

ASX/MEDIA RELEASE

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KHNAIGUIYAH ZINC-COPPER PROJECT – LEGAL UPDATE

Alara Resources Limited (ASX: AUQ) (**Alara** or **Company**) provides this update on the case brought by United Arabian Mining Company LLC ('Manajem') against an Alara subsidiary before Saudi Arabia's Board of Grievances ("BOG") (the 'Case'). The Case involves disputes between the parties arising from the failed Alara-Manajem joint venture for the Khnaiguiyah Zinc-Copper Project in Saudi Arabia, incorporating a 26Mt JORC Ore Reserve (3.3% Zinc, 0.24% Copper) (the 'Project').

On 3 May 2016, Alara issued an update providing an overview of the Project, including an outline of the rise and fall of the earlier joint venture with Manajem, and insight into new avenues that have opened up for the Company relative to the Project. As indicated in that announcement, the Case continues to work its way through to a conclusion.

At the most recent hearing in the Case the judge asked Alara to provide an evidence brief connecting the dots between each of the documents Alara has submitted in support of its US\$3,266,000 counterclaim against Manajem.

- In 2010 and 2011 Alara made payments of US\$3,266,000 to Manajem, this was over and above the >US\$23,000,000 which Alara later invested on the Project, including the cost of the Definitive Feasibility Study.
- Alara's counterclaim seeks the return of the US\$3,266,000 it paid to Manajem for the transfer of the khnaiguiyah mining licence to the Alara-Manajem joint venture company, i.e. Khnaiguiyah Mining Company ('KMC').
- After Alara paid the US\$3,266,000, Manajem reneged on its commitment to transfer the mining licence to KMC and this default eventually resulted in the undoing of the joint venture, as without the mining licence, KMC was unable to move the Project forward, notwithstanding the existence of a bankable, Definitive Feasibility Study completed by Alara per its commitments under the original 50:50 joint venture agreement with Manajem.
- In response to the judge's direction, counsel for Alara are preparing an additional evidence brief explaining the purpose of the US\$3,266,000 payments (i.e. consideration for transferring the mining licence) which are supported by banking receipts and other documents.

For its part, Manajem submitted a brief: (1) reiterating, but again failing to offer any evidence substantiating allegations of contractual breaches on Alara's part; and (2) requesting that BOG order the cancellation of the KMC Shareholders' Agreement and commercial/company registration.

Manajem may be seeking these cancellations to prevent Alara from claiming repayment of loans Alara made to KMC to enable KMC to operate. At this stage, with advice of counsel, Alara has chosen to defer any such claim and to focus the court's attention on Manajem's core breach. Alara achieves this by focusing its

