

ASX/MEDIA RELEASE

Wednesday, 4 June 2014

KHNAIGUIYAH PROJECT JOINT VENTURE AGREEMENT HAS REACHED AN IMPASSE

- ❖ Implementation of the terms of a Heads of Agreement ('HoA') amending the Khnaiguiyah Zinc-Copper Project Joint Venture ('JV') arrangement has reached an impasse due to the lack of compliance with the HoA by Joint Venture partner, United Arabian Mining Company LLC ('Manajem')
- ❖ HRH Prince Abdullah bin Mosaad bin Abdulaziz Al Saud, acting in his agreed role of escrow agent and HoA mediator/facilitator, has indicated to Manajem that it is required to comply with the next step on the HoA 'Road Map', namely providing a letter to the Saudi Arabian Deputy Ministry for Mineral Resources ('DMMR') requesting the transfer of the Khnaiguiyah Mining Licence ('ML') to the JV company, Khnaiguiyah Mining Company LLC ('KMC').
- ❖ External legal counsel has confirmed HRH Prince Abdullah's assessment of the situation that Manajem has failed to perform its obligation of providing the letter to the DMMR requesting transfer of the mining lease to the joint venture company, Khnaiguiyah Mining Company LLC.
- ❖ Manajem has failed to advance the transfer of the ML and has issued further demands that are outside the terms of the HoA and therefore unacceptable to Alara.
- ❖ Options to deal with this impasse are being defined and will be communicated in due course.

Perth: Alara Resources Limited (ASX: AUQ) ('Alara' or 'Company') wishes to provide an update on the progress of its Khnaiguiyah Zinc-Copper Project in Saudi Arabia ('Project').

KHNAIGUIYAH JOINT VENTURE HEADS OF AGREEMENT UPDATE

The implementation of the previously announced HoA, associated implementation 'Road Map' and executed formal agreements ('Agreement')¹ & ² has reached an impasse as Alara's JV partner, Manajem, is refusing to comply with step two of the Road Map which requires Manajem to provide a signed and duly authorised letter to the DMMR requesting the transfer of the ML (and associated exploration licence applications) from Manajem to KMC.

To date, Manajem has refused to provide the ML transfer request to the DMMR pursuant to their obligation under the Agreement and furthermore, has issued additional demands. The new demands are unreasonable and outside the Agreement and as such are unacceptable to Alara.

¹ Refer Alara's ASX market announcement dated 14 March 2014 and entitled "[Alara Moving to 60% Interest in the Khnaiguiyah Project](#)"

² Refer Alara's ASX market announcement dated 4 April 2014 entitled "[Completion of Agreement for Updated Khnaiguiyah Project Joint Venture](#)".

By way of context, the previously announced Agreement would have seen Alara (via its wholly owned subsidiary Alara Saudi Operations Pty Limited) move from its current 50% equity position in KMC to a 60% shareholding. The Agreement also addressed all outstanding matters between the parties. In turn this Agreement would have allowed Alara/KMC to progress the Project to finance and construction.

HRH Prince Abdullah was selected by both JV partners to act as the Chairman of KMC as well as an escrow agent and mediator/facilitator in the implementation of the Agreement. On 1 June 2014, HRH Prince Abdullah (through his Principal Advisor, Mr James Phipps) facilitated a meeting between the JV partners to outline the current requirements of each party under the Agreement. It was made clear at this meeting that Manajem is required now to prepare a letter to the DMMR requesting that the ML be transferred to KMC. To date, Manajem has refused to fulfil this obligation.

This matter was also referred to local legal counsel (Feras Al Shawaf Law Firm) and the requirement of this next step for procuring the transfer of the ML under the Agreement was confirmed.

NEW JV AGREEMENT POSITION

Alara has met or exceeded the current requirements under the Agreement and to date has:

- ❖ Provided a copy of the Khnaiguiyah Definitive Feasibility Study ('DFS') to HRH Prince Abdullah's Office as the escrow agent for inspection by Manajem and full release upon the completion of the ML transfer.
- ❖ Provided the first tranche payment obligation under the HoA (US\$601,000) to meet outstanding obligations owed to KMC employees and Manajem staff seconded to KMC. This payment is being held by HRH Prince Abdullah's Office in escrow pending issuance of the ML transfer letter noted above.
- ❖ Agreed with the guidelines outlined by HRH Prince Abdullah in relation to Alara's obligation to provide a 'conditional bank guarantee' of US\$6,063,120 (to cover the payments under the Agreement)^{1 & 2} and has made arrangements to fulfil this requirement when required.
- ❖ Made preparations to convene a shareholder's meeting to seek approval for the issue of 66.7 million Alara shares to Manajem under the terms of the Agreement (60m shares) and original Shareholders' Agreement ('SHA')^{1 & 2} (6.7m shares).

At this stage of the Road Map process Alara was only required to supply a copy of the DFS to HRH Prince Abdullah.

At this time one of the major shareholders within Manajem is aligned with the current requirement for Manajem to provide a letter to the DMMR requesting the ML transfer. Alara has tried to further progress this matter with the other shareholders of Manajem without success.

WAY FORWARD

Various options and avenues to address the current impasse under the Agreement caused by Manajem and or take this matter forward are being considered and will be advised to the market in due course. HRH Prince Abdullah is assisting in this process.

At this time it is not clear how or if the full implementation of the Agreement will be achieved as agreed and announced by the parties. Alara has determined that no further material expenditure will be incurred on the Project at this stage beyond those costs required to resolve this current impasse.

It is clear that this impasse will cause a material delay in progressing the Project on the whole and as such Alara is looking closely at its working capital needs and cost structure. There may be an opportunity to seek a return of the US\$601,000 payment held by HRH Prince Abdullah as escrow agent (noted above) to Alara.

