



Alara Resources Limited
A.B.N. 27 122 892 719
Level 14, The Forrest Centre
221 St Georges Terrace
Perth Western Australia 6000

Telephone | **+61 8 9214 9787**
Facsimile | **+61 8 9322 1515**
Web | **www.alararesources.com.au**
Email | **info@alararesources.com.au**

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MARKET ANNOUNCEMENT

Project Acquisition – El Quillay Copper Gold Project in Chile

Alara Resources Limited is pleased to confirm that it has secured rights to acquire (subject to completion of due diligence) a 70% interest in the El Quillay Copper/Gold Project (the **Project**) located in the north of Chile.

This project is the first of a number of base metals project opportunities Alara is currently pursuing in several countries.

Summary

- The Project comprises known copper/gold mineralisation in old workings presenting as lenticular bodies extending over a strike distance of ~3 kilometres with widths of up to 200 metres.
- Based upon previous work undertaken by the vendors, Alara projects a target mineralisation range for the Project of 25 million tonnes at approximately 1.5% copper equivalent to 70 million tonnes at approximately 0.9% copper equivalent, to a depth of ~200 metres.

(The potential quantity and grade of the target mineralisation of copper equivalent is conceptual in nature. There has been insufficient exploration to define a mineral resource in relation to that target mineralisation of copper equivalent. It is uncertain if further exploration will result in the determination of a mineral resource in relation to that target mineralisation of copper equivalent)

- Alara has secured the right to acquire a 70% interest in the Project in consideration of managing and meeting all exploration, evaluation and development costs (including a minimum 20,000 drilling programme) over a 3 year earn-in period and effecting payments to the vendors totalling US\$10 million, plus a resource bonus for any economically mineable fine copper equivalent delineated in excess of 250,000 tonnes.
- The agreement is subject to the Company undertaking due diligence on the Project over the next 60 days, following which the parties will execute more definitive agreements.

ASX Code | **AUQ**



The Project

The Project is located south of the town of El Quillay, ~350 kilometres north of Santiago and comprises 68 concessions totaling ~15,000 hectares across four project areas located within a radius of ~10 kilometres.



Geology

Work previously conducted by the vendors (which is the subject to due diligence to be conducted by Alara) indicates that the El Quillay deposit is formed by a series of lentiform mineralised bodies, containing Cu, Cu-Au-Ag and Cu-Au ore.

These structures appear to be located within a belt ~6 kilometres long, with NS to NNW strike, related to a low angle fault system. The mineralised bodies are hosted by volcanic andesitic rocks which show hydrothermal-metasomatic alteration. These mainly contain silica (quartz), sericite, albite-adularia, chlorite-epidote and hematite.

The lengths of the lenses (3 bodies of this type have been recognised to date) potentially range from 300 to 1,000 metres with widths ranging from 20 to 200 metres. The mineralisation appears in the shape of veins, veinlets-stockwork and disseminations. The oxidation zone reaches up to 25 metres depth. Thereafter the primary sulphide zone has been observed to continue to a depth of at least 80 metres in old workings.

The widths of mineralisation indicate the potential for open cut mining.

The mineralisation appears to continue over a strike length of ~3 kilometres. The hydrothermal alteration has been observed to continue over a further ~3 kilometres.

Target Mineralisation

The Company projects a target mineralisation range for the Project of 25 million tonnes at approximately 1.5% copper equivalent to 70 million tonnes at approximately 0.9% copper equivalent, to a depth of 200 metres. This target is based upon 550 samples extracted from outcroppings, underground and surface mine workings, assumed continuity of mineralisation along strike between the samples and assumed continuity of mineralisation to a depth of 200 metres.

(The potential quantity and grade of the target mineralisation of copper equivalent is conceptual in nature. There has been insufficient exploration to define a mineral resource in relation to that target mineralisation of copper equivalent. It is uncertain if further exploration will result in the determination of a mineral resource in relation to that target mineralisation of copper equivalent)

Joint Venture Terms

Under the terms of a term sheet (the **Term Sheet**) entered into between Alara and Chilean vendors, Inversiones EM DOS Limitada and Mr Miguel Nenadovich del Río (the **Vendors**):

- (1) Alara has 60 days to complete its due diligence analysis of the Project;
- (2) The Vendors will establish a new joint venture entity (**JVCo**) in Chile to hold the concessions;
- (3) Upon completion of due diligence to the satisfaction of Alara and the execution of a more definitive joint venture agreement (**JV Agreement**) between the parties, Alara will pay the Vendors US\$500,000 and JVCO will permit Alara to register a lien over the concessions;
- (4) Alara will be granted an option to acquire 70% of JVCO in consideration of the following payments to the Vendors over a 3 year term (**Earn-In Period**):
 - (a) US\$1,000,000 due and payable on or before the first anniversary of the JV Agreement;
 - (b) US\$3,000,000 due and payable on or before the second anniversary of the JV Agreement;
 - (c) US\$5,500,000 due and payable on or before the third anniversary of the JV Agreement;
 - (d) A 'Resource Bonus' due and payable on or before the earlier of commencement of production or the third anniversary of the JV Agreement;
- (5) The 'Resource Bonus' is calculated at the rate of US\$0.0255 per pound of contained fine copper equivalent grading at or above 0.7% Cu defined as being economically mineable (within a JORC Proven and/or Probable Reserve and Measured and/or Indicated Resource) within the Project area during the Earn-In Period, in excess of a threshold 250,000 tonnes of contained fine copper equivalent grading at or above 0.7% Cu (**Threshold Resource**).

- (6) During the Earn-In Period, Alara will manage and fund all exploration, evaluation and development costs in relation to the Project, including a minimum 20,000 metre drilling programme to be completed over the first two years of the Earn-In Period (with a minimum of 10,000 metres to be completed during the first year);
- (7) After the completion of the above Vendor payments (US\$10 million plus the 'Resource Bonus') and the completion of a 20,000 metre drilling programme (the **Earn-In**), Alara will secure a 70% shareholding interest in JVCo;
- (8) After the completion of the Earn-In, Alara will continue to manage and fund all exploration, evaluation and development costs up to completion of a Definitive (Bankable) Feasibility Study (**DFS**) in respect of each copper prospect within the Project area;
- (9) Thereafter, the parties will contribute to all cash calls in proportion to their respective participating interests in JVCo or be diluted in accordance with an industry standard dilution formula;
- (10) Alara further commits to advancing loan funds of up to US\$10 million to the Vendors (on commercial terms) to fund the Vendors' share of cash calls into JVCo (after the completion of a DFS) – this loan will be repaid to Alara out of the Vendors' share of profits from JVCo;
- (11) After the Earn-In Period, a further 'Resource Bonus' is payable to the Vendors (calculated in the same manner as described above) in respect of additional contained fine copper defined within the Project area (or processed by JVCo at average grades below 0.7% Cu equivalent) in excess of the Threshold Resource; and
- (12) After the Earn-In, Alara shall have Board and operational control of JVCo.

Next Steps

- Alara will advance its due diligence investigation into the Project;
- The Vendors will establish JVCo and transfer the Project concessions into JVCo;
- The parties will advance towards the execution of a more definitive JV Agreement; and
- Alara will then develop its initial exploration programme over priority targets within the Project area as a precursor to the commencement of a staged 20,000 meter drilling programme.

Further information:

Shanker Madan
Managing Director
T | (08) 9214 9787
E | smadan@alararesources.com.au

Victor Ho
Company Secretary
T | (08) 9214 9787
E | vho@alararesources.com.au

The information in this announcement that relates to Exploration Results, Mineral Resources or Ore Reserves has been compiled by Mr Hem Shanker Madan who is a Member of The Australian Institute of Mining and Metallurgy. Mr Madan is the Managing Director of Alara Resources Limited. Mr Madan has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves (the JORC Code)." Mr Madan consents to the inclusion in this announcement of the matters based on his information in the form and context in which it appears.