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Monday, 25 October 2010

MARKET ANNOUNCEMENT

Execution of Joint Venture Agreement – Khnaiguiyah Zinc Copper Project in Saudi Arabia

Alara Resources Limited is pleased to confirm that it has executed a Shareholders' Agreement with its local joint venture partner, United Arabian Mining Company (**Manajem** or **Vendor**), relating to the advanced Khnaiguiyah Zinc-Copper Project (the **Khnaiguiyah Project**), the adjacent Mutiyah Zinc-Copper Project, Umm Hijja Copper-Zinc Project and other prospective mineral concessions (together the **Project**) located in the Kingdom of Saudi Arabia.

The execution of the Shareholders Agreement is an important step in the advancement of the Project, as it sets forth the definitive basis of the relationship of the parties moving forward. As this important milestone has been reached, Alara will now work with Manajem to advance the Project as quickly as possible with the objective of completing a Bankable Feasibility Study (**BFS**) on the Khnaiguiyah Project within the next 12 months.

Background

On 5 October 2010 the Company announced it had entered into a binding Heads of Agreement (**HoA**) with Manajem to acquire a 50% interest in the Project.

The HoA outlined broadly the key terms upon which the parties agreed to jointly undertake and fund the Project. The parties agreed that the HoA would be superseded by a more detailed Shareholders Agreement.

Since the execution of the HoA, negotiations with Manajem have quickly progressed to the stage that both parties have now agreed upon the detailed terms of the Shareholders' Agreement, which was accordingly executed in Riyadh on 21 October 2010. The key terms of the Shareholders' Agreement are outlined below.

Shareholders' Agreement – Key Terms

- (1) In addition to US\$266,000 paid to the Vendor upon execution of the HoA, Alara will pay the Vendor a further US\$7,234,000 upon the achievement of certain milestones:
 - (a) US\$1,250,000 - upon the formation of a new joint venture company (**JVCo**), which will hold the Project and in which Alara and Manajem shall each hold a 50% shareholding interest;
 - (b) US\$1,750,000 – upon the later of 15 November 2010 or the Vendor receiving the grant of a Mining Licence in respect of the Khnaiguiyah Project and such licence being transferred to JVCo; and

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- (c) US\$4,234,000 – upon the later of 17 January 2011 or JVCo receiving the grant of an Environmental Permit for the commencement of mining under the Khnaiguiyah Mining Licence with such consideration to be satisfied as follows:
- (i) US\$2,010,000 to be satisfied by the issue of 6,700,000 shares in Alara, at an issue price of US\$0.30 per share (equivalent to A\$0.305 per share based on the current A\$1.00/US\$0.983 exchange rate); and
 - (ii) US\$2,224,000 to be satisfied by the payment of cash.
- (2) A 'Resource Bonus' is payable to the Vendor calculated at the rate of US0.5 cent per pound of contained zinc equivalent (within a JORC Indicated Resource at a minimum average grade of 7% zinc) discovered within the Project, in excess of a threshold Indicated Resource of 11 million tons (at the same minimum average 7% zinc grade).
- (3) Alara will fund (as loan capital to JVCo) all exploration, evaluation and development costs in relation to the Project up to completion of a bankable feasibility study (**BFS**).
- (4) Upon Alara having made a "decision to mine" following completion of a BFS, JVCo will seek project financing to fund development of the Project.
- (5) The difference between the amount of project financing raised and the capital costs of the Project shall be met by the parties as follows; Alara shall firstly provide funding (which at Alara's election can be applied as debt and/or equity) to make up the shortfall, up to a maximum of US\$15 million plus 25% of the Project capital costs. That is, if the Project is financed as to 50% debt from external financiers with a 50% shortfall to be met by JVCo shareholders, Alara will contribute its half share of the shortfall and will also fund a maximum of US\$15 million of the Vendor's contribution towards the shortfall.
- (6) Thereafter, each Shareholder shall (pro-rata to their respective shareholding interests) provide additional capital contributions in return for new shares issued in JVCo.
- (7) The new shares issued shall be issued at a price equal to the sum of the capital cost of the Project as defined in the BFS, plus cumulative capital contributions made by the shareholders, divided by the number of shares on issue in the JVCo at that time.
- (8) Where a shareholder declines to subscribe for its shares, the other shareholder may elect to subscribe for these shares in its place at the same issue price.
- (9) Any loan funds advanced by Alara to JVCo, together with an existing (deemed) loan of US\$3 million from the Vendor, shall be repayable from JVCo's net profits. The Alara loan accrues interest at LIBOR plus 2% per annum.
- (10) 30% of net profits shall be applied towards repayment of shareholder loans each year prior to the distribution of dividends.
- (11) JVCo will be managed by a Board of Directors with 2 nominees from each of Alara and the Vendor and a local independent Director nominated by agreement of the parties. The Managing Director shall be nominated by Alara. Alara's Managing Director, Shanker Madan, will be appointed Chairman of JVCo for the first 12 months.

Next Steps

With the Shareholders' Agreement now executed, Alara's focus over the coming months will be to work closely with Manajem to progress the following matters as quickly as possible:

- the formation of the new joint venture company (**JVCo**) in Saudi Arabia, in which Alara and Manajem will each hold an initial 50% shareholding interest;
- the grant of a Mining Licence in respect of the Khnaiguiyah Project and subsequent transfer to JVCo;
- the grant of an Environmental Permit for the commencement of mining under the Khnaiguiyah Mining Licence;
- validation drilling in order to convert the historical estimates to a JORC compliant resource and or reserve classification; and
- the appointment of firms to undertake the BFS for the Khnaiguiyah Project.

About The Khnaiguiyah Project

The Khnaiguiyah Project is an advanced near production project having a non-JORC compliant resource estimate¹ assessed by BRGM², the French Office of Geological and Mining Research, prepared for the Saudi Arabian Directorate General of Mineral Resources, in 1993 as reported in Alara's ASX market announcement dated 5 October 2010 and entitled "Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia".

The BRGM estimate is based on significant drilling, exploration and evaluation work conducted between 1972-85 and 1991-92 on behalf of the Saudi Arabian Government, in accord with internationally accepted standards at the time.

Alara believes that this Project offers the potential to move the Company to the status of a significant producer within a relatively short time.

Khnaiguiyah Project - Summary

- BRGM non-JORC compliant resource estimate as reported in Alara's ASX market announcement dated 5 October 2010 and entitled "Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia".
- Historical drilling within the Khnaiguiyah Project (in 1972-85, 1991-92 and 1997-98) totals in excess of 45,000 metres across 345 core and percussion holes.
- Prefeasibility Study (**PFS**) completed by BRGM for the Directorate General of Mineral Resources, Saudi Arabia, in 1993³.
- A Feasibility Study (**FS**) undertaken by Manajem between 2006 – 2009 targets a production profile of 55,000 tonnes of zinc per annum and 10 year mine life, using open pit mining.
- Alara plans to validate and refine the existing studies into a Bankable Feasibility Study (**BFS**) within 12 months.

¹ Source: *BRGM Geoscientists, 1993, Khnaiguiyah zinc-copper deposit – prefeasibility study – 1,2, and 3: Saudi Arabian Directorate General of Mineral Resources Technical BRGM-TR-13-4, 651p., 209 figs., 171 tables, 78 appendixes, 23 photoplates*

² Bureau de Recherches Géologiques et Minières ("Office of Geological and Mining Research")

³ The BRGM PFS describes geology and exploration work and results from a programme of works undertaken between 1990 and 1993 as well as technical and economic prefeasibility studies. It also integrates the results of previous work on the Khnaiguiyah zinc-copper deposit between 1972 and 1985.

- The Project offers considerable potential for additional zinc and copper mineralisation, based on old mine workings (yet to be drilled), core samples (yet to be analysed) from the recent (2009/2010) drilling along strike, cross sections depicting continuation of mineralisation at depth at Khnaiguiyah and extensive outcropping copper oxide mantle at Umm Hijja.
- Saudi Arabia has very attractive attributes for investment, low cost energy and excellent infrastructure.
- Alara is negotiating to gain further access to a significant exploration portfolio throughout Saudi Arabia through its partner, Manajem.

FURTHER INFORMATION:

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Notes:

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.