

18 February 2014

Alara Resources

AUQ A\$0.07/share

Oman breakthrough

BUY

Heavy Media Separation (HMS) test work on the Washihi resource has been completed and has been successful in providing a breakthrough for the project. HMS is shown to increase the copper grade from 0.9-1.0% to 1.8-2.0%. An options analysis study is expected to be completed this month and an updated scoping study incorporating the HMS circuit is due in March. The HMS circuit has the potential to significantly enhance the value of the Oman assets. We maintain our BUY on AUQ with NPV of A\$0.55/share, comprising just \$0.02/share for Oman.

HMS breakthrough at Washihi (70-75%)

- ALS and Meagabest successfully complete HMS work.
- Ore from Washihi North, Central and South tested.
- Test work results comprise:
 - Mass balance – 45-50% to final process plant feed
 - Cu Grade – 1.5 to 2.0 times grade enhancement
 - Metal losses – 8-10% overall metal loss
- In summary - copper grade rises to ~2.0% after rejecting half the mass with metal loss of 10%.
- HMS circuit of 1-2Mtpa estimated at A\$5M-8M capex.
- Resources comprise 11Mt @ 0.9% Cu (0.5% cut-off).

The way forward

- Further testing to confirm optimal crush size.
- Options analysis study to include HMS circuit.
- Scoping study to include HMS circuit.

Options for development

AUQ is evaluating the following options:

- 1Mtpa conventional floatation.
- HMS followed by 1Mtpa conventional floatation.
- HMS followed by 0.5Mtpa conventional floatation.
- Off-site toll treatment (Sohar smelter ~250km NW).
- On-site conventional heap leach.
- On-site contained/vat leach.

Comment

- HMS has potential to significantly improve economics.
- Options exist for low cost development or sale.
- Several parties remain interested in the Oman assets.
- AUQ's main focus remains Khnaiguiyah in Saudi.
- Discussions continue with the JV partner Manajem.
- We remain confident on resolution of JV issues soon.
- Options to MD & Prince Al Saud (3.3M & 10M respectively) subject to resolution of JV by the end of March.

Company Data

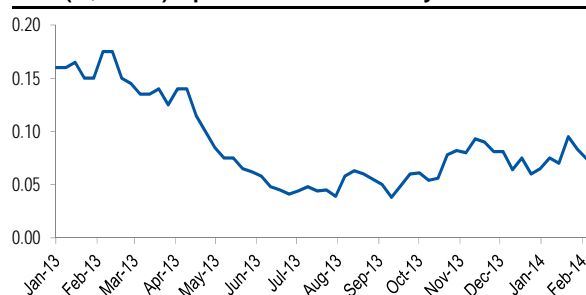
Shares – ordinary	242.0M
Options (\$0.10-0.70/share – out of the money)	36.8M
Market Cap	\$17.7M
12 month low/high	\$0.04 / \$0.21
Average monthly turnover	\$1.0M
Average monthly volume	9.7M

Financial Summary

Year end June	2013A	2014F	2015F	2016F	2017F
Revenue (\$M)	0.0	0.0	0.0	19.5	130.7
Costs (\$M)	6.9	4.8	5.1	15.2	70.7
EBITDA (\$M)	(6.9)	(4.8)	(5.1)	4.3	59.9
NPAT (\$M)	(6.7)	(4.7)	(8.4)	(5.3)	32.5
EPS (¢ps)	(2.9)	(1.9)	(3.5)	(2.2)	13.4
EPS Growth (%)	na	na	na	na	>100
PER (x)	na	na	na	na	0.5
Cashflow (Gross-\$M)	(3.6)	(4.7)	(8.4)	(3.6)	51.5
CFPS (¢ps)	(1.5)	(1.9)	(3.5)	(1.5)	21.3
PCFPS (x)	na	na	na	na	0.3
Enterprise Value (\$M)	6	15	126	193	144
EV / EBITDA (x)	na	na	na	44.5	2.4

Substantial Shareholders (FPO)	Shares (M)	(%)
Antares	23.3	9.6%
Acorn	23.0	9.5%
Northcape	21.8	9.0%

AUQ (A\$/share) – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

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Heavy Media Separation Process

HMS is one of the simplest and well known gravity separation methods.

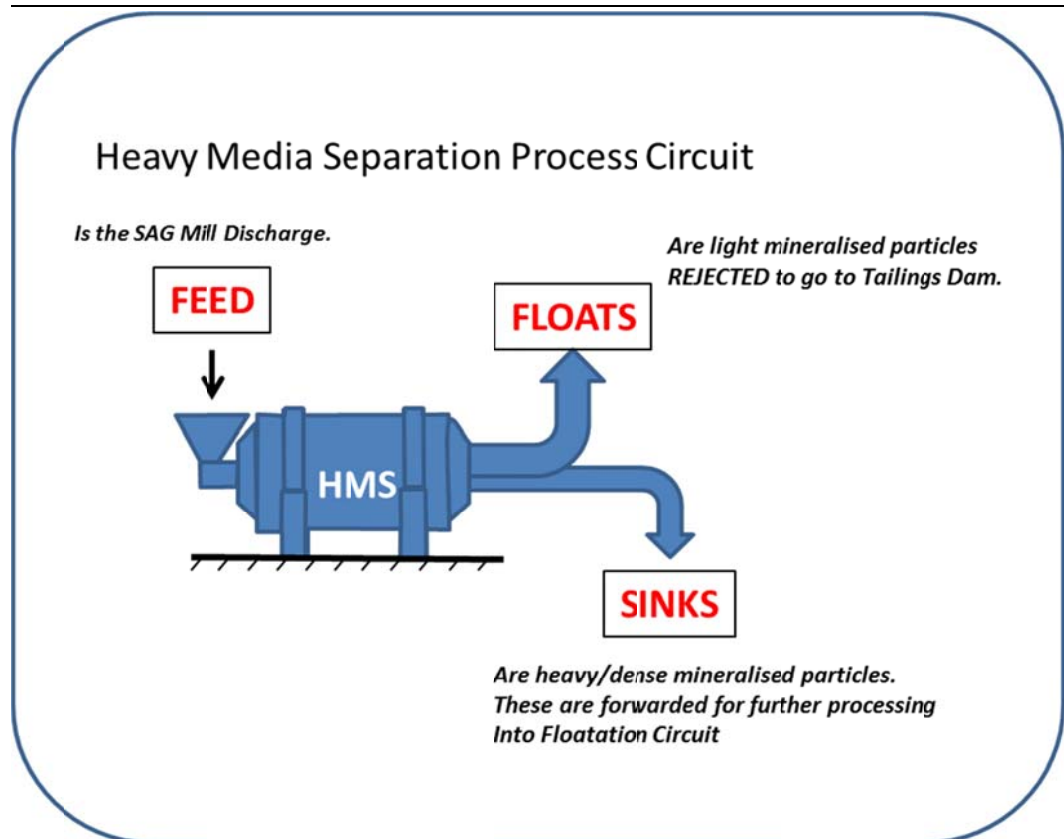
Heavy (or dense) media separation (HMS), often referred to as the sink-float process, is one of the simplest gravity separation methods used in mineral processing (Fig. 1). The HMS process uses a heavy medium (fluid) with a density set between the dense and light particles in the feed ore. When the feed ore is passed through the heavy medium, the heavier, more mineralised particles will tend to sink thus resulting in the lighter non-economic material to float out of the circuit.

The HMS pre-concentration process is common in base metals flotation processing plants and is applicable where there is a significant density contrast between the metal sulphides presented as stringer/stockwork, and the waste rock. The process is suited to the Washihi deposit where there is a sharp distinction between the dense chalcopyrite sulphide mineralisation and the less dense waste rock.

Key points on HMS:

- HMS dense medium is a mixture of very fine high grade ferrosilicon and water
- It is a pre-concentration process that upgrades the ore metal to be processed by removing a large proportion of the waste rock prior to flotation
- The metal sulphides are significantly softer in comparison to the siliceous waste rock
- There is significant power saving in grinding and upgrading the ore going forward to the flotation plant
- Overall it is a low capital and operating cost process expected to deliver significant benefits.

Figure 1: Simplified process flow diagram of HMS



Source: Alara Resources

Economic Parameters

An HMS circuit of 1-2Mtpa throughput (thus a 0.5-1.0Mtpa discharge to the flotation circuit) has an estimated capital cost range of A\$5-8M and can be operated at an estimated cost of between A\$1.00-1.50/tonne of feed to the HMS plant.

Washihi HMS Test Work Results

Test work was carried out by ALS Ammttec Labs and Megabest Metallurgy Consulting.

Washihi North Composite:

- Sinks Ore = 52.6%Wt @ 2.0% Cu at 86% recovery, 0.45g/t Au at 71.3% recovery
- Float Tails = 47.4% Wt @ 0.35% Cu at 14% recovery, 0.11g/t Au at 16% recovery

Washihi Central Composite:

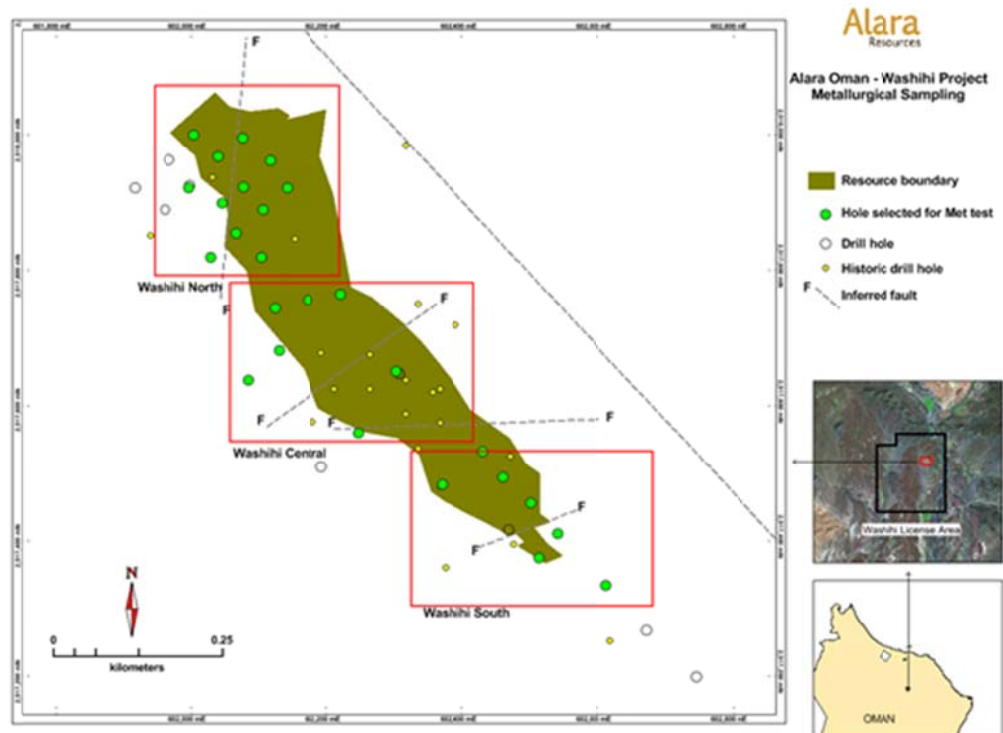
- Sinks Ore = 47.3%Wt @ 2.26 Cu at 94.3% recovery, 0.57g/t Au at 87% recovery
- HLS Tails = 52.7% Wt @ 0.12% Cu at 5.7% recovery, 0.07g/t Au at 12.2% recovery

Washihi South Composite:

- Sinks Ore = 46.3%Wt @ 1.62% Cu at 90.7% recovery, 0.51g/t Au at 84.8% recovery
- HLS Tails = 53.7% Wt @ 0.14% Cu at 9.3% recovery, 0.07g/t Au at 12.9% recovery

Figure 1: Washihi Drill Holes Selected for HMS Testwork

Representative samples from three mineralised zones (Washihi North, Central and South) were composited and used for HMS test work.



Source: Alara Resources

Analysis

ALARA RESOURCES

(AUQ)
18-Feb-14

Year End 30 June	A\$					
PROFIT & LOSS		2013A	2014F	2015F	2016F	2017F
Sales Revenue	\$M	0.0	0.0	0.0	19.5	130.7
Other Income	\$M	0.0	0.0	0.0	0.0	0.0
Operating Costs	\$M	3.9	4.8	5.1	15.2	70.7
Exploration	\$M	3.1	0.0	0.0	0.0	0.0
Other	\$M	0.0	0.0	0.0	0.0	0.0
EBITDA	\$M	(6.9)	(4.8)	(5.1)	4.3	59.9
Dep. & Amort.	\$M	0.0	0.0	0.0	1.7	15.3
EBIT	\$M	(6.9)	(4.8)	(5.1)	2.6	44.6
Net Interest	\$M	(0.2)	(0.0)	3.3	7.9	8.5
Pre-Tax Profit	\$M	(6.7)	(4.7)	(8.4)	(5.3)	36.2
Tax	\$M	0.0	0.0	0.0	0.0	3.6
Minorities	\$M	0.0	0.0	0.0	0.0	0.0
Net Profit	\$M	(6.7)	(4.7)	(8.4)	(5.3)	32.5
Abnormal	\$M	(0.2)	0.0	0.0	0.0	0.0
Reported Profit	\$M	(6.9)	(4.7)	(8.4)	(5.3)	32.5
Dividends	\$M	0.0	0.0	0.0	0.0	0.0
Adjustments	\$M	0.0	0.0	0.0	0.0	0.0
Retained Earnings	\$M	(29.3)	(34.0)	(42.4)	(47.8)	(15.2)
CASH FLOW						
Revenue	\$M	0.0	0.0	0.0	19.5	130.7
Costs	\$M	(3.9)	(4.8)	(5.1)	(15.2)	(70.7)
Net Interest	\$M	0.3	0.0	(3.3)	(7.9)	(8.5)
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0
Gross Cash Flow	\$M	(3.6)	(4.7)	(8.4)	(3.6)	51.5
Net Capex	\$M	(10.3)	(1.7)	(102.9)	(63.1)	(2.1)
Exploration	\$M	0.0	0.0	0.0	0.0	0.0
Dividends	\$M	0.0	0.0	0.0	0.0	0.0
Other	\$M	0.0	4.4	0.0	0.0	0.0
Free Cashflow	\$M	(13.9)	(2.0)	(111.3)	(66.7)	49.3
Equity Issues	\$M	7.5	0.0	0.0	0.0	0.0
Net Borrowings	\$M	0.0	3.0	115.0	70.0	(45.0)
Net Investments	\$M	0.0	0.0	0.0	0.0	0.0
Surplus Cash Flow	\$M	(6.4)	1.0	3.7	3.3	4.3
BALANCE SHEET						
Cash	\$M	4.5	5.5	9.2	12.5	16.8
Other Current	\$M	1.3	0.0	0.0	0.4	2.5
Total Current	\$M	5.8	5.5	9.2	12.9	19.3
Fixed Assets	\$M	29.5	31.2	134.1	195.4	182.2
Exploration	\$M	0.0	0.0	0.0	0.0	0.0
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0
Other	\$M	5.7	1.3	1.3	1.3	1.3
Total NC Assets	\$M	35.3	32.5	135.4	196.7	183.5
TOTAL ASSETS	\$M	41.0	38.0	144.6	209.6	202.9
Total Debt	\$M	0.0	3.0	118.0	188.0	143.0
Current Liab	\$M	1.8	1.8	1.8	1.8	5.4
Non Current Liab	\$M	1.8	0.5	0.5	0.8	3.0
TOTAL LIAB	\$M	3.6	5.3	120.3	190.6	151.4
NET ASSETS	\$M	37.5	32.7	24.3	19.0	51.5
SH/HLDRS FUNDS	\$M	37.5	32.7	24.3	19.0	51.5
RATIO ANALYSIS						
EPS	¢	(2.9)	(1.9)	(3.5)	(2.2)	13.4
PER	x	na	na	na	na	0.5
EPS Growth	%	na	na	na	>100	>100
EBITDA per share	¢	(3.0)	(2.0)	(2.1)	1.8	24.8
EBITDA Multiple	x	(1.5)	(3.7)	(3.4)	4.1	0.3
EV/EBITDA	x	(0.9)	(3.2)	(24.6)	44.5	2.4
CFPS	¢	(1.5)	(1.9)	(3.5)	(1.5)	21.3
PCFR	x	na	na	na	na	0.3
DPS	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	100	100	100
Payout Ratio	%	0%	0%	0%	0%	0%
Gearing D/E	%	na	na	447.8	925.7	245.0
Interest Cover	x	30.7	120.8	na	0.3	5.3
EBITDA Margin	%	na	na	na	22.3	45.9
EBIT Margin	%	na	na	na	13.3	34.2
Return On Assets	%	(16.9)	(12.5)	(3.6)	1.2	22.0
Return On Equity	%	(17.9)	(14.4)	(34.7)	(28.2)	63.2
Eff Tax rate	%	0	0	0	0	10
OTHER DATA						
Share Price	\$/sh.	0.05	0.07	0.07	0.07	0.07
Number of shares	M	231	242	242	242	242
Market Capitalisation	\$M	10	18	18	18	18
EV	\$M	6	15	126	193	144

Share Price	(\$)	0.07				
Iss. Shares	(M)	242.0				
Iss. Options (unlisted)	(M)	36.8	Ex @ \$0.10-\$0.70 - out of the money			
Equity	(M)	242.0				
Mkt Cap.	(\$M)	17.7				
RESERVES / RESOURCES		2013A	2014F	2015F	2016F	2017F
Reserves						
Tonnes	Mt	29.99	29.99	29.99	29.59	27.42
Copper	%	0.24	0.24	0.24	0.24	0.23
Zinc	%	3.30	3.30	3.30	3.29	3.17
Resources						
Tonnes	Mt	35.00	35.00	35.00	34.60	32.43
Copper	%	0.25	0.25	0.25	0.25	0.24
Zinc	%	3.10	3.10	3.10	3.09	2.98
PRODUCTION (100%)						
Khnaiguiyah						
Tonnes	Mt	0.00	0.00	0.00	0.40	2.17
Copper	%	0.00	0.00	0.00	0.35	0.40
Zinc	%	0.00	0.00	0.00	4.00	4.80
Metal in concentrate (pre-charges)						
Cu in concentrate	T	0	0	0	1,246	7,812
Zn in concentrate	T	0	0	0	14,560	95,827
ATTRIBUTABLE REVENUE (post smelter charges)						
Project						
Khnaiguiyah	A\$M	0.0	0.0	0.0	19.5	130.7
Other	A\$M	0.0	0.0	0.0	0.0	0.0
Total	A\$M	0.0	0.0	0.0	19.5	130.7
Commodity						
Copper	A\$M	0.0	0.0	0.0	4.5	27.3
Zinc	A\$M	0.0	0.0	0.0	15.0	103.4
Other	A\$M	0.0	0.0	0.0	0.0	0.0
Total	A\$M	0.0	0.0	0.0	19.5	130.7
ATTRIBUTABLE COSTS (includes treatment charges)						
Khnaiguiyah	A\$M	3.4	2.8	3.1	13.2	68.7
Corporate and Other	A\$M	0.4	2.0	2.0	2.0	2.0
Total	A\$M	3.8	4.8	5.1	15.2	70.7
Cash Costs (pre credits)	US\$/lb	0.00	0.00	0.00	0.81	0.63
Cash Costs (after credits)	US\$/lb	0.00	0.00	0.00	0.53	0.38
Cash Costs (all-in)	US\$/lb	0.00	0.00	0.00	0.79	0.42
ATTRIBUTABLE CAPEX						
Khnaiguiyah	A\$M	8.8	1.7	102.9	63.1	2.1
Other	A\$M	1.5	0.0	0.0	0.0	0.0
Total	A\$M	10.3	1.7	102.9	63.1	2.1
ATTRIBUTABLE DEPRECIATION & AMORTISATION						
Khnaiguiyah	A\$M	0.0	0.0	0.0	1.7	15.3
Other	A\$M	0.0	0.0	0.0	0.0	0.0
Total	A\$M	0.0	0.0	0.0	1.7	15.3
HEDGING						
Copper hedged	t	0	0	0	0	0
Currency hedged	A\$/US\$	0	0	0	0	0
Hedged price	US\$/lb	0	0	0	0	0
Hedged price	A\$/lb	0	0	0	0	0
Sales hedged	%	0%	0%	0%	0%	0%
Ave. price deliv. -Cu	US\$/lb	3.47	3.21	3.10	2.88	2.75
Ave. price deliv. -Cu	A\$/lb	3.39	3.54	3.54	3.42	3.33
Zinc hedged	t	0	0	0	0	0
Currency hedged	A\$/US\$	0	0	0	0	0
Hedged price	US\$/lb	0	0	0	0	0
Hedged price	A\$/lb	0	0	0	0	0
Sales hedged	%	0%	0%	0%	0%	0%
Ave. price deliv. -Zn	US\$/lb	0.87	0.88	0.93	0.93	0.95
Ave. price deliv. -Zn	A\$/lb	0.85	0.97	1.06	1.10	1.15
ASSUMPTIONS						
Exchange Rate	A\$/US\$	1.02	0.91	0.86	0.84	0.83
Zinc	US\$/lb	0.87	0.88	0.93	0.93	0.95
Lead	US\$/lb	0.97	0.95	0.94	0.92	0.90
Copper	US\$/lb	3.47	3.21	3.10	2.88	2.75
Gold	US\$/oz	1595	1275	1250	1250	1238
Silver	US\$/oz	28.82	20.55	20.00	20.00	19.00
90 day Bank Bills	%	3.15	2.61	2.55	2.63	2.88
10 Yr Bond rate	%	3.29	4.01	3.75	3.38	3.38
Int. Rate Charged	%	4.29	5.01	4.75	4.38	4.38
VALUATION						
Khnaiguiyah - Saudi	A\$M				133.8	\$0.55
Washihi - Oman	A\$M				5.0	\$0.02
Exploration	A\$M				5.0	\$0.02
Corporate and Other	A\$M				(17.1)	\$ (0.07)
Net Cash (Debt)	A\$M				5.5	\$0.02
Total	A\$M				132.2	\$0.55

Source: Petra Capital

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