

ASX/MEDIA RELEASE

Friday, 14 March 2014

Alara moving to 60% Interest in the Khnaiguiyah Project

Highlights

- ❖ Alara and its JV partners have arrived at an HoA that will move the Alara equity in the Khnaiguiyah Project from 50% to 60%
- ❖ In turn, Alara's JV partner Manajem, will receive 60M shares in Alara
- ❖ Manajem with support from Alara will arrange transfer of the Mining Licences to KMC
- ❖ All historic and legacy KMC/JV matters have been settled and incorporated into the HoA
- ❖ Given the detail of the recent discussions and resultant HoA, the subsequent amendments to the current SHA and Articles of Association are expected to be completed in short order
- ❖ Following the completion of the Amended SHA and Articles of Association, Alara will progress the Project into the next Project phases namely: project finance; EPC award and Owner's Team establishment

Perth: Alara Resources Limited (ASX : AUQ) (**Alara** or **Company**), in conjunction with its Khnaiguiyah Zinc-Copper Project Joint Venture (**JV**) partner, United Arabian Mining Company LLC (**Manajem**), is pleased to inform the market that the JV partners have reached agreement on the key terms of an updated JV agreement on the Khnaiguiyah Zinc-Copper Project (**Project**). The Heads of Agreement (**HoA**) will be finalised as an amendment to the current Shareholder's Agreement (**SHA**) and will then be taken to the Alara shareholders for ratification.

Background

In October 2010¹, Alara and Manajem entered into a 50/50 equity JV to develop the mineral resource and in turn complete a definitive feasibility study (**DFS**) on the Khnaiguiyah Zinc-Copper deposit located southwest of Riyadh, the capital of the Kingdom of Saudi Arabia. This work concluded in April 2013 with the announcement of a successful and robust Project based on a completed DFS.²

Although the 50/50 equity arrangement between the parties was suitable for the resource development and DFS work it was recognised by the JV partners that this equity arrangement would be problematic relative to the Project's next stages of development.

The discussion between the parties in the last half of 2013 and early this year resulted in the HoA described below. The original intent of the JV and the associated SHA is for Alara to lead the Project forward ultimately into production. The current HoA (and subsequent Amended SHA) will provide the necessary Project control for the Company to fulfil this responsibility.

Scope of the Heads of Agreement

The negotiations surrounding the current agreement commenced in July/August last year and progressed continually to this current status. The HoA provides for Alara to increase its shareholding in KMC to 60% and for Manajem to acquire shares in Alara (see Annexure A for details). The HoA also includes agreement to restructure the KMC board and settle all historic claims.

¹ Refer Alara market announcements dated 5 October 2010 and entitled "[Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia](#)" and dated 25 October 2010 and entitled "[Execution of Joint Venture Agreement - Khnaiguiyah Zinc Copper Project in Saudi Arabia](#)"

² Refer Alara's ASX market announcement dated 30 April 2013: [Positive DFS Confirms Khnaiguiyah Project as Technically and Financially Robust](#)

Given the extended and detailed discussions and subsequent documentation accompanying the HoA itself, it is expected that the drafting and conclusion of the final amendments to the current JV SHA and Articles of Association will not be protracted.

Shareholders' Agreement Amendment Next Steps

The terms and conditions of the HoA will be used to amend the current SHA and update the Khnaiguiyah Mining Company LLC (**KMC**) Articles of Association in readiness for final approval from the Alara shareholders and official lodgement with the appropriate government authorities in the Kingdom of Saudi Arabia.

As noted above, given the comprehensive nature of the discussions/negotiations and the subsequent detail in the HoA itself, the process of concluding the final Amended SHA is not anticipated to be a protracted one. Both parties are committed to and have documented their mutual desire for a rapid conclusion of the legal formalities associated with the SHA amendment in the HoA Road Map.

Khnaiguiyah Project Next Steps

On completion and lodgement of the Amended SHA and updated KMC Articles of Association, the following noted key Project steps will be undertaken. These matters will be progressed in parallel with some items lagging due to the natural Project needs and timing.

- (1) Preliminary Project construction:
 - (a) Security and site access works;
 - (b) Fence line and property delineation work; and
 - (c) Camp preparedness for early site construction activity;
- (2) Project finance:
 - (a) Saudi Industrial Development Fund (**SIDF**) loan application; and
 - (b) Secure finance for the non-SIDF 'gap' component;
- (3) Concentrate off-take agreement as required within SIDF funding guidelines;
- (4) Completion of the DFS upside review and validation;
- (5) Final Project EPC tender and bid process; and
- (6) Recruitment and establishment of the Project's Owner's Team.

Acknowledgements



Nasser Ali Al Agel
CEO & Board Member
United Arabian Mining Company LLC (Manajem)

"On behalf of the Manajem Executive Team, I would like to state how pleased I am that the parties have come to this aligned and progressive Heads of Agreement. This agreement clears the way for an expedient update to the Joint Venture Shareholder's Agreement and will thus allow the parties to advance the Khnaiguiyah Zinc-Copper Project. This will ensure that all of the shareholders involved benefit as we move forward. I would also like to take this opportunity to acknowledge the ongoing and seemingly tireless efforts from all those involved in achieving this key Project and JV milestone. I look forward to the years ahead for the JV and its operations."



Philip H Hopkins
CEO/Managing Director
Alara Resources Limited

"This agreement (HoA) between the parties is a key and critical milestone for both the JV relationship and the Khnaiguiyah Zinc-Copper Project. Once the HoA has transitioned into the final Amended Shareholders' Agreement and is approved by Alara shareholders, the Company will work closely with the Manajem Executive Team to take this Project into the next stages of finance, development and ultimately production. It is exciting to have such a robust zinc-copper project with so much upside associated with it within what might be the best fiscal and technical regime in the world and as the zinc metal price cycle is forecasted to reach new high levels. I, the Board and the entire Company feel this Project will add very significant value to all of the Company's shareholders."

– ENDS –

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About Alara Resources

Alara Resources Limited (ASX: AUQ) is an Australian-based minerals exploration and mine development company with a portfolio of projects in Saudi Arabia and Oman. Alara has recently completed a Definitive Feasibility Study (DFS) on its flagship Khnaiguiyah Zinc-Copper Project in Saudi Arabia and a Scoping Study (SS) on its Daris/Washihi Copper-Gold Projects in Oman. The Company is now transitioning towards establishing itself as an emerging base and precious metals mine development and production company.

For more information, please visit: www.alararesources.com.

ANNEXURE A**SUMMARY OF CHANGES TO KHNAIGUIYAH JOINT VENTURE****Heads of Agreement**

Alara and Manajem have entered into an HoA (on 11 March 2014) outlining the agreed commercial and fundamental terms governing an Amended SHA and new KMC/JV arrangements (as described above).

The parties will now proceed to the formalities associated with the KMC share transfer and other aspects of the HOA, as follows:

- finalisation of all relevant agreements to give effect to the HoA including amendments to the existing SHA, Loan Agreement and the execution of other required ancillary agreements such as a management agreement (where applicable);
- the transfer of KMC shares to Alara to give Alara 60% equity in KMC;
- amendments to KMC's Articles of Association to reflect, amongst other matters, the new shareholding and Board structure; and
- Amendments to KMC's Commercial Registration Certificate to reflect, amongst other matters, the new shareholding and management structure.

(together, the **Formal Matters**).

Summary of Key Points

- Alara will secure an additional 10% of the joint venture entity, KMC, thus increasing its equity to 60% (from 50%) and have control of KMC and the Project;
- Alara will issue 60 million shares to its JV partner, Manajem, subject to Alara shareholder approval;
- Alara will pay US\$6,664,120 in tranches conditional on attainment of defined milestones with:
 - US\$601,000 payable to employees of KMC in respect of accrued/historical entitlements and to Manajem for the secondment of their employees to KMC:
 - upon execution of an Amended SHA; and
 - subject to the transfer of the Khnaiguiyah Mining licence to KMC being completed;
 - US\$3,500,000 payable to Manajem within 2 months after the completion of the Formal Matters (referred to above) for payment of prior Project items (Project Camp, Manajem fees etc);
 - US\$150,000 payable to Mr Hatlani (Manajem Executive member) in respect of the balance of consideration for the purchase of land to secure water rights for the Khnaiguiyah Project (paid on receipt of the land deed); and
 - US\$2,413,120 payable to Manajem upon KMC securing project financing for the Project for final historic legacy item payment.

(The above amounts will be added to Alara's loans to KMC - repayable from KMC net profits);

- Alara will issue 6.7 million shares and pay US\$1,675,499 to Manajem as the balance of consideration under the terms of the original SHA;
- US\$3,582,848 (being the difference between the invested capital by each of the parties) will be added to the KMC loan and repaid to Alara in accordance with the Loan Agreement in the current SHA;
- The parties agree to settle and/or waive all historical claims in relation to the KMC JV and or the Project; and
- The new KMC Board will comprise 7 Directors, with Alara and Manajem having 3 nominees each and HRH Prince Abdullah bin Mosaad bin Abdulaziz Al Saud (also an Alara Non-Executive Director) being appointed as the inaugural Chairman. The KMC Board will appoint both the Board Chairman and CEO.

Transfer of Khnaiguiyah Mining Licence

Manajem has agreed to provide a formal request to the Deputy Minister of Mineral Resources (**DMMR**) to proceed with the transfer of the Khnaiguiyah Mining Licence and Exploration Licences to KMC on a priority basis. This is also in accordance with the original SHA.

Alara will fund KMC (in accordance with the Amended SHA and Loan Agreement) to commence the early site works required by the DMMR including but not limited to the extension of property fencing, signage and Project gate upgrades.

Existing Shareholders' Agreement

Except for changes made in accordance with the Amended SHA, the terms of the original SHA remain on foot.³ This position will further assist with the timely completion of the Amended SHA and Articles of Association.

Alara Shareholder Approval

The issue of 60 million shares to Manajem under the Amended SHA will require shareholder approval under the Corporations Act and ASX Listing Rules.

The Company will also seek shareholder approval for the issue of 6.7 million shares to Manajem under the terms of the original SHA.

A general meeting will be convened after an Amended SHA has been executed and the balance of the Formal Matters completed.

³ Refer Alara market announcements dated 25 October 2010 and entitled "[Execution of Joint Venture Agreement - Khnaiguiyah Zinc Copper Project in Saudi Arabia](#)"