

## ASX/MEDIA RELEASE

Tuesday, 18 November 2014

## KHNAIGUIYAH PROJECT – UPDATE ON LEGAL MATTERS

**Perth:** Alara Resources Limited (ASX: AUQ) (**Alara** or **Company**) wishes to provide an update on the previously reported<sup>1</sup> legal matter in relation to the Khnaiguiyah Zinc-Copper Project in Saudi Arabia (**Project**).

As previously announced:

- The Khnaiguiyah Project Joint Venture (**JV**) partner, United Arabian Mining Company LLC (**Manajem**) has filed a 'financial claim' against Alara Saudi Operations Pty Limited before the 'Board of Grievance' in Riyadh.
- The Board of Grievance did not provide Alara with a copy of Manajem's claim as Alara's Saudi lawyers were not in a position to present an original legalised Power of Attorney (**PoA**) appointing them to act on the Company's behalf in the matter.
- Alara is prepared to present a series of specific counter-claims against Manajem and or individual Manajem shareholders/directors pursuant to Manajem's obligations under the original JV shareholders' agreement<sup>2</sup> (**SHA**) and in relation to a number of operational matters involving the JV Company, Khnaiguiyah Mining Company (**KMC**).

Alara has now been provided with a copy of Manajem's claim.

Manajem has purportedly claimed alleged breaches by Alara under the SHA (ie. failure to secure the required capital to develop the Project and unspecified failure in the 'project management' of the Project), alleged unspecified violations by Alara of Saudi Arabian law in relation to the Ministries of Finance, Labor and Foreign Affairs and the Saudi Arabian General Investment Authority (**SAGIA**) and what appears to an unspecified allegation of not 'acting in good faith'. None of these allegations have been particularised (ie. in terms of the definition of specific causes of action) or substantiated by evidence.

The relief purported to be sought by Manajem are orders in relation to a termination of all agreements with Alara, the winding up of KMC, the freeing up of Manajem's ability to commence operations on the Khnaiguiyah Mining License (**ML**) in its own right (to avoid a cancellation of the ML by the Deputy Ministry for Mineral Resources (**DMMR**)), the payment by Alara of all monies that are due and payable by KMC to third party creditors and a 'preservation of right' to claim 'indemnification' (ie. compensation presumably) for direct and indirect 'economic damages' from Alara of 600 million SAR (equivalent to US\$160 million or A\$183 million). Manajem has not demonstrated any correlation between the relief sought and specific causes of action that give rise to the relevant remedies. Alara has been advised that consequential or indirect losses are rarely (if ever) awarded in Saudi Arabia.

<sup>1</sup> Refer ASX market announcement dated 13 November 2014 and entitled "[Khnaiguiyah Project Update](#)"

<sup>2</sup> Refer ASX 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](#)"

Manajem has also asserted in a broad reaching statement contained within their claim document that Alara has caused “indirect damages” of US\$15 billion to Manajem from “direct damages to Saudi mining law and the national economy”. Again, this claim has not been defined or substantiated in any way.

Manajem’s claims are largely unspecified and unsubstantiated. The alleged breaches of the SHA are unfounded and without merit – for example, Alara does not have an obligation or commitment to sole fund KMC under the SHA. Alara (with the assistance of legal counsel) believes there is little to no reasonable basis in law or fact for Manajem to assert the alleged causes of action and seek the remedies set out in its purported claim. Given the nature and level of claimed damages and the lack of substantiating evidence or documentation Alara feels confident that its defence will be a limited and manageable process that will not become the focus of the Alara Management Team or Alara’s resources.

Alara has formulated counter-claims against Manajem based on the following specific breaches of the SHA by Manajem (including via acting through Manajem company executives):

- Failure to transfer the ML to KMC and hindering or interfering with the business of KMC (for which Alara is seeking the recovery of ~US\$3.7 million paid or advanced to Manajem as vendor consideration);
- Unauthorised disposal of KMC assets (worth 350,000 SAR or ~A\$107,000);
- Unauthorised withdrawal of funds (200,000 SAR or ~ A\$61,000) from KMC’s bank account; and
- Non-payment of a share of rental costs for an office shared with KMC (~300,000 SAR or ~A\$92,000).

Furthermore, as announced on 21 May 2013<sup>3</sup>, Alara has previously formally provided notice to Manajem seeking that it rectify the matter of the transfer of the ML (insofar as it relates to Manajem’s involvement to facilitate the process). Alara has the option, inter alia, to suspend its obligations under the SHA if Manajem failed to address this issue to Alara’s satisfaction within 60 days (which expired on 19 July 2013). Alara announced on 18 July 2013<sup>4</sup> that it had not exercised its discretion to suspend the SHA but reserved its rights to do so if the matter of the transfer of the ML has not been resolved in due course.

In light of Manajem’s actions in filing the claim (as above), Alara confirms that it has given notice to Manajem:

- Suspending Alara’s obligations under the SHA; and
- Reserving Alara’s rights to file claims against Manajem (in addition to the above counter-claims) pursuant to Manajem’s breaches under the SHA and updated JV agreement (whereby Manajem had agreed to Alara increasing its current 50% equity position in KMC to 60%) (**New JV Agreement**).<sup>5 & 6</sup>

Alara reiterates its position that it will defend Manajem’s claim and present its specific counter-claims against Manajem before the Board of Grievance in accordance with due process.

In this regard, Alara notes that the Board of Grievance has listed the matter for a next hearing on 13 January 2015.

Alara will also investigate pursuing fresh/additional claims against Manajem for breaches under the SHA and New JV Agreement.

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<sup>3</sup> Refer ASX market announcement dated 21 May 2014 and entitled “[Khnaiguiyah Project Update Post DFS](#)”

<sup>4</sup> Refer ASX market announcement dated 18 July 2014 entitled “[Khnaiguiyah Project – Joint Venture Update](#)”

<sup>5</sup> Refer ASX market announcement dated 14 March 2014 and entitled “[Alara Moving to 60% Interest in the Khnaiguiyah Project](#)”

<sup>6</sup> Refer ASX market announcement dated 4 April 2014 entitled “[Completion of Agreement for Updated Khnaiguiyah Project Joint Venture](#)”.

