/Full-text-of-Saudi-Arabia-s-Vision-2030.html>

