

ALARA RESOURCES LIMITED

(ASX: AUQ)

Summary of an Interesting Situation:

- The company's main asset is a 60% interest in a proven zinc ore body (17 million tonnes > 3% zinc) near the Saudi capital- Riyadh. The Arabian zinc mine development is located not far off the main freeways and near a town of 200,000. The Arabian Government has put in place attractive mining incentives:- no royalties, company tax of 20%, full repatriation of Alara's share of Joint Venture Profits, funding from the Arab Development Bank up to 75% of costs at interest rates around 2.5%. Recent tests also indicate that this ore can be upgraded to over 6% Zinc using heavy media separation techniques before being treated in standard floatation circuits.
- Alara Resources can be seen as an investment in Zinc - a base metal used mainly in the automotive industry for galvanizing. The outlook for zinc over the next decade is excellent as a number of zinc mines are slated for closure. Zinc mine closures due over the next five years are the Brunswick and Perseverance Mines in Canada, the Century Mine in Australia, the Lisheen Mine in Ireland, the Skorpion mine in Namibia. The zinc price is presently around \$US2,000/tonne. Alara has done mining economics based on a 9-year mine life with an average price of \$US2,300/tonne but commodity experts are predicting price spikes to around \$3,000/tonne during this period.
- The Alara share price dropped over the last two years from 35 cents to 4 cents due to various problems in its 50/50 JV delaying the development of the zinc mine in Saudi Arabia. The JV is getting back on track under a new Company MD. There is now a Heads of Agreement (14th March 2014) that awaits final ratification at an Extraordinary General Meeting of Shareholders. To date there has been little promotion of Alara Resources as the new MD wanted to sort out these old JV Problems first. Following the EGM the Company will be on track to put in all steps needed to develop the Khnaiguiyah zinc mine.
- After the EGM, Alara will have a 60% interest in the mine (from 50% after issuing some shares to the Arab JV partner). The old 50% Arab JV shareholders are being issued of 67 million shares in the next two months and will have around 20% of Alara and the number of issued Alara shares will go from 242 million to around 300 million shares.
- A Saudi Prince has also joined the Alara Board. This Prince is a genuine businessman who started the Saudi Paper Manufacturing Company when he was in his 20s and this Company is now the largest paper manufacturer in the Middle East with a headquarters at Dammam. He will chair the JV Company.
- The new Saudi Alara shareholders (including the HRH Prince Abdullah who has been issued options in Alara) will have a strong interest in the share price increasing past its the present range (i.e. around 7-12 cents). Of interest is that the largest buying of shares in the March Quarter 2014 was from the Middle East. If this increases once it is clear that Alara is progressing mine developments in the Middle East such buying could have a very significant impact on the Alara share price.
- Alara also has a 70% interest in a small copper deposit in Oman (\$300 million of contained copper at a grade of a little less than 1%). This ore body was marginal but now initial tests indicate heavy media separation techniques may be able to upgrade the floatation circuit feed to over 2% Copper. This mine can be sold or leveraged. There have been commercial offers to buy this deposit.
- Alara has only 166 shareholders holding parcels of 100,000 shares or higher. About 55% is institutional. Some of these institutions are shareholders who bought shares at higher prices two years ago and have been selling. The recent seller was Antares Capital (from 30 million shares to less than 17 million shares).
- The new Saudi Alara shareholders (including the Prince who will be chairman of the JV Company who has been issued options in Alara) will have a strong interest in the share price increasing past its present range (i.e. around 7-10 cents).

- Apart from the profitability indicated above, it is important to note that in any year if the zinc price spikes from the predicted average of \$2,300/tonne to around \$3000/tonne (as is predicted by some commodity firms) \$63 million of additional profitability before tax can be attributed to the Joint Venture (i.e. \$36 million extra cash flow for Alara in any such year now that its interest is 60%). Such figures highlight the importance of mine construction and the significance of predicted strong zinc prices in the next few years.

BACKGROUND

Alara Resources is an Australian Company listed on the Australian Stock Exchange (ASX) that is now focused on developing base metal deposits of Zinc and Copper in the Middle East.

Alara listed on the Australian Stock Exchange in May 2007 as a spin off from Strike Resources with interests in some Australian uranium plays. In 2010 the Company invested in a copper play in Chile that was relinquished in 2012. Also in 2010 Alara began investing in the Middle East taking a stake in a small copper/gold play in Oman (Daris) and a 50% interest in the Khnaiguiyah Zinc deposit in Saudi Arabia. In 2011 Alara invested in another copper/gold play in Oman (Washihi-Mullaq-Al Ajai) eventually taking its interest to 70% and making a significant copper intersection (112 metres @0.8%) in August 2012. During this 2011/2012 period the share price peaked over 35 cents and then due to the financial crisis and also lack of any advancement of its projects in the Middle East the Alara share price bottomed and struggled around 4 cents in 2013. This meant a reduction in capitalisation for Alara Resources from \$90 Million to around \$10 million even though there was a 50% interest in potential mine with forecasted gross zinc and some copper sales of two billion dollars over a 9 year period.

Over the years at least 10 Australian institutions have been shareholders; holding in aggregate over 50% of the company. As of March 2014 the main five institutions held around 35% of the Company. And some are probably not clear what their long-term investment position should be.

Alara's real problem over the last two years has been delays in the developing Alara's main asset (a 50% interest in a rich Zinc deposit in Saudi Arabia). There have been problems between Alara and its Arab Joint Venture partners and as a result the mining lease was not transferred to the Joint Venture Company. This was critical because application cannot be made to the Arab development bank for funding of up to 75% of the project until the JV Company that needs to borrow actually holds the asset. Some of the past JV problems (not all) could have been of Alara's making. **The JV will be right on track after a Heads of Agreement signed in March 2014 is ratified by shareholders at an Extraordinary General Meeting. This also takes Alara's interest in the zinc mine JV Company to 60%.**

RADICAL CHANGE

During 2013 it was evident that dramatic changes had to be made for Alara to go forward. In May 2013 a dynamic Canadian mining engineer (Philip Hopkins) who has worked in Canada, Brazil, Australia, Papua New Guinea and South Africa was appointed as a director. His last project was the construction of an iron ore mine in Brazil. Then except for the Chairman (who has a high reputation in corporate Australia and long experience in the Zinc market as he was MD of Century Zinc) other directors including the Managing Director resigned or were replaced. Philip Hopkins was promoted to MD and two new directors were appointed. A new Australian director was John Hopkins with 20 years' experience on the board of mining companies with interests in Australia, England, Canada and South Africa. He is presently Chairman of Wolf Minerals developing the Hemerdon Tungsten Project in the United Kingdom with earthworks commencing in January 2014, mine construction beginning in the second half of 2014 and mine production scheduled for the second half of 2015. The other new director appointed in November 2013 was Prince - His Royal Highness Prince Abdullah bin Mosaad bin Abdul-Aziz Al Saud - an experienced businessman who started the largest paper company in Saudi Arabia. (The Saudi Paper Manufacturing Paper Company headquartered in Dammam began in 1989 and today has annual turnover over US\$200 Million per year and a capitalisation around \$US320 million dollars).

In July 2013 an incentive package was approved for the new Managing Director of three tranches- each of 3.3 million options with sharply defined dates. The first tranche depends on sorting out Joint Venture problems for the transfer of the mining lease by March 31st 2014 (i.e. within the next 80 days). The second tranche depends on the commencement of construction in 2014 and the third tranche is dependent on a new Alara Project in place by December 31st 2015. Hopefully now that a Saudi Prince is on the Board all projects will be in Saudi Arabia or the Gulf States so that Alara comes with a "defined Middle East investment signature" and investors gradually become aware of the attractiveness of investment in the more stable countries of the Middle East. In January 2014 a series of similar options were granted to the Saudi Prince; again with strict, narrow performance guidelines. Shareholders voted overwhelmingly for these options as Alara Resources is fortunate to have such an ally and driving force within Saudi Arabia.

ALARA AS AN INVESTMENT IN ZINC

Investment in Alara Resources is an investment in zinc but there is also a small copper deposit in Oman that may be upgraded and/or divested. Zinc metal has a very attractive outlook over the next decade as a number of Zinc mines are due for closure - thus tightening world zinc supply. Zinc mine closures due over the next five years are the Brunswick Mine, Canada (just closed), the Perseverance Mine in Canada (closing now), the Century Mine in Australia, the Lisheen Mine in Ireland, the Skorpion mine in Namibia. These closures remove 1.7 million tonnes of the 15-16 million tonnes of global production. There are potential mines such as the Ironbark deposit in Greenland. The attractiveness of Alara is that it has a proven deposit, a completed feasibility study, a previous environmental approval for construction (resubmission is now due), a site near a potential labour market, proximity to a main Saudi highway, and a situation where trucking costs to the large Port of Dammam 600 kms away are aided by fuel costs of around 15 cents / litre. Projected production would average 80,000 tonnes of contained zinc a year for 9 years. But this estimate does not include reserves that could be added by further drilling of the ore bodies along strike.

SAUDI INCENTIVES

The Saudi Government offers some of the most attractive mining investment incentives in the world: no royalties, 20% tax, full repatriation of profits and up to 75% development funds at 2.5% from the Saudi Development Bank. There is a reason for this. The Saudis are realising that they have another significant investment arm that could be developed and the only way forward is to attract outside investors with real geological expertise. The western half of Saudi Arabia contains a significant part of the Arabian shield with old rocks similar to those in many other shield regions such as Western Australia, or western sections of Queensland (Mt Isa region) and New South Wales (Broken Hill region). In the Saudi shield there are only 6 developed mines and 20 known underdeveloped projects (none of the mega class variety). And the only projects on the books are deposits that are easily identified as they outcrop on the surface. There has been no discovery of a metal deposit in Saudi Arabia that has no surface expression such as indicative gangue minerals etc. Indeed, the experience in countries such as Australia, Canada and South Africa is that once a base metal discovery has been made further intensive exploration will find other 'hidden deposits' in that region. Base metal deposits occur as metal rich sediments are folded and the base metal minerals brines or melts migrate against another rock barrier or fault. A process not dissimilar to oil migration.

The Saudi section of the Arabian shield has some very ancient Achaean fragments but the bulk of the rocks are Proterozoic ranging from 900 to 530 million years old. There are a number of separate sections that have their own history and alignment before coming together in their present configuration. These sections are called "terrane" and there are suture joins between these terranes or blocks. Accretion to this Proterozoic block eventually lead to the formation of the great Arabian Plate that today abuts the Eurasian Plate to the north (in Iran) and the Turkish plate to the north west and the African Plate to the south. The Khnaiguiyah zinc deposit lies in the Al Amar belt nearer the north-eastern boundary where the Proterozoic shield region abuts the younger Palaeozoic and Mesozoic sediments that continue to the Persian Gulf. It is interesting to note that the Australian Mt Isa region and the Broken Hill Region deposits are mid-Proterozoic in age and also lie where the edge of the Proterozoic rocks abut the younger Palaeozoic accretions of Queensland and New South Wales to their east. The Mt Isa region, for example, yielded a range of discoveries some of which are the Mt Isa, Hilton and George Fisher, Lady Loretta, Century, and HYC ore bodies. It is not logical that the Khnaiguiyah zinc deposit is a one-off deposit in that region. That deposit contains some low grade copper indicating that elsewhere the mineralisation ratios maybe reversed in favour of copper. One could also ask where is **LEAD** in this region (?) as often zinc and lead find common eutectic points and can migrate and deposit together.

The Khnaiguiyah Project

Alara Resources (60%) and United Arabian Mining Company shareholders (40%) have formed a Joint Venture company called the Khnaiguiyah Mining Company LLC. The project, with Alara as Operator, will mine a zinc deposit in Saudi Arabia about 900 km inland from the Port of Jeddah off the main freeway to Riyadh. Zinc concentrate can easily be trucked along a freeway to the Port of Dammam in the Persian Gulf about 600kms away.

History

Work on the Khnaiguiyah deposit was done by the French Office of Geological and Mineral Research on contract to the Saudi Arabian Government between 1972 and 1992, and then the Saudi Arabian National Mining Company (Ma'aden 1997-8) and then by a private Saudi Company (Manajem) who bought the project upon privatisation in 2005. Some work was then done in India such as pilot plant research by the Indian Bureau of Mines. Upon Alara acquiring an interest in 2010 more detailed work on the deposit and mining plans were done by engineering firms in Western Australia. There are three ore bodies near the surface within a radius of 2 kilometers and it is clear from drilling results that there are differences in grade between these lodes. It is now possible using heavy media separation techniques that the initial feed into the floatation circuits could be over 6% Zinc and over 0.5% Copper.

Reserves

Proven: 17.7 Million tonne @ 3.4% Zinc and .29% Copper

Probable: 8.4 Million tonne @ 3.1% Zinc and .13% Copper

Zinc 775,000 tonnes

Copper 52,000 tonnes

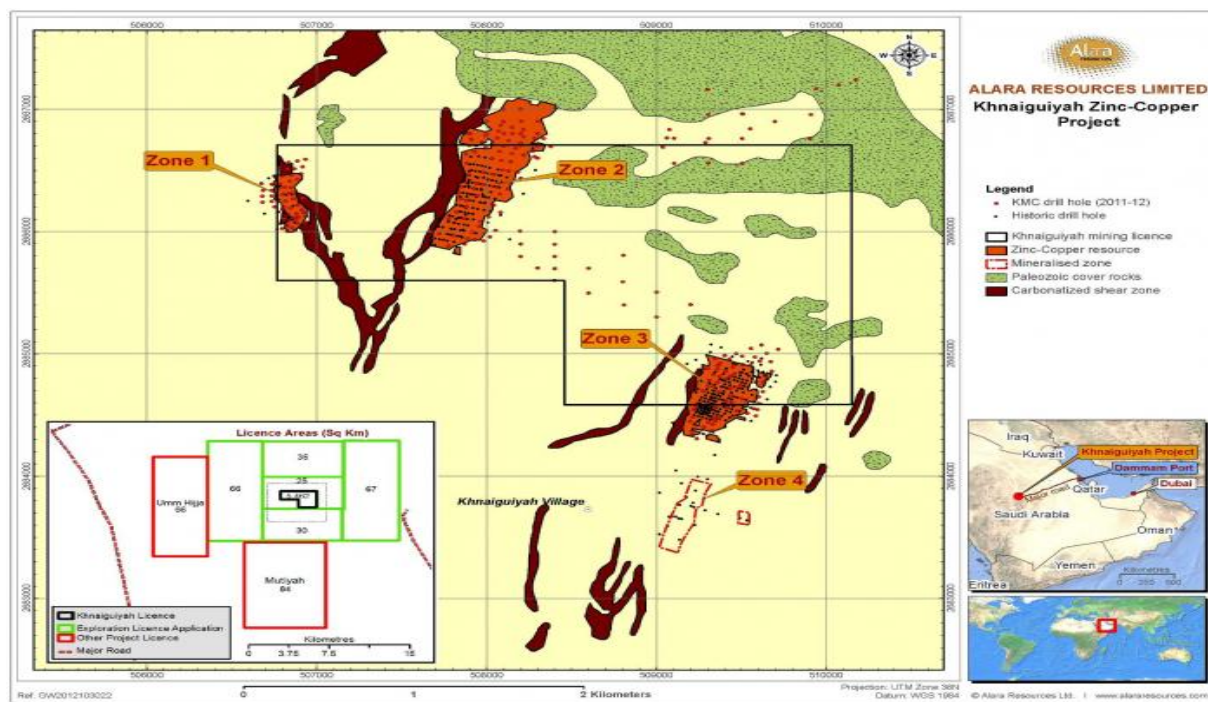
Capex \$257 M

At average Zn price of \$2300/tonne > 2 billion gross revenue over 9 years (Zinc plus Copper revenue)

Cashflow (post capex) \$460 Million

Payback 2.8 years

Future Reserves: the Zinc ore bodies are open along strike and reserves should increase. No further drilling is planned until late 2014 as the proven reserves are more than sufficient to justify economic development.



Value

According to various Alara management releases the internal rate of return is 18-31% depending on the Zinc price. Now that Joint Venture problems are resolved and an application is made for funding to the Saudi Development Bank then more details of the mining economics can be announced so that broking analysts can produce a proper cash flow model of the Joint Venture. Such a developed model will make it easier to place a series of share price values on Alara Resources. It would take into account the first ore bodies mined, debt funding, and more detailed revised mining and transport costs. (One of the extra mining costs will be compliance with Saudi explosive regulations. Barrack Mining endured costly delays in the development of a Saudi mine because its mining plan simply followed Western Australian explosive regulations and this divergence was ignored during construction and then delayed mining start-up. Alara is more than on-top of these regulations).

Apart from the profitability indicated above, it is important to note that in any year if the zinc price spikes from the predicted average of \$2,300/tonne to around \$3000/tonne (as is predicted by some commodity firms) \$63 million of additional profitability before tax can be attributed to the Joint Venture (i.e. over \$36 million extra cash flow for Alara's 60% interest in any such year). Such predictive figures highlight the importance of mine construction and sales for the coming positive zinc cycle starting around the year 2016. These figures also highlight the future sensitivity of the Alara share price to the zinc price.

Funding:

It is impossible for an outsider to predict the future mix of funding for the zinc mine development but any of these factors may come into play:-

- 75% of the Khnaiguiyah Project may be funded by loans from the Saudi Development Bank
- The new JV Company with Alara a 60% shareholder will need to fund 25% of the Project (est. \$60 million cost and \$36 million cost to Alara Resources)
- Alara may be able to sell an interest (or part of an interest) in its 70% owned Oman Copper deposit to help fund the Khnaiguiyah mine.
- The JV and Alara maybe also be able to sell forward zinc to help fund its interest in the Khnaiguiyah Project (Glencore has already offered such a deal to another potential zinc miner as Glencore –the world's largest commodity trader- forecasts a tightening of the world zinc market). However, this type of deal can mean that any real cream from commodity price increases is to the benefit of Glencore and the mine then simply has a predictable rate of return without any upside from commodity price increases.
- The Company may be able to obtain some convertible note debt well above the present share price (this option stops dilution at present low share prices, guarantees repayment to the lender, offers the lender leverage to the Alara share price above a certain level, still maintains sensitivity of the Alara share price to the zinc price).
- Other changes or alternative funding options may occur within Alara's Joint Ventures which are impossible for an outsider to predict.

WASHIHI COPPER PROJECT (OMAN)

(Alara 70% and Al Hadeetha Resources LLC -30%) LLC

Reserves

Indicated: 6.84 Mt @ 0.9% Copper Copper

Inferred: 7.27 Mt @ 0.71% Copper Copper

Alara took an interest in this copper deposit in December 2011 and was committed to spend certain monies to earn its interest or increase its interest. In August 2012 Alara announced a significant intersection that upgraded this deposit (112 metres at 0.9%). Alara currently holds 70% in the JV Company-Al Hadeetha Resources LLC with the right to go to 75%. The Washihi area is 39 sq. km, the Mullaq area is 41 sq. km, and the Al Ajal area is 25 sq. km. It is impossible for an outsider to value this deposit that so far contains 60,000 tonnes (> US \$300 million of contained copper). It is costly to develop small copper deposits (most developed copper mines have large tonnages with low grades around 0.5%).

An announcement was made on 30th January 2014 detailing initial feasibility studies on the use of a primary heavy media separation process that would upgrade copper ores from 0.9% Cu to 1.4%-1.8% (or higher) prior to treatment in a conventional floatation circuit. This would significantly reduce ore to the floatation circuit and be a further enhancement of the economics of the project. These scoping studies (still ongoing) are examining the economics of Heavy Media Separation Units with feeds of either 1 million tonnes or 500,000 tonnes of primary ore per year. It is clear that there is commercial interest to buy this deposit. This would not exist unless the deposit has real economic value. Indeed, since April 2013 there have been 19 expressions of interest in the copper deposit, seven confidentiality agreements have been signed and two firm commercial offers to buy Alara's interest in the deposit have been made.

NEWS THAT COULD HELP INVESTMENT INTEREST IN ALARA RESOURCES**With respect to the Khnaiguiyah Zinc Deposit:-**

- The Shareholder Heads of Agreement with the Arab JV partner in the Khnaiguiyah zinc deposit that was announced 14th March is approved at an Extraordinary General Meeting. (In very summary form, this EGM is required to approve a series of payments and repayments between the JV partners, the issue of 6.7 million shares to the Arab JV shareholders as part of an old Shareholder agreement two years ago, and the issue of 60 million shares to the Arab JV partners that is part of the deal to take Alara's share in the JV Company to 60%).
- The clearing of the past JV problems re the development of the Khnaiguiyah zinc deposit will mean:
 - a. the transfer of the mining license to the JV Company;
 - b. the lodgment of the application for a loan for 75% of the costs to develop of the Khnaiguiyah mine from the Saudi Development Bank. (This application has been prepared by KPMG);
 - c. the JV embarking on a clear 9 months plan to complete full financing of the Khnaiguiyah Project ;
 - d. the JV writing various contracts to build the Khnaiguiyah mine over a two year period;
 - e. the application for a Water License for the Khnaiguiyah mine can be submitted;
 - f. a Mining Environmental License that was approved some time ago is re-submitted;
 - g. applications are progressed for Environmental Certificate Ports, Export License, and Explosives permits for the Khnaiguiyah mine. (The Explosive Permit is important and is stricter than the normal Australian Explosive License).

With respect to the Washihi/Daris Copper Deposit:-

- there is a clearer perception of the value of this copper deposit either from-
 - a. from the sale of the deposit (that can be translated into a cash value per share); or
 - b. a decision is made by Alara management to retain the deposit based of a revaluation of the deposit following feasibility studies on mining plans involving heavy media separation circuits. Such a decision should show shareholders a revised Net Present Value of this deposit.

With respect to the shareholders:-

- there is a clear perception by investors that the heavy selling by old institutional shareholders over the last few months is over and the Share Register is much more stable.
- there will be renewed confidence for Australian investors to buy into Alara Resources if it becomes clear that Middle Eastern investors continue to buy into Alara. The largest buyers of Alara shares in the March 2014 quarter were from the Middle East; persistence of this trend could be very significant.

SHAREHOLDERS

- Once you disregard small parcels of less than 10,000 shares, there are only about 690 shareholders in Alara Resources and about 160 shareholders hold about 92% of the company.
- As of 14th February 2014 about 55% of the shareholding was institutional.
- As of 14th February 35.26% was held by four institutions being Antares Capital Partners (9.8%), Acorn Capital (9.52%), Northgate Capital (9.2%) and Kinetic Investment Partners (6.76%). Acorn Capital actually holds stock for a number of superannuation funds such as Aus. Coal, Queensland Local Government Superannuation, Commonwealth Superannuation, Health Super, Sun Super and Uni Super. Changes in shareholdings by institutions reflect the problems small-cap investing institutions have with their investment guidelines some of which preclude investment if a company's capitalisation falls below a certain value. Antares has reduced from 9.8% to less than 7%. Contango Asset Management is no longer a substantial shareholder.
- Alara Directors intend taking proactive role in strengthening the shareholder structure. What is needed is a wider register and a smaller but more solid core of institutional holdings or private equity partnerships with a long term supportive view. The presence of Arab shareholders on the register when 67 million shares are issued in the next

two months (part of the new JV agreement whereby Alara increases its interest in the mine from 50 to 60%) may bring investment interest from the Middle East and further strengthen the Register.

COMPANY DETAILS

Listed Shares: 242,007,500

Shares to be issued: 67 million shares to Arab JV partners to take Alara to a 60% interest in the zinc mine JV Company.

Options: about 37 million but some 7 million may lapse in 2014.

Share Price last 6 months ranging between 5 cents and 10 cents.

Share Price last 4 years ranging between 4 cents and 40 cents.



Unlisted Options:

1. 700,000 options expiring in March 2014 - exercise prices of 50-70 cents well above the current share price (probably will lapse)
2. 6,050,000 options expiring in October 2014 with exercise prices of 35-60 cents. well above the current share price (probably will lapse)
3. 10,000,000 options expiring in November 2016 with exercise prices of 15-20 cents (these are incentives for the new Managing Director P Hopkins with various performance deadlines). One third of the options depend on agreement by March 31st 2014 with the Saudi JV Partners for the transfer of the Khnaiguiyah zinc mine license to the Joint Venture. One third of the options depend on the Khnaiguiyah zinc mine mining construction beginning before December 31st 2014. The final third of the options depend on the existence of a new project for the Company prior to December 31st 2015.
4. 10,000,000 options with a performance deadline of March 31st 2014 to a Saudi Prince Director (agreement to the transfer of Khnaiguiyah zinc mine license to the JV and award of water licence to the Joint Venture)
5. 10,000,000 options with performance deadlines of December 31st 2014 to a Saudi Prince Director on the basis that funding is in place and mine construction begins before 31st December 2014.

Dr. Howard Brady B.A. MSc(Geol). Ph.D. (Geol). March 2014. Explorers Club New York.

(Disclaimer: This research note was written by a private shareholder and expresses his own positive analysis of the Company obtained from publicly available information and was not reviewed in any way by any Alara directors or management. It cannot be taken in any way to express the views of the Directors or management of Alara Resources. It may contain some factual errors. Although positive about the future of the company under present management, this research note does not contain any specific valuation of the company (which hopefully will come in the short term from the broking industry). Anyone reading this note should seek their own advice and form their own independent opinion of the company).