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MARKET ANNOUNCEMENT

Operations Update - Khnaiguiyah Project

HIGHLIGHTS

- High-grade mineralisation intersected in Khnaiguiyah metallurgical drill holes, including:

K2DD11-001: 27.43m @ 12.88% Zn and 0.47% Cu from 52.60m to 80.03m

K2DD11-004: 23.07m @ 10.14% Zn and 0.41% Cu from 17.91m to 40.98m (includes 8.12m @ 17.93% Zn from 20.66m to 28.78m)

K2DD11 -005 (above 0.55% Cu cut off): 12.12m @ 2.04% Cu from 63.54m to 75.66m.

- Drill results confirm high-grade zinc mineralisation in historical drilling¹ and unexpected copper mineralisation
- 3 drill rigs increasing to 6 drill rigs at Khnaiguiyah completing resource validation and extension drilling
- Management team with extensive international project delivery experience engaged
- Metallurgical drilling complete and test work commenced
- DFS team operating to plan

Alara Resources Limited (ASX: AUQ) is pleased to provide an update on the Definitive Feasibility Study (DFS) currently underway at its Khnaiguiyah Zinc-Copper Project located in the highly prospective Arabian Shield in Saudi Arabia. The Project is a 50:50 joint venture with a Saudi Arabian mining company, United Arabian Manajem.

The Project is located 200 km west of Riyadh and is the second most advanced base metals project in Saudi Arabia after the Jabal Sayid Copper-Gold Project, held by Equinox Minerals Limited (TSX and ASX: EQN), which is currently the subject of a takeover bid from Barrick Gold Corporation (TSX and NYSE: ABX).

Previous drilling at Khnaiguiyah by BRGM² and Ma'aden has outlined a substantial Zn-Cu mineralisation in two zones, Zone 2 and Zone 3 and significant additional mineralisation in Zone 1 and Zone 4 (refer Figure 1).

¹ Refer to Alara market announcement dated 5 October 2010 and entitled "[Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia](#)"



Khnaiguiyah Drill Results

Results have been received for five metallurgical holes drilled on Zone 2 to duplicate earlier holes drilled by BRGM and Ma'aden. All holes intersected mineralisation with some exceptionally high copper and zinc grades. Intersections with a cut-off grade of 1% zinc are summarised below:

- **K2DD11-001: 27.43m @ 12.88% Zn and 0.47% Cu from 52.60m to 80.03m (above 1% Zn).**
- **K2DD11-002: 14.10m @ 2.70% Zn from 26.90m to 41.00m followed by 4.33m @ 2.07% Cu from 46.52m to 50.85m**
- **K2DD11-003: 5.60m @3.86% Zn from 32.28 to 37.88m**
- **K2DD11-004: 23.07m @ 10.14% Zn and 0.41% Cu from 17.91m to 40.98m (includes 8.12m @ 17.93% Zn from 20.66m to 28.78m)**
- **K2DD11 -005 (above 0.55% Cu cut off): 12.12m @ 2.04% Cu from 63.54m to 75.66m (includes two separate intervals of 5.60% Cu and 5.44% Cu above 0.85m each).**

Samples were analysed at the Ammttec laboratory in Perth where metallurgical test work is underway. Drill-hole locations are shown in Figure 1.

In addition to the expected zinc mineralisation, drilling has shown unexpected continuous lengths of up to 12m of high grade copper mineralisation, at relatively shallow depths.

On 26 May 2011³, Alara announced high-grade results from three holes drilled in the southern part of Zone 3, including a step-out resource-extension drill hole (K3DD11_006 and K3DD11-007):

K3DD11_006

- **48m at 5.84% Zn from 44m including a zone of 4m at 26% Zn from 85m**
- **10m at 12.99% Zn from 83m, includes highest recorded assay of 1m at 43.6% Zn from 87m**

K3DD11_007

- **5m at 6.58% Zn from 37m including a zone of 4m at 7.56% Zn**
- **10m at 0.6% Cu from 41m including a zone of 3m at 1.01**

The location of these drill holes is also outlined in Figure 1.

The results of drilling to date have been highly encouraging, providing confirmation of historical mineralisation and pointing to the potential for more extensive higher-grade copper mineralisation than previously recorded.

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

³ Refer Alara market announcement dated 26 May 2011 and entitled "[Drilling Update - Khnaiguiyah Zinc Copper Project, Saudi Arabia](#)"

Mapping around Zone 1 has also shown significant new occurrences of near surface copper mineralisation. These and the previously reported extension of mineralisation from mapping at Zone 2 and high grade intersections extending Zone 3 suggest high potential to extend the known mineralisation at Khnaiguiyah.

Khnaiguiyah Drilling Programme

The drilling programme at Khnaiguiyah commenced at the end of February and to date 21 drill holes have been completed. The programme includes:

- Metallurgical drilling on Zone 2 and 3;
- Resource validation drilling, including twins of historical drill holes;
- Geotechnical drilling; and
- Resource extension and exploration drilling.

To date, assay results have been received for 7 holes in Zones 2 and 3 with the balance of the results pending.

The Company has overcome considerable logistical difficulties in sourcing drilling rigs and supplies from Saudi Arabia and Turkey. Currently, 3 diamond drill rigs are operating at Khnaiguiyah. A fourth rig is awaiting customs clearance and contracts for 2 reverse circulation percussion (**RC**) rigs have been awarded for commencement this month. This will increase the total to 6 rigs, including the 2 RC rigs.

The RC rigs will be dedicated to resource extension and exploration. The diamond rigs currently drilling in the historical mineralisation at Zone 2 and Zone 3 will move to resource extension and exploration drilling once the current programme of metallurgical, resource validation and geotechnical drilling is complete, estimated to be mid-July.

All drill samples are routinely tested with hand held XRF analyser and cut on-site prior to despatch for sample preparation and analysis by ALS Group in Jeddah and Europe with a 10 to 15 day turnaround for analyses.

Definitive Feasibility Study Progress

Eight out of a total planned ten large diameter core holes for metallurgical samples for process test work have been completed.

Samples from 5 Met holes in the shallower Zone 2 weighing more than 2.5 tonnes were air-freighted to Australia for test work at AMMTEC laboratory in Perth, Western Australia. These Met holes comprise drill hole numbers K2DD11-001 to K2DD11-005.

Flotation and Comminution Metallurgical Testing is scheduled to start this week, on a Zone 2 “sighter, typical” global composite for Zone 2 grading 0.79% Cu, 6.13% Zn, 22.28% Fe and 7.37% S, in agreement with the various technical consultants engaged in the DFS.

Preliminary block models as well as pit optimisations have been completed on both Zone 2 and 3 based on historical data. These results have been used to plan metallurgical, resource validation and geotechnical drilling.

On site, hydrological, environmental and social impact studies have also commenced.

A 30 man camp with office, messing and recreational facilities is scheduled to be completed by early July.

Definitive Feasibility Study – Engineering Team

The Company is pleased to report that all key members of the engineering team required for the DFS have now been selected and engaged.

This team comprises the following firms:

- Ausenco Limited (ASX : AAX), a well-known worldwide minerals consulting and engineering design and construction group, have been appointed as the “Lead Engineers” to lead the DFS. Ausenco commenced setting out the scope of work for the team of consultant groups assisting with the study approximately 2 months ago. A team of engineers from Ausenco are presently visiting the project site;
- CSA Global, a global mining industry consultancy, have been appointed with responsibility for data management, geology modeling, resource estimation, geotechnical, mining studies and pit optimisation;
- SMEC, an Australian Professional Consulting Engineering Group, specialising with over 4000 employees worldwide have been engaged to conduct Environmental and Social Studies in conjunction with several Saudi Arabian consulting groups and university academics, assisting on water resources, legal framework, fauna, flora, air, noise, soil, social and archaeological surveys; and
- Mike Efthymiou, with extensive experience on the Jabal Sayid Copper-Gold Project in Saudi Arabia, also with zinc and copper producer, Jabiru Metals in Australia and previously Group Metallurgist, Western Mining Corporation is managing the design and supervision of the metallurgical test work at AMMTEC laboratories in Perth, Western Australia.

Management Team

- The DFS is being supervised by Eduardo Valenzuela, General Manager – Projects on behalf of Alara Resources and the Joint Venture Company, Khnaiguiyah Mining Company (**KMC**). Eduardo is a mining engineer holding a Master of Business Administration degree and over 30 years’ experience in mine operations, project management and project financing covering most key mineral commodities including copper, nickel and gold. His management experience includes senior roles such as mining manager at the Murrin Murrin Nickel operations in WA, technical director with Sundance Resources, senior project manager with SKM, industry specialist with the International Finance Corporation in Washington DC, project manager and strategic planning manager at Escondida in Chile, manager Latin America with BHP Engineering in Chile, and manager mining services with BHP in Western Australia.
- Mohammed Fazle Haq with a M.Sc. in geology and a postgraduate degree in Environmental Geology from Cardiff in the UK and 25 years’ experience in Saudi Arabia joins as Project Manager in Riyadh. He brings considerable personal experience of the Khnaiguiyah deposit having led the Manajem Feasibility Study on the Project from 2006 to 2009.

- Sohan Singh Rathore, a mining engineer and ex-Vedanta General Manager of Operations at Hindustan Zinc, India and Australian Country Manager and Head of Copper Mines of Australia, and the Thalanga Copper Mine in Queensland, Australia, has accepted the role of Technical Advisor based in Riyadh from July 15.
- Mel Campbell, previously with Robe River and Group Finance Manager with Troy Resources with extensive project delivery experience in Australia, West Africa, Brazil, Argentina and Chile, joins the Management Team of Alara as Chief Financial Officer (CFO).
- Ganesh Krishnamurthy with several years' previous experience in Oman and with Rio Tinto in Australia has been promoted to the role of General Manager Exploration based in the Middle East with accountability for Alara's projects in Saudi Arabia and Oman.
- Bader Al Murshed, a Saudi Arabian national with considerable experience in Permitting and Government Relations has assumed the role of Manager - Government Relations.

For Further Information:

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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.

Figure 1 – Drill Hole Locations at Mineralised Zones 2 and 3 at Khnaiguiyah Zinc-Copper Project, Saudi Arabia

