# ALARA RESOURCES LIMITED

ABN 27 122 892 719

Alara resources

# 2010

## ANNUAL REPORT

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# CORPORATE DIRECTORY

## BOARD

| | |
|---|---|
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| Farooq Khan | Executive Director |
| William M Johnson | Executive Director |

**COMPANY SECRETARY**
Victor P H Ho

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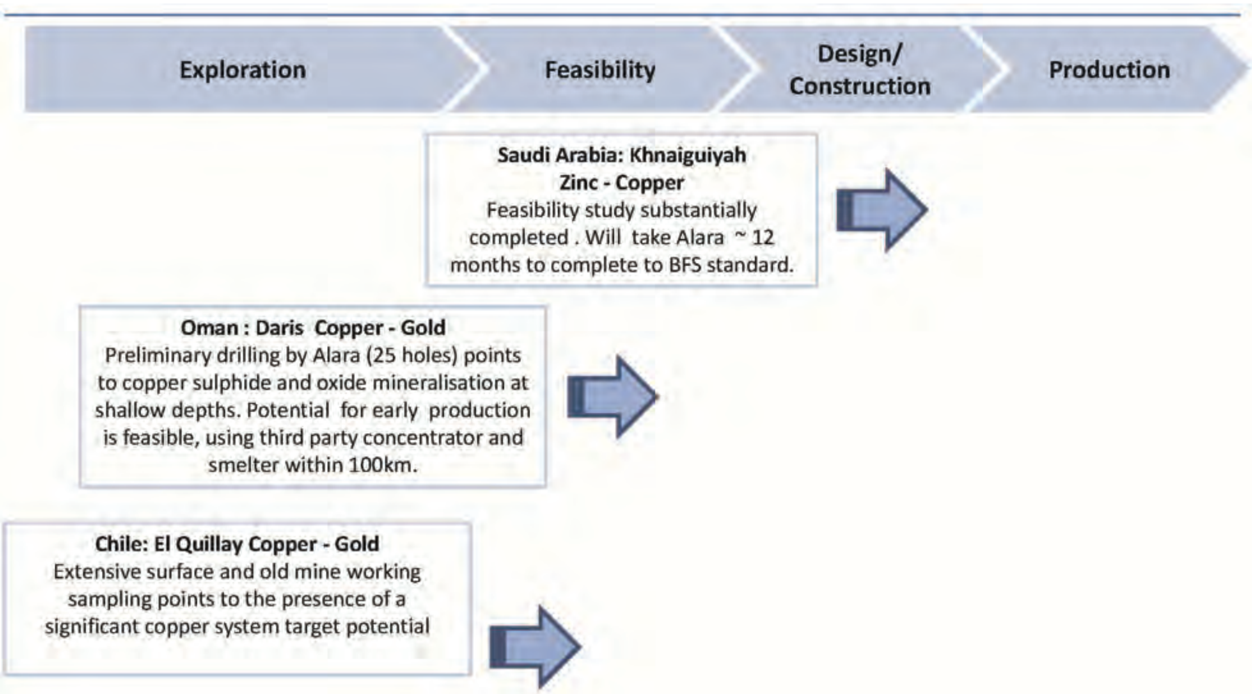
# COMPANY PROFILE

Alara Resources Limited (ASX Code: AUQ) is an Australian-based mineral exploration and development company. Alara has a current portfolio of projects in Saudi Arabia, Oman, Chile, Peru and Australia as follows:

| PROJECTS | | LOCATION |
|---|---|---|
| (1) | Khnaiguiyah Zinc-Copper | Saudi Arabia |
| (2) | Daris Copper | Oman |
| (3) | El Quillay Copper-Gold | Chile |
| (4) | Bigrlyi South Uranium | Northern Territory, Australia |
| (5) | Canning Well Base Metals | Pilbara, Western Australia |
| (6) | Mt James Uranium | Gascoyne, Western Australia |
| (7) | Crucero and Coasa Uranium | Peru |

The Company has recently acquired interests in the advanced development Khnaiguiyah Zinc Copper Project in Saudi Arabia[1] and two other base metals exploration projects - Daris Copper Project in Oman[2] and the El Quillay Copper-Gold Project in Chile[3].

Alara is now moving towards establishing itself as a base metals development company with an exciting pipeline of advanced and early stage projects as illustrated below.




On 27 October 2010, the Company announced it had successfully completed a $10.58 million capital raising to professional, institutional and sophisticated investors through a placement of 46 million shares at $0.23 per share. $2.76 million (12 million shares) was raised within the Company's existing 15% placement capacity and $7.82 million (34 million shares) are subject to shareholder approval at the Annual General Meeting to be held on 30 November 2010. The Company's largest shareholder, Strike Resources Limited, also sold down its entire 12.75 million interest as part of the book build for the placement.

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 market announcements dated 30 August 2010 and entitled "Project Acquisition - Daris Copper Project in Oman", dated 14 September 2010 and entitled "Daris Project Drilling Update" and dated 26 October 2010 and entitled "Further High Grade Copper-Gold Mineralisation - Daris Copper Project in Oman"

3 Refer Alara market announcement dated 25 August 2010 and entitled "Project Acquisition – El Quillay Copper Gold Project in Chile"

# PROJECT LOCATIONS

## SAUDI ARABIA

The Khnaiguiyah Zinc Copper Project is located adjacent to a bitumen road ~170km west of Riyadh, the capital of Saudi Arabia near the major Riyadh to Jeddah highway.

The project comprises 3 Exploration Licences and 5 Exploration Licence applications pending grant totalling ~380km$^2$. . An application for a Mining Licence in respect of the main Khnaiguiyah Exploration Licence is pending grant.

Alara will have a 50% interest in the joint venture company currently being established to hold the mineral licences.


Figure 1


## OMAN

The Daris Copper Project is located ~150km west of Muscat, the capital of Oman and comprises a mineral excavation licence of ~587km$^2$.

Alara will have an initial 50% interest (with a right to increase this to 70%) in the joint venture company currently being established to hold exclusive rights to manage, operate and commercially exploit the licence.

Alara has also formed a separate joint venture company (Alara 70%) in Oman to identify, secure and commercially exploit other resource projects in Oman.

Figure 2

# PROJECT LOCATIONS


## CHILE

The El Quillay Copper-Gold Project in Chile (Alara - right to earn-in 70%) is located south of the town of El Quillay, ~350km north of Santiago, the capital of Chile.

The project comprises 68 mineral concessions totalling ~15km$^2$ across four sub-project areas (El Quillay (North, Central and South prospects), Lana-Corina, Vaca Muerta and La Florida) located within a radius of ~10km.

Figure 3


## AUSTRALIA

The Bigrlyi South Uranium Project comprises is located ~350km north-west of Alice Springs in the Northern Territory of Australia and adjacent to tenements surrounding the Bigrlyi uranium deposit (being developed by Energy Metals Limited – ASX Code: "EME"). The project tenements (totalling ~1,350 km$^2$) have been farmed-out to Thundelarra Exploration Ltd (ASX Code: THX), who has a right to earn-in 70% interest.

The Canning Well Base Metals Project is located in the Eastern Pilbara region of Western Australia, ~360km south-east of Port Hedland. The manganese rights on the granted Exploration Licence 46/629 has been farmed-out to Process Minerals International Pty Ltd, a subsidiary of Mineral Resources Limited (ASX Code: MIN) in consideration for a royalty payment of ~A$4.20/tonne manganese fines and lump mined.

The Mt James Uranium Project is located in the Gascoyne region of Western Australia.

Figure 4


## PERU

The Crucero Uranium Project comprises 4 concessions covering an area of ~31km$^2$. The concessions are located 45km south-east of the town of Crucero.

The Coasa Project comprises 4 concessions covering an area of ~32km$^2$. The concessions are centred on the town of Coasa, located in the Macusani east district.

Figure 5

# COMPANY PROJECTS

## 1. Acquisition of Interest in Khnaiguiyah Zinc Copper Project (Saudi Arabia)

(Alara - 50%)

In September 2010, Alara secured rights to acquire a 50% interest in the advanced Khnaiguiyah Zinc-Copper Project located in Saudi Arabia.

The Khnaiguiyah Project is an advanced near production project having a non–JORC compliant resource estimate[4] assessed by BRGM[5], the French Office of Geological and Mining Research, prepared for the Saudi Arabian Directorate General of Mineral Resources, in 1993 as reported in Alara's ASX market announcement dated 5 October 2010 and entitled "Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia" (a copy of which is reproduced at pages 10 to 23 of this Annual Report).

Whilst the BRGM estimate is non-JORC compliant, it is considered by the Company to be a valid and relevant measure of mineralisation as it is based on significant drilling, exploration and evaluation work conducted by an internationally reputable organisation between 1972-85 and 1991-92 on behalf of the Saudi Arabian Government in accord with internationally accepted standards at the time.

Alara believes that the Khnaiguiyah Project offers the potential to move the company to the status of a significant producer within a relatively short time.

On 5 October 2010, Alara announced that it had entered into a binding Heads of Agreement (the **HoA**) with United Arabian Mining ("Manajem**"** in Arabic) Company (**Manajem**) for Alara to acquire a 50% interest in the Khnaiguiyah Project. The HoA outlined broadly the key terms upon which the parties agreed to jointly develop and fund the project within a new joint venture company (**JVCo**). The parties agreed that the HoA would be superseded by a more definitive joint venture agreement.

Since the execution of the HoA, negotiations with Manajem have quickly progressed to the stage that both parties have now agreed upon the detailed terms of the Shareholders' Agreement, which was accordingly executed in Riyadh on 21 October 2010. The key terms of the Shareholders' Agreement are outlined below.

**Khnaiguiyah Project - Summary**

- BRGM non–JORC compliant resource estimate as reported in Alara's ASX market announcement dated 5 October 2010 and entitled "Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia" (a copy of which is reproduced at pages 10 to 23 of this Annual Report).
- Historical drilling within the Khnaiguiyah Project (in 1972-85, 1991-92 and 1997-98) totals in excess of 45,000 metres across 345 core and percussion holes.
- Prefeasibility Study (**PFS**) completed by BRGM for the Directorate General of Mineral Resources, Saudi Arabia, in 1993[6].
- A Feasibility Study (**FS**) undertaken by Manajem between 2006 – 2009 targets a production profile of 55,000 tonnes of zinc per annum and 10 year mine life, using open pit mining.
- Alara plans to validate and refine the existing studies into a Bankable Feasibility Study (**BFS**) within 12 months.
- The Khnaiguiyah Project offers considerable potential for additional zinc and copper mineralisation, based on old mine workings (yet to be drilled), core samples (yet to be analysed) from the recent (2009/2010) drilling along strike, cross sections depicting continuation of mineralisation at depth at Khnaiguiyah and extensive outcropping copper oxide mantle at Umm Hijja.
- Saudi Arabia has very attractive attributes for investment, low cost energy and excellent infrastructure.

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4 Source: *BRGM Geoscientists, 1993, Khnaiguiyah zinc-copper deposit – prefeasibility study – 1,2, and 3: Saudi Arabian Directorate General of Mineral Resources Technical BRGM-TR-13-4, 651p., 209 figs., 171 tables, 78 appendixes, 23 photoplates*

5 Bureau de Recherches Géologiques et Minières (''Office of Geological and Mining Research'') (brgm.fr)

6 The BRGM PFS describes geology and exploration work and results from a programme of works undertaken between 1990 and 1993 as well as technical and economic prefeasibility studies. It also integrates the results of previous work on the Khnaiguiyah zinc-copper deposit between 1972 and 1985.

# COMPANY PROJECTS


Figure 6: Mineralised Zone 2 is generally copper rich and open to the east

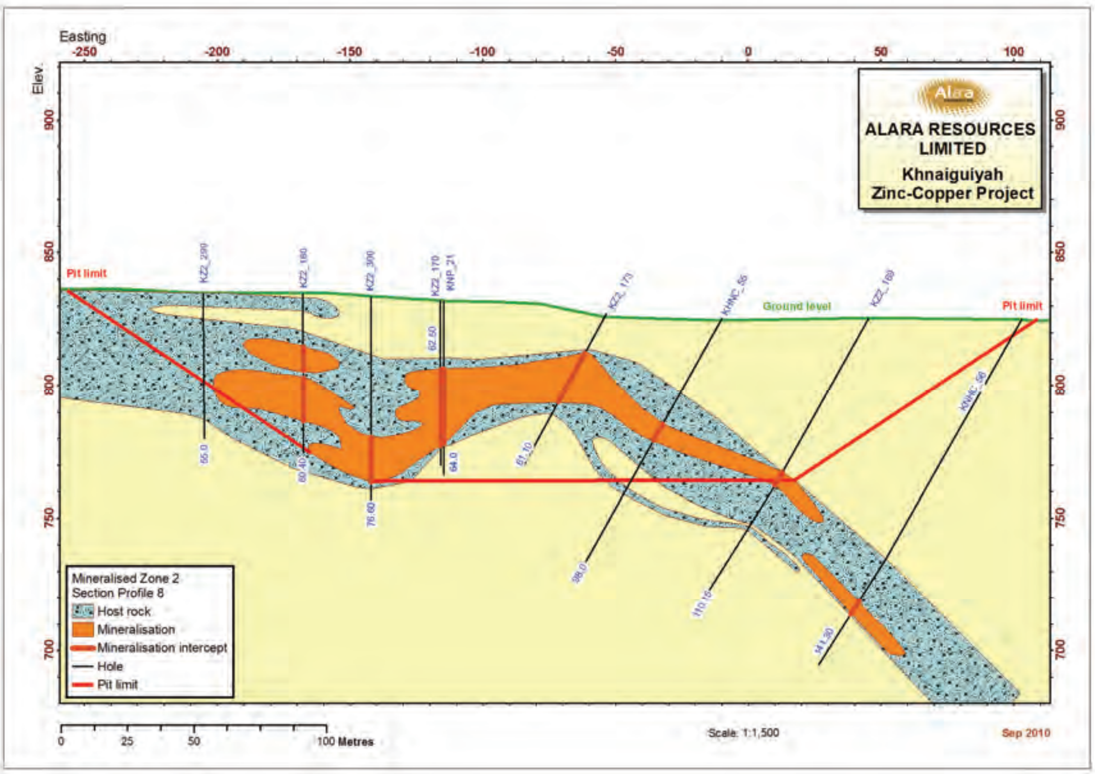



Figure 7: Mineralised Zone 2 is shallow and thick

# COMPANY PROJECTS

Figure 7: Mineralised Zone 2 is shallow and thick

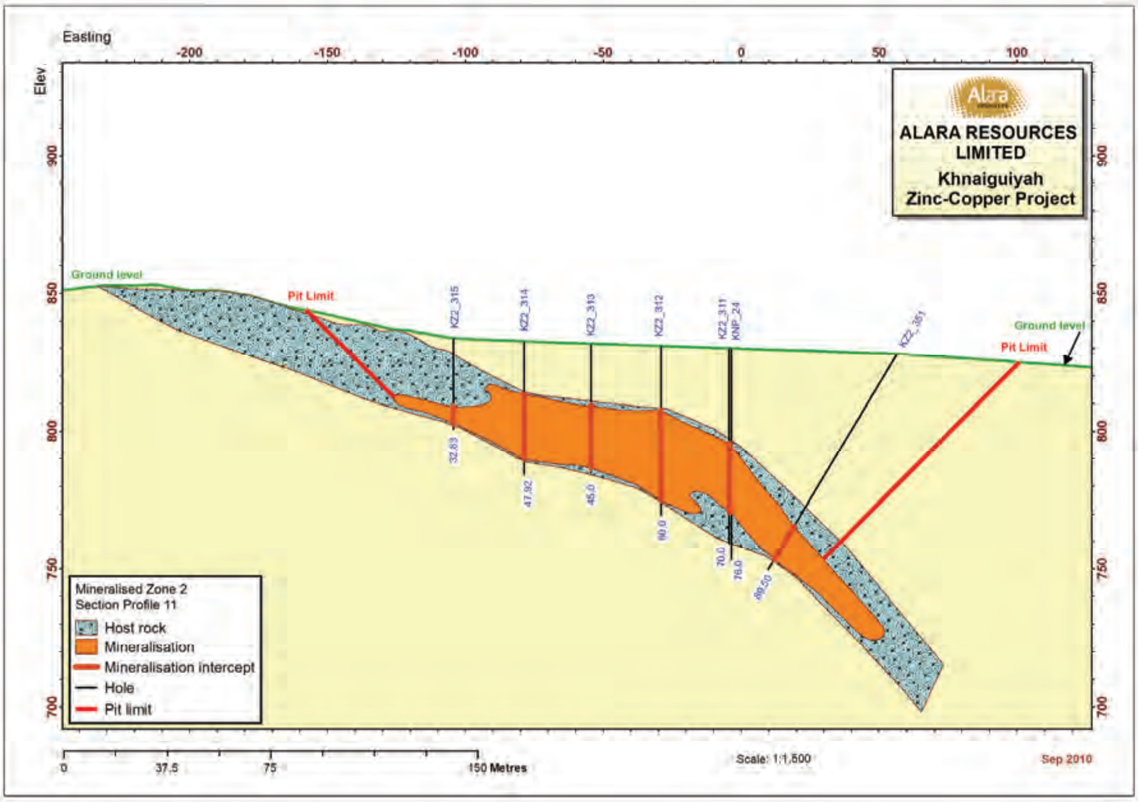
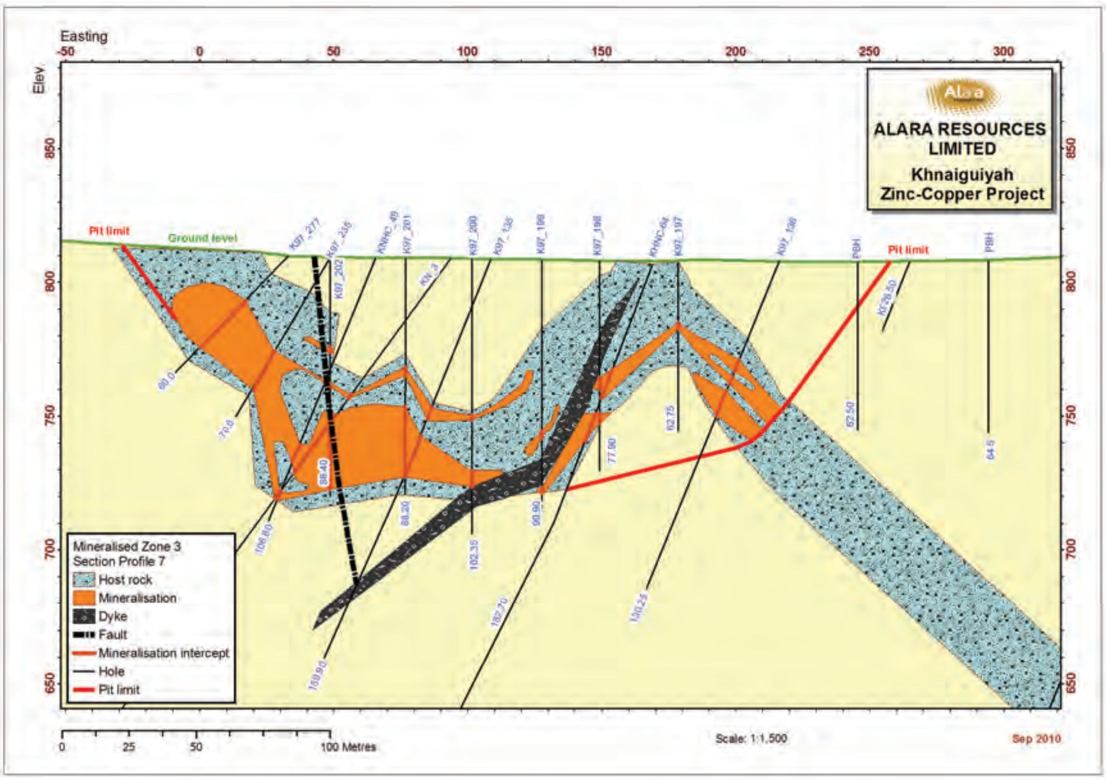



Figure 8: Mineralised Zone 3 is thicker and close to surface on the east limb
but generally copper rich and open towards the west



# COMPANY PROJECTS

Figure 9: Mineralised Zone 3 contains the majority of the identified mineralisation.
It is richer in zinc with a distinct copper rich zone to the east

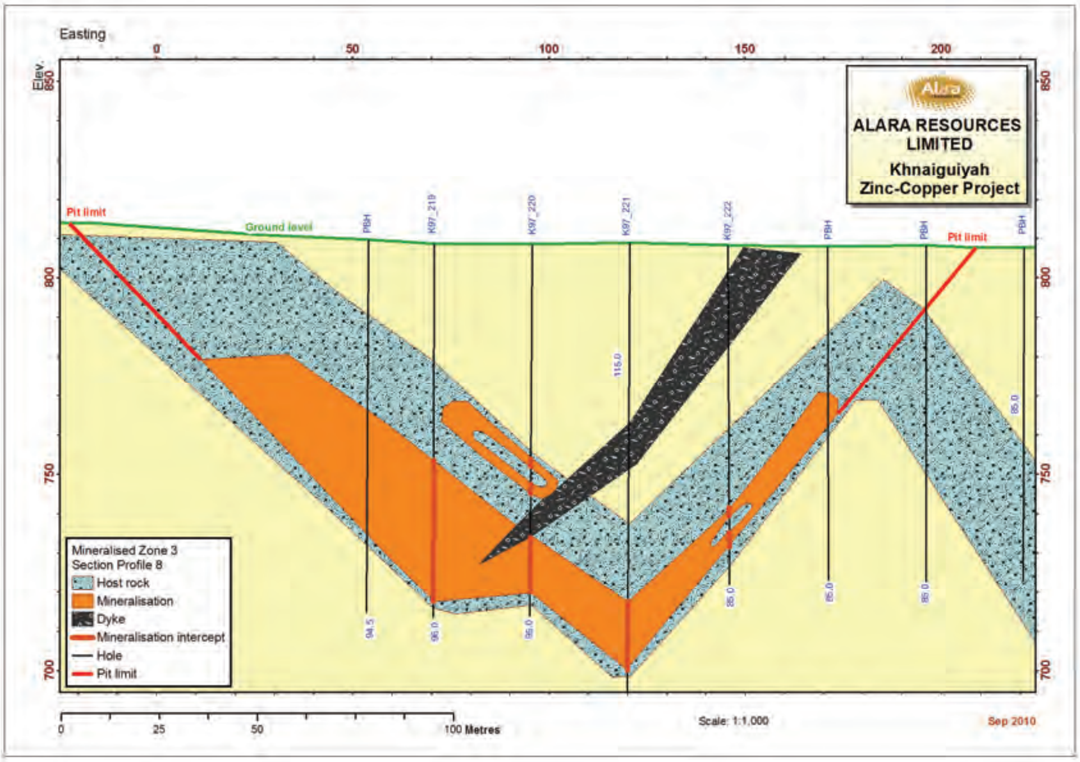
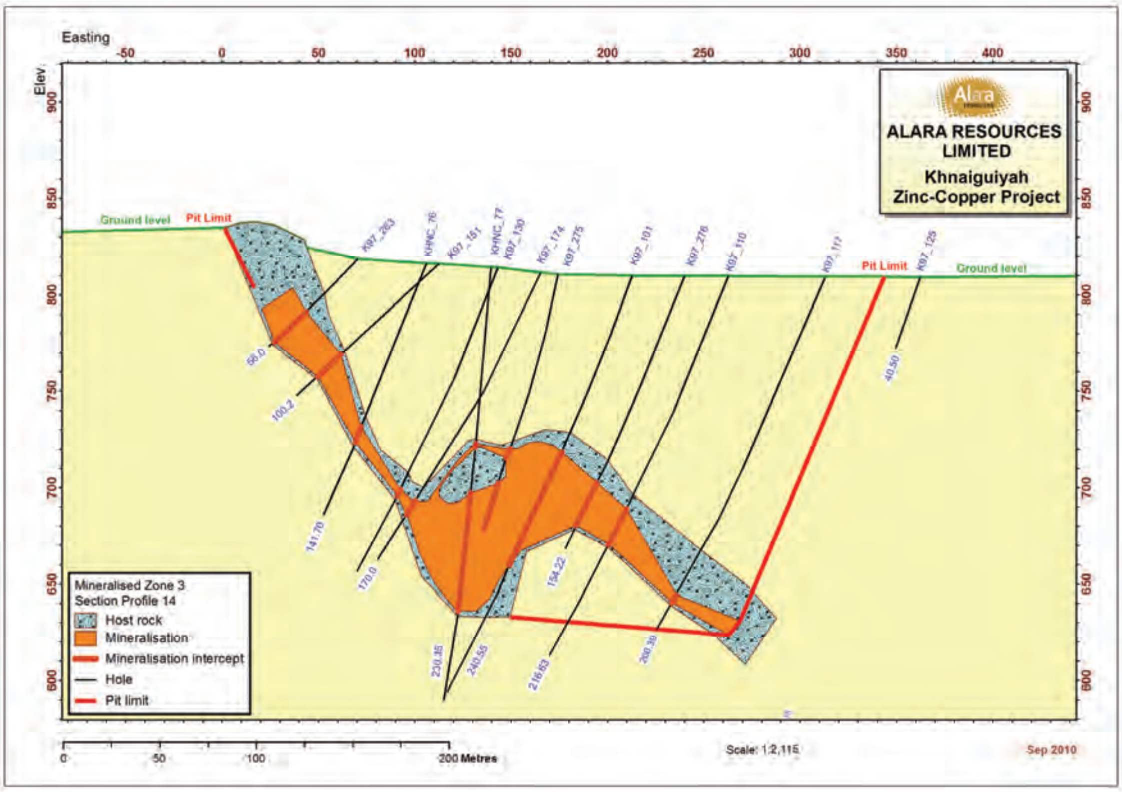



Figure 10: Mineralised Zone 3 is thicker and well defined at depth.
It is has a distinct zinc rich zone to the east and it is open and copper rich to the west



# COMPANY PROJECTS

## Agreement Terms

A Shareholders Agreement in relation to JVCo (proposed to be named "Khnaiguiyah Zinc Copper Mining Company") was executed in Riyadh on 21 October 2010.

The key terms of the Shareholders Agreement are outlined below:

(1) In addition to US$266,000 paid to the Vendor upon execution of the HoA, Alara will pay the Vendor a further US$7,234,000 upon the achievement of certain milestones:

- (a) US$1,250,000 - upon the formation of a new joint venture company (**JVCo**), which will hold the Khnaiguiyah Project and in which Alara and Manajem shall each hold a 50% shareholding interest;
- (b) US$1,750,000 – upon the later of 15 November 2010 or the Vendor receiving the grant of a Mining Licence in respect of the Khnaiguiyah Project and such licence being transferred to JVCo; and
- (c) US$4,234,000 – upon the later of 17 January 2011 or JVCo receiving the grant of an Environmental Permit for the commencement of mining under the Khnaiguiyah Mining Licence with such consideration to be satisfied as follows:
  - (i) US$2,010,000 to be satisfied by the issue of 6,700,000 shares in Alara, at an issue price of US$0.30 per share (equivalent to A$0.305 per share based on the current A$1.00/US$0.983 exchange rate); and
  - (ii) US$2,224,000 to be satisfied by the payment of cash.

(2) A 'Resource Bonus' is payable to the Vendor calculated at the rate of US0.5 cent per pound of contained zinc equivalent (within a JORC Indicated Resource at a minimum average grade of 7% zinc) discovered within the Khnaiguiyah Project, in excess of a threshold Indicated Resource of 11 million tons (at the same minimum average 7% zinc grade).

(3) Alara will fund (as loan capital to JVCo) all exploration, evaluation and development costs in relation to the Khnaiguiyah Project up to completion of a bankable feasibility study (**BFS**).

(4) Upon Alara having made a "decision to mine" following completion of a BFS, JVCo will seek project financing to fund development of the Khnaiguiyah Project.

(5) The difference between the amount of project financing raised and the capital costs of the Khnaiguiyah Project shall be met by the parties as follows; Alara shall firstly provide funding (which at Alara's election can be applied as debt and/or equity) to make up the shortfall, up to a maximum of US$15 million plus 25% of the Khnaiguiyah Project capital costs. That is, if the Khnaiguiyah Project is financed as to 50% debt from external financiers with a 50% shortfall to be met by JVCo shareholders, Alara will contribute its half share of the shortfall and will also fund a maximum of US$15 million of the Vendor's contribution towards the shortfall.

(6) Thereafter, each Shareholder shall (pro-rata to their respective shareholding interests) provide additional capital contributions in return for new shares issued in JVCo.

(7) The new shares issued shall be issued at a price equal to the sum of the capital cost of the Khnaiguiyah Project as defined in the BFS, plus cumulative capital contributions made by the shareholders, divided by the number of shares on issue in the JVCo at that time.

(8) Where a shareholder declines to subscribe for its shares, the other shareholder may elect to subscribe for these shares in its place at the same issue price.

(9) Any loan funds advanced by Alara to JVCo, together with an existing (deemed) loan of US$3 million from the Vendor, shall be repayable from JVCo's net profits. The Alara loan accrues interest at LIBOR plus 2% per annum.

(10) 30% of net profits shall be applied towards repayment of shareholder loans each year prior to the distribution of dividends.

(11) JVCo will be managed by a Board of Directors with 2 nominees from each of Alara and the Vendor and a local independent Director nominated by agreement of the parties. The Managing Director shall be nominated by Alara**.** Alara's Managing Director, Shanker Madan, will be appointed Chairman of JVCo for the first 12 months.

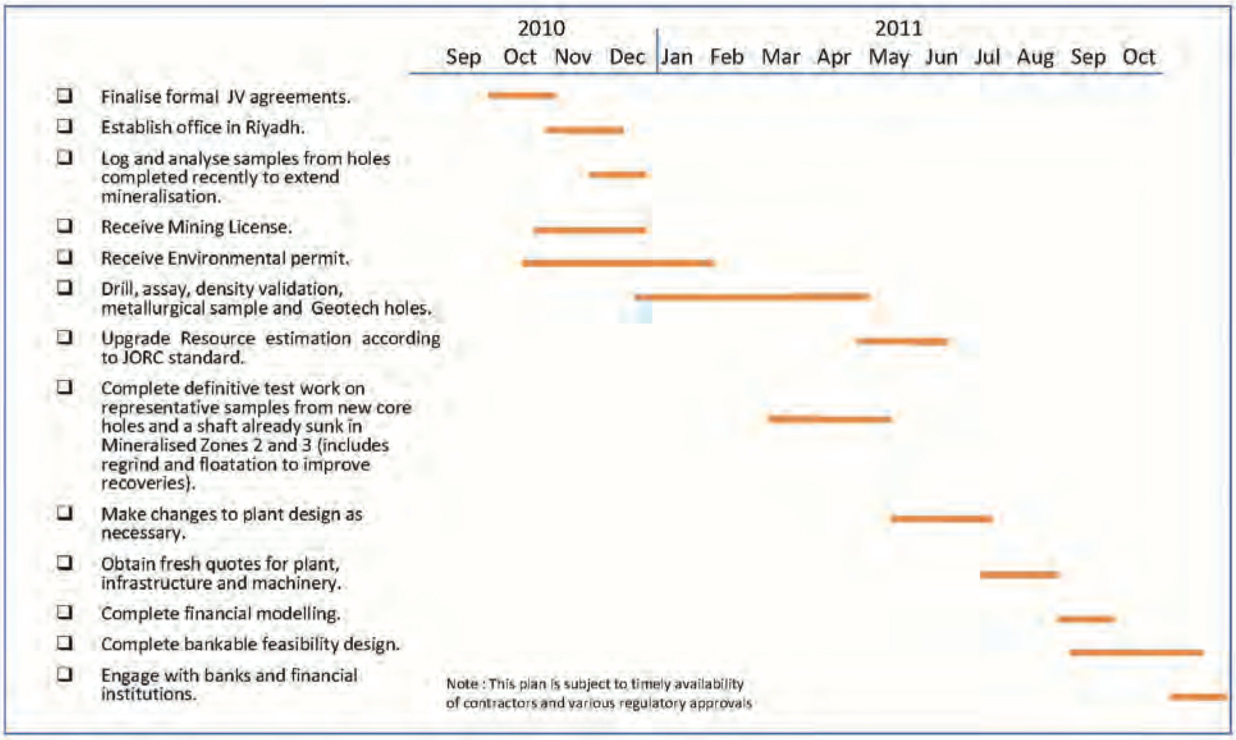
# COMPANY PROJECTS

### Next Steps

With the Shareholders' Agreement now executed, Alara's focus over the coming months will be to work closely with Manajem to progress the following matters as quickly as possible:

- the formation JVCo in Saudi Arabia, in which Alara and Manajem will each hold an initial 50% shareholding interest;
- the grant of a Mining Licence in respect of the Khnaiguiyah Project and subsequent transfer to JVCo;
- the grant of an Environmental Permit for the commencement of mining under the Khnaiguiyah Mining Licence;
- validation drilling in order to convert the historical estimates to a JORC compliant resource and or reserve classification; and
- the appointment of firms to undertake the BFS for the Khnaiguiyah Project.

Alara's indicative development work programme for the next 12 months is illustrated below:




### Other Projects in Saudi Arabia

Saudi Arabia is considered to be a favourable investment destination, ranked 13th in 2010 by the World Bank out of 183 countries in terms of ease of doing business and ranked 1st in the Middle East region. The country benefits from well developed infrastructure in roads and ports, low cost energy and in-country construction expertise.

The country was only opened up to private companies for mineral exploration within the last five years and is considered highly prospective for major discoveries of world class metallic and non-metallic deposits.

To assist Alara in such process, Alara has entered into an agreement with Shahayd Trading Establishment (**Shahayd**), a local company, for Shahayd to introduce a number of base metals, precious metals and ferrous metals projects in Saudi Arabia to Alara and assist Alara to secure a joint venture interest in one of the same. An initial retainer of US$100,000 has been paid to Shahayd under such agreement and US$400,000 is payable upon the achievement of defined milestones in relation to Alara securing such new project in Saudi Arabia.

# COMPANY PROJECTS

**5 October 2010 Announcement: "Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia**

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Tuesday, 5 October 2010

## MARKET ANNOUNCEMENT

### Project Acquisition – Khnaiguiyah Zinc Copper Project in Saudi Arabia

Alara Resources Limited is pleased to confirm that it has entered into an agreement to acquire a 50% interest in the advanced Khnaiguiyah Zinc-Copper Project (the **Khnaiguiyah Project**) and the adjacent Mutiyah Zinc-Copper Project and Umm Hijja Copper-Zinc Project (together the **Project**) located in the Kingdom of Saudi Arabia from local vendor, United Arabian Mining Company (**Manajem**).

The Khnaiguiyah Project is an advanced near production project having a non–JORC compliant resource estimate assessed by BRGM[1], the French Office of Geological and Mining Research, prepared for the Saudi Arabian Directorate General of Mineral Resources, in 1993 as follows[2]:

> **"In-place minable reserves" of 10.23Mt containing 7.46% zinc and 0.80% copper at a cut off grade of 4% zinc, within a "drill measured resource" of 24.8Mt at 4.11% zinc and 0.56% copper.**[3]

The above estimate is based on significant drilling, exploration and evaluation work conducted between 1972-85 and 1991-92 on behalf of the Saudi Arabian Government, in accord with internationally accepted standards at the time.

Alara believes that this Project offers the potential to move the Company to the status of a significant producer within a relatively short time.

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1 Bureau de Recherches Géologiques et Minières ("Office of Geological and Mining Research")

2 *BRGM Geoscientists, 1993, Khnaiguiyah zinc-copper deposit – prefeasibility study – 1,2, and 3: Saudi Arabian Directorate General of Mineral Resources Technical BRGM-TR-13-4, 651p., 209 figs., 171 tables, 78 appendixes, 23 photoplates*

3 This historical foreign estimate is not reported in accordance with the JORC Code and it is uncertain that following evaluation and/or further exploration the "drill measured resource" or "In-place minable reserves" referred to therein will ever be able to be reported in accordance with the JORC Code.
Refer also to Annexure A to this market announcement for further details pertaining to the estimates assessed by BRGM.

ASX Code | AUQ

# COMPANY PROJECTS



**The acquisition of the Khnaiguiyah Project follows on from the recently announced acquisitions by Alara of two other base metals projects, the Daris Copper-Gold Project in Oman and the El Quillay Copper Project in Chile. Alara is now moving towards establishing itself as a base metals development company with an exciting mix of advanced and early stage projects.**

## The Khnaiguiyah Project

**Summary**

- "In-place minable reserves" of 10.23Mt containing 7.46% zinc and 0.80% copper at a cut off grade of 4% zinc, within a "drill measured resource" of 24.8Mt at 4.11% zinc and 0.56% copper.
- Historical drilling within the Khnaiguiyah Project (in 1972-85, 1991-92 and 1997-98) totals in excess of 45,000 metres across 345 core and percussion holes.
- Prefeasibility Study (**PFS**) completed by BRGM for the Directorate General of Mineral Resources, Saudi Arabia, in 1993[4].
- A Feasibility Study (**FS**) undertaken by Manajem between 2006 – 2009 targets a production profile of 55,000 tonnes of zinc per annum and 10 year mine life, using open pit mining.
- Alara plans to validate and refine the existing studies into a Definitive or Bankable Feasibility Study (**BFS**) within 12 months.
- The Project offers considerable potential for additional zinc and copper mineralisation, based on old mine workings (yet to be drilled), core samples (yet to be analysed) from the recent (2009/2010) drilling along strike, cross sections depicting continuation of mineralisation at depth at Khnaiguiyah and extensive outcropping copper oxide mantle at Umm Hijja.
- Saudi Arabia has very attractive attributes for investment, low cost energy and excellent infrastructure.
- Alara is negotiating to gain further access to a significant exploration portfolio throughout Saudi Arabia through its partner, Manajem.

---

4 The BRGM PFS describes geology and exploration work and results from a programme of works undertaken between 1990 and 1993 as well as technical and economic prefeasibility studies. It also integrates the results of previous work on the Khnaiguiyah zinc-copper deposit between 1972 and 1985.

# COMPANY PROJECTS



**Location**

The Project is located on a bitumen road ~170km west of Riyadh, the capital of Saudi Arabia near the major Riyadh to Jeddah highway.

**Figure 1: Project Location Map Within Saudi Arabia**


**Licencing Status**

The Project comprises 3 Exploration Licences and 5 Exploration Licence Applications pending grant totaling ~380 square kilometres. An application for a Mining Licence in respect of the Khnaiguiyah Project Exploration Licence has already been made and is pending grant (**Mining Licence**).

Please refer to Figure 2 (at page 12) which shows the Project licence areas.

- 3 -

# COMPANY PROJECTS



**Historical Resource Estimate**

The Khnaiguiyah Project has "In-place minable reserves" of 10.23Mt containing 7.46% zinc and 0.80% copper at a cut off grade of 4% zinc, within a "drill measured resource" of 24.8Mt at 4.11% zinc and 0.56% copper.[3]

Whilst this historical resource estimate is non-JORC compliant, it is considered by the Company to be a valid and relevant measure of mineralisation as it is based on significant exploration and evaluation work conducted by an internationally reputable organisation between 1972-85 and 1991-92 on behalf of the Saudi Arabian Government in accord with internationally accepted standards at the time.

**Historical Drilling**

Historical drilling within the Khnaiguiyah Project (in 1972-85, 1991-92 and 1997-98) totals in excess of 45,000 metres across 345 core and percussion holes, as summarised below:

(a) General exploration and reconnaissance drilling conducted by BRGM (1972-85)[2]

A total of 192 percussion and core drill holes were drilled totalling 25,192.65m as follows:

| Description | No. Holes | No. Metres Drilled |
|---|---|---|
| Mineralised Zone 1 | 23 | 3,221.30m |
| Mineralised Zone 2 | 51 | 6,331.20m |
| Mineralised Zone 3 | 42 | 5,741.70m |
| Mineralised Zone 4 | 29 | 3,926.95m |
| Outside Mineralised Zones | 47 | 5,971.50m |

9 trenches totalling 787m were also sampled.

The 4 mineralised zones occur within an area of 3km x 3km.

Please refer to Figure 2 (at page 12) which shows the 4 mineralised zones within the Project licence areas.

(b) Additional drilling to define the mineralised zones conducted by BRGM (1991-92)[2]

A total of 71 percussion and core drill holes were drilled totalling 10,587.10m as follows:

| Description | No. Holes | No. Metres Drilled |
|---|---|---|
| Mineralised Zone 1 | 4 | 422.70m |
| Mineralised Zone 2 | 10 | 1,388.15m |
| Mineralised Zone 3 | 30 | 5,691.80m |
| Mineralised Zone 4 | 9 | 1,296.10m |
| Outside Mineralised Zones | 9 | 1,788.35m |

# COMPANY PROJECTS



35 trenches totalling 4,010m were also sampled.

The sections were drilled 100m apart on 50m and 25m spacings between drill holes.

(c) Further infill drilling within Mineralised Zone 3 conducted by Saudi Arabian Mining Company (Ma'aden) (1997-98)[5]

A total of 82 core and reverse circulation holes were drilled totalling 9,854m.

(d) Further drilling was conducted by Manajem in 2009/2010, samples for which are yet to be analysed.

**Mineralisation and Geology**

The mineralisation is hosted in carbonatised shear zones within strongly folded late Proterozoic volcano-sedimentary rocks.

The mineralised zones 1, 2, and 4 are amenable to mining by open cut methods with mineralised zone 3 appearing to be a combination of open cut and underground mining. The mineralisation appears to be open at depth.

Further potential for additional discoveries exists underneath ancient old workings within the Khnaiguiyah Exploration Licence.

**Umm Hijja Copper-Zinc Project and Mutiyah Zinc-Copper Project**

The Umm Hijja and Mutiyah Exploration Licences, are located less than 15km from the Khnaiguiyah Project. Though less advanced than the Khnaiguiyah Project, both present as exciting exploration targets based upon preliminary drilling having been conducted in both areas. In particular, the Umm Hijja Exploration Licence area has significant occurrences of oxide copper mineralisation at surface.

**Prior Studies and Alara's Assessment**

BRGM conducted a PFS on the Khnaiguiyah Project in the 1990's when the project was owned by the Saudi Arabian Government. The study is detailed and of a professional standard using kriging and other geostatistical techniques to evaluate the volume of mineralised material. Whilst the study was done to a professional standard, BRGM at the time had not adopted the JORC standard for reporting on exploration results, mineral resources and ore reserves (first released in 1989).

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5 *Ma'aden report on Revised Geology, Processing and Economics, April 1999*

# COMPANY PROJECTS



The PFS evaluated both the underground and open pit mining scenarios at a price assumption for zinc of US$1,200 per tonne – considerably lower than today's price of ~US$2,175 per tonne.[6] Whilst the PFS indicated that the Khnaiguiyah Project was commercially feasible despite the comparatively low zinc prices at the time, further work stalled due to the Government's decision to privatise the minerals industry.

The Khnaiguiyah Project was then held by Saudi Arabian Mining Company (Ma'aden), a semi-Government corporation, until Manajem acquired the project in 2005. Ma'aden had conducted an additional 9,854m (82 holes) of infill drilling at Khnaiguiyah at 25m spacing between drill holes on profiles 50m apart. The results of this drilling essentially appear to have confirmed the results from the previous drilling.

Manajem then conducted a FS between 2006 - 2009. The FS was managed by Hyquip Technologies, an associate of Hindustan Dorr-Oliver (India). The pilot plant test work on a 15 tonne sample was performed by Indian Bureau of Mines.

Alara has reviewed the PFS and the FS and believes that additional test work and QA/QC work on drill-hole data will be necessary to convert it to a BFS of sufficient standard to attract project finance.

Alara has engaged SRK Consulting (**SRK**) and West Australian based processing consultants, Simulus Engineering (**Simulus**), to provide an assessment on the previous studies.

SRK has built a 3D model for two of the larger four mineralised zones and determined that these are geologically and structurally continuous and open at depth. However additional data on QA/QC and density will be necessary before a JORC compliant resource classification may be assigned. Alara is in the process of obtaining this information from Manajem and may also have to drill a number of additional twinned holes to validate previous data.

Simulus' review confirms that the BRGM PFS was done generally to a high standard. However, there is some uncertainty whether the samples used are sufficiently representative to support the mine plan adopted by Manajem in its FS. Simulus observed that the test work undertaken by Manajem was not to a bankable feasibility study standard and further work would be required.

Simulus also observed that the capital and operating cost estimates of the PFS and FS appear to be reasonably accurate compared to similar plants.

Alara believes that its BFS may be able to be completed to the required standard within the next 12 months.

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[6] LME Special High Grade Zinc cash price as at 30 September 2010 (http://www.lme.com/zinc.asp)

# COMPANY PROJECTS



**Country and Partners**

Saudi Arabia is considered to be a favourable investment destination, ranked 13th in 2010 by the World Bank out of 183 countries in terms of ease of doing business and ranked 1st in the Middle East region. The country benefits from well developed infrastructure in roads and ports, low cost energy and in-country construction expertise.

The country was only opened up to private companies for mineral exploration within the last five years and is considered highly prospective for major discoveries of world class metallic and non-metallic deposits.

Alara's partner in the Project, Manajem, is the one of the largest private holders of exploration concessions throughout Saudi Arabia and has excellent contacts and experience in the country.

**Agreement Terms**

Alara has entered in a Heads of Agreement (the **Agreement**) with the Saudi Arabian concession owner, United Arabian Mining ("Manajem" in Arabic) Company (the **Vendor**) upon the following terms:

(1) Alara will pay the Vendor US$266,000 within 5 days of the execution of the Agreement;

(2) Alara will pay the Vendor a further US$7,234,000 upon the achievement of certain milestones:

  (a) US$1,250,000 - upon the formation of a new joint venture company (**JVCo**) and the execution of a more definitive joint venture agreement (**JV Agreement**) between the parties;

  (b) US$1,750,000 – upon the later of 15 November 2010 or the Vendor receiving the grant of a Mining Licence in respect of the Khnaiguiyah Project and such licence being assigned to JVCo; and

  (c) US$4,234,000 – upon the later of 17 January 2011 or JVCo receiving the grant of an Environmental Permit for the commencement of mining pursuant to the Mining Licence of the Khnaiguiyah Project;

(3) A 'Resource Bonus' is payable to the Vendor calculated at the rate of US$0.005 per pound of contained zinc equivalent (within a JORC Indicated Resource at a minimum average grade of 7% zinc) delineated with the Project in excess of 11 million tons (at the same minimum average 7% zinc grade);

(4) Alara will fund (as loan capital to JVCo) all exploration, evaluation and development costs in relation to the Project up to completion of a bankable or definitive feasibility study (**DFS**). Thereafter, the parties will contribute to all cash calls in proportion to their respective participating interests in JVCo or be diluted in accordance with an industry standard dilution formula whereby the initial base value shall be set pursuant to an independent expert valuation at the completion of the DFS;

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# COMPANY PROJECTS



(5) Alara's loan (referred to above) and a deemed Vendor's loan of US$3 million is repayable from JVCo's net profits prior to the distribution of dividends; and

(6) JVCo will be managed by a Board of Directors with 2 nominees from each of Alara and the Vendor and a local independent Director nominated by agreement of the parties.

**Next Steps**

After SRK and Simulus have completed their review of the PFS and FS data, Alara proposes to conduct further validation drilling over the next few months in order to convert the historical estimates to a JORC compliant resource and or reserve classification. Alara will then seek to appoint a consulting firm to undertake the BFS for the Project.

It is also contemplated that the Company will be undertaking a capital raising to fund the above vendor payments, the above works and Alara's other working capital requirements.

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**Further information:**

Shanker Madan
Managing Director
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**E** | smadan@alararesources.com.au

*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.*

*Mr Madan also accepts responsibility for the accuracy of the statements of historical (pre-JORC Code or before the requirement to name the Competent Person) estimates and foreign resource and reserve estimates currently not reported in accordance with the JORC Code, reported in this announcement based on previously prepared reports and the accuracy of the information disclosed in this announcement to address the Requirements for Non-JORC Code Compliant Historical and Foreign Reporting in the Joint Statement of ASX and JORC reported in the ASX Companies Update No. 11/07 dated 5 December 2007.*

*This announcement is consistent with the guidance contained in ASX Companies Update No. 11/07 (Historical estimates and foreign resource and reserve estimates, currently not reported in accordance with the JORC Code ) dated 5 December 2007 and Companies Update No. 05/04 (JORC Code Compliance, Chapter 5 of ASX Listing Rules) dated 25 March 2004.*

*The Company has obtained a waiver from ASX Listing Rule 5.6 for the purposes of reporting statements of estimates and foreign resource and reserve estimates currently not reported in accordance with the JORC Code, in this announcement*

# COMPANY PROJECTS



## ANNEXURE A

### FURTHER DETAILS ON NON–JORC COMPLIANT HISTORICAL AND FOREIGN ESTIMATES ASSESSED BY BRGM

The information in this Annexure A relates to the following non–JORC compliant historical and foreign estimates assessed by Bureau de Recherches Géologiques et Minières ("Office of Geological and Mining Research")) (**BRGM**) in their "Khnaiguiyah Zinc-Copper Deposit – Prefeasibility Study Report" produced for the Saudi Arabian Directorate General of Mineral Resources (**DGMR**) in 1993 (**1993 Report**)[7]:

> "In-place minable reserves" of 10.23Mt containing 7.46% zinc and 0.80% copper at a cut off grade of 4% zinc, within a "drill measured resource" of 24.8Mt at 4.11% zinc and 0.56% copper.[8]

**1982-1985 BRGM Exploration and Evaluation**

Discovered in 1966, the Khnaiguiyah prospect was the subject of geological reconnaissance conducted between 1982 and 1985 by BRGM on behalf of DGMR. Work comprised several phases of reconnaissance and evaluation by means of trenching, drilling (core, percussion and mixed, totaling 192 holes and 25,192m), mapping, geochemistry and geophysics (Argas).

This work led to the discovery of many occurrences including the 4 mineralised zones referred to in the 1993 Report and in this Alara market announcement.

Please refer to Figure 2 (at page 12) which shows the 4 mineralised zones within the licence areas.

These 4 mineralised zones occur within a circular area 2kms in radium in the northern part of the Late Precambrian Al Amar volcanosedimentary belt. They are located at the edge of the sedimentary Paleozoic cover, which is marked by an escarpment 30 to 50m high. The basement forms as undulating physiographic relief of hills separated by wide wadis.

The following work was carried out by BRGM on the 4 mineralised zones between 1972 and 1985:

(a) 10,747m of percussion drilling;

(b) 8,474m of core drilling, including 546m of mixed drilling (percussion-drilled pre-holes);

(c) 787m of trenching (9 trenches);

(d) Topographic and geophysical surveying;

(e) Regional and detailed geochemical prospecting (soil/rock);

(f) Geological study and mapping accompanied by abundant petrographic study (but little structural study); and

(g) Ore-processing tests and economic evaluations.

This work led to the computation of "in place resources" in the 4 mineralised zones, to volcanodynamic interpretation of the pyroclastic deposits and to development of a metallogenic model for the deposit.

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[7] *BRGM Geoscientists, 1993, Khnaiguiyah zinc-copper deposit – prefeasibility study – 1,2, and 3: Saudi Arabian Directorate General of Mineral Resources Technical BRGM-TR-13-4, 651p., 209 figs., 171 tables, 78 appendixes, 23 photoplates*

[8] This historical foreign estimate is not reported in accordance with the JORC Code and it is uncertain that following evaluation and/or further exploration the "drill measured resource" or "In-place minable reserves" referred to therein will ever be able to be reported in accordance with the JORC Code.

# COMPANY PROJECTS



**1991-92 BRGM Prefeasibility Study**

In 1990, on reinterpretation of the deposit in light of a new metallogenic hypothesis and in light of an increase in the zinc price, the DMGR commissioned BRGM to conduct a second phase of exploration and evaluation of the Khnaiguiyah prospect, with the following objectives:

(1) Objective 1: General reassessment of the base data available on geology, structure, geophysics and ore leading to revised estimates in relation to "in-place reserves" and or "minable reserves."[9]

A field programme of detail investigation was carried out over a 1 ½ year period, comprising core drilling and trenching designed to reevaluate the "reserves" in the 4 mineralised zones. This led to a geologic reinterpretation of the deposit and to a revised definition of structural controls; and

(2) Objective 2: Completion of a prefeasibility study.

Field work (commenced in 1991 and completed at the end of 1992) included geostatistical study and computation of total "reserves" using various cut-off grades and thicknesses, laboratory-scale ore-processing tests, hydrogeologic inventory (water resources), geotechnical terrain stability studies and external control analysis. Work presented in the prefeasibility report includes design of underground and open-pit mining projects, design of beneficiation plant and technical and economic studies.

**Technical Summary**

The 4 mineralised zones occur in an area extending over 3 x 3km at the edge of the Cover Rocks and are interpreted as Zn-Cu-bearing carbonatised shear zones hosted by a strongly folded Late Proterozoic volcanosedimentary unit in the northern part of the Al Amar belt. These shear zones, some tens of metres thick, are oriented north-south and dip 10 to 70 degrees to the east (mineralised zone 2, 3 and 4) or to the west (mineralised zone 1).

The mineralisation (Zn-Cu-Fe-Mn) is associated with the shear zone and comprises a carbonatised gangue (containing chlorite, epidote and silica) with disseminated pyrite, chalcopyrite, sphalerite and magnetite-hematite. Where the carbonatised unit disappears, it gives way to much more abundant mineralisation, giving the mineralisation a "stratiform" aspect. Each mineralised zone is associated with a different shear zone.

The overall total of exploration work (1991-92) on the 4 mineralised zones comprised 49 core holes (totaling 8,389.30m) and 30 trenches (totaling 4,010m). An additional 21 percussion holes (totaling 2,059.60m) were drilled to define the boundary between mineralised zone 3 and 4, explore for possible extensions and to test geophysical anomalies (also 5 trenches totaling 565m and one core hole totaling 138.2m).

Core recovery in HQ and NQ diameters was generally 100%. Samples were analysed in Saudi Arabia and control analyses were conducted at BRGM New Orleans in the United States. Systematic measurements of density and drill-hole deviation were made. The results of percussion drilling were confirmed by core drilling.

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[9] Definitions used in the BRGM 1993 Report are as follows:

- "*drill-measured resources*": proven concentration of material with potential for economic extraction;
- "*in-place reserves*": economic "drill-measured resources", including "minable reserves";
- "*minable reserves*": that part of the "reserves" which can be extracted by the mining method selected;
- "*recoverable reserves*": "minable reserves" to which dilution and recovery factors have been applied;
- "*economic*": material which can be profitably mined under current conditions (subject to completion of a feasibility study)

# COMPANY PROJECTS



The "*drill-measure resources*" were computed as follows using the polygon (block) method

| Mineralised zone | Zn (%) | Cu (%) | Zn Equivalent (%) | Tonnage (t) |
|---|---|---|---|---|
| 1 | 4.80 | 1.01 | 6.42 | 194,000 |
| 2 | 3.19 | 0.83 | 4.51 | 6,307,000 |
| 3 | 5.71 | 0.52 | 6.55 | 11,477,000 |
| 4 | 2.30 | 0.39 | 2.93 | 6,828,000 |
| **Total** | **4.11** | **0.56** | **5.00** | **24,806,000** |

Zinc equivalent is taken to be Zn grade plus [1.6 x Cu grade]. Oxidised mineralisation is not included.

"*Drill-measure in-place reserves*" were computed using the polygon (block) method (with geostatistical methods used for mineralised zone 3).

In the case of the largest mineralised zone 3 where underground mining is potentially proposed, a minimum required true thickness of 2.5m plus 0.5m for dilution was assumed. For the open-pit mine proposed for mineralised zones 1, 2 and 4, a minimum thickness of 2.0m plus 0.5m for dilution was selected. The minimum required true thickness for mineralised zone 2 (for which open-pit exploitation was studied), is 2m after dilution. Using the same methods, various exploitation projects were envisaged and the application of various zinc cut-off grades (4%, 6%, 8% and 10%) and various diluted thickness cut-offs (2.5, 3.00 and 3.50m) to each polygon generated "*minable reserves*".

For a diluted thickness of 3.00m, "*in-place minable reserves*" were as follows:

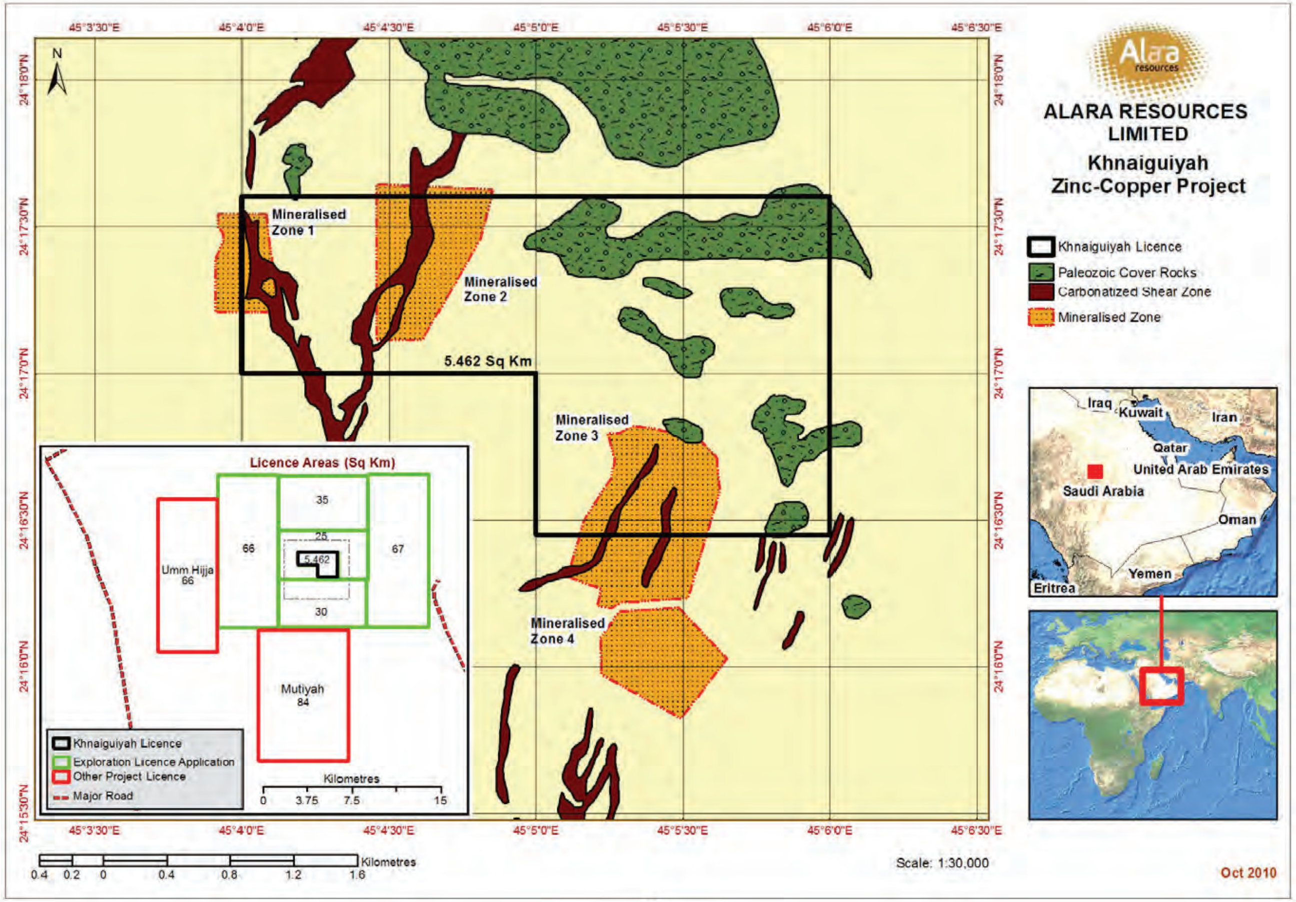
| Cut-Off Grade (%) | Mineralised zone | Zn (%) | Cu (%) | Zn Equivalent (%) | Tonnage (t) |
|---|---|---|---|---|---|
| 4 | 1 * | 6.72 | 1.41 | 8.97 | 115,000 |
| | 2 | 4.71 | 1.03 | 6.35 | 2,989,000 |
| | 3 | 9.88 | 0.73 | 11.04 | 5,083,000 |
| | 4 | 5.50 | 0.60 | 6.47 | 2,042,000 |
| | **Total** | **7.46** | **0.80** | **8.21** | **10,229,000** |
| 6 | 1 * | 8.55 | 1.16 | 10.41 | 90,000 |
| | 2 | 7.46 | 0.47 | 8.22 | 1,486,000 |
| | 3 | 11.77 | 0.89 | 13.20 | 3,832,000 |
| | 4 | 6.19 | 1.06 | 7.89 | 1,112,000 |
| | **Total** | **11.17** | **0.83** | **12.50** | **6,520,000** |
| 8 | 1 * | 10.86 | 0.48 | 11.64 | 70,000 |
| | 2 | 10.32 | 0.25 | 10.71 | 572,000 |
| | 3 | 13.83 | 0.75 | 15.04 | 3,025,000 |
| | 4 | 9.45 | 0.24 | 9.84 | 389,000 |
| | **Total** | **12.86** | **0.63** | **13.87** | **4,057,000** |
| 10 | 1 * | 22.45 | 0.26 | 22.86 | 23,000 |
| | 2 | 12.14 | 0.35 | 12.69 | 267,000 |
| | 3 | 15.18 | 0.81 | 16.48 | 2,503,000 |
| | 4 | 11.47 | 0.47 | 12.31 | 126,000 |
| | **Total** | **14.80** | **0.75** | **16.00** | **2,919,000** |

* no cut-off thickness adopted for Mineralised Zone 1

# COMPANY PROJECTS

20101005 AUQ ASX Acquisition of Interest in Khnaiguiyah Zinc Copper Project in Saudi Arabia

**Figure 2: Khnaiguiyah Project Location, Licence Areas and Mineralised Zones**

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# COMPANY PROJECTS



## ANNEXURE B

### ASX REQUIRED INFORMATION IN RELATION TO WAIVER OF LISTING RULE 5.6

The Company has obtained a waiver from ASX Listing Rule 5.6 for the purposes of reporting the following statement of historical and foreign resource and reserve estimates currently not reported in accordance with the JORC Code, in this announcement:

- *"In-place minable reserves" of 10.23Mt containing 7.46% zinc and 0.80% copper at a cut off grade of 4% zinc, within a "drill measured resource" of 24.8Mt at 4.11% zinc and 0.56% copper* (**Historical and Foreign Estimate**)

The Company provides the following additional information pursuant to the guidance contained in ASX Companies Update No. 11/07 (Historical estimates and foreign resource and reserve estimates, currently not reported in accordance with the JORC Code) dated 5 December 2007, Companies Update No. 05/04 (JORC Code Compliance, Chapter 5 of ASX Listing Rules) dated 25 March 2004) and ASX requirements pursuant to the grant of the waiver under Listing Rule 5.6:

1. The Historical and Foreign Estimate is not reported in accordance with the JORC Code and it is uncertain that following evaluation and/or further exploration the "*drill measured resource*" or "*in-place minable reserves*" referred to therein will ever be able to be reported in accordance with the JORC Code.

2. The Historical and Foreign Estimate has been assessed by the Bureau de Recherches Géologiques et Minières ("Office of Geological and Mining Research")) (**BRGM**) in their "Khnaiguiyah Zinc-Copper Deposit – Prefeasibility Study Report" produced for the Directorate General of Mineral Resources (**DGMR**), Ministry of Petroleum and Mineral Resources, Kingdom of Saudi Arabia in 1993 (full reference source: *BRGM Geoscientists, 1993, Khnaiguiyah zinc-copper deposit – prefeasibility study – 1,2 and 3: Saudi Arabian Directorate General of Mineral Resources Technical BRGM-TR-13-4, 651p., 209 figs., 171 tables, 78 appendixes, 23 photoplates*).

3. The Historical and Foreign Estimate is relevant for disclosure for the following reasons:

   3.1. it is based on significant exploration and evaluation work conducted by an internationally reputable organisation between 1972-85 and 1991-92 on behalf of the Saudi Arabian Government. The estimate was prepared prior to the adoption of the JORC standard by BRGM (and prior to the adoption of the JORC Code as a universally acceptable international standard) but was in accord with internationally accepted standards at the time;

   3.2. it provides an indication of the currently defined mineralisation and potential resources of the project area proposed to be acquired by the Company, and

   3.3. non-disclosure would represent the withholding of information that could be material to the Company's share price.

4. Mr Hem Shanker Madan, the Managing Director of Alara Resources Limited and the Competent Person under the JORC Code named in this market announcement confirms the reliability of the historical and foreign estimate in this announcement with reference to the items in Table 1 of the JORC Code which are relevant to understanding the reliability of the same. The Company refers also to Annexure A to this market announcement for further details pertaining to the bases of the Historical and Foreign Estimate assessed by BRGM.

5. The Historical and Foreign Estimate is material to the Company given the substantial nature of the quantity and quality of the estimate and the proposed acquisition transaction relative to the Company's current market capitalisation. As reported in the market announcement, After SRK Consulting and Simulus Engineering have completed their review of the BRGM Prefeasibility Study and the Manajem Feasibility Study data, the Company proposes to conduct further validation drilling over the next few months in order to convert the Historical and Foreign Estimate to a JORC compliant resource and or reserve classification. The Company will report on the progress of these activities via updated market announcement(s). The Company will fund this validation exploration programme from existing cash reserves, which is not likely to impact on the resources currently devoted to the Company's other exploration projects.

6. The Historical and Foreign Estimate adopts "resource" and "reserve" categories as defined below, which differs from the JORC Code categories (reproduced below):

| Definitions used in the BRGM 1993 Report | JORC Code categories |
|---|---|
| "*drill-measured resources*": proven concentration of material with potential for economic extraction | A 'Mineral Resource' is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological |

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# COMPANY PROJECTS



| | |
|---|---|
| | evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.<br><br>An 'Inferred Mineral Resource' is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.<br><br>An 'Indicated Mineral Resource' is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource, but has a higher level of confidence than that applying to an Inferred Mineral Resource. Mineralisation may be classified as an Indicated Mineral Resource when the nature, quality, amount and distribution of data are such as to allow confident interpretation of the geological framework and to assume continuity of mineralisation. Confidence in the estimate is sufficient to allow the application of technical and economic parameters, and to enable an evaluation of economic viability.<br><br>A 'Measured Mineral Resource' is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity. |
| "*in-place reserves*": economic "drill-measured resources" including "minable reserves" | An 'Ore Reserve' is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves. |
| "*minable reserves*": that part of the "reserves" which can be extracted by the mining method selected<br><br>"*recoverable reserves*": "minable reserves" to which dilution and recovery factors have been applied<br><br>"*economic*": material which can be profitably mined under current conditions (subject to completion of a feasibility study) | A 'Probable Ore Reserve' is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.<br><br>A 'Proved Ore Reserve' is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. |

7. The Company refers to Annexure A to this market announcement for further details pertaining to the bases of the Historical and Foreign Estimate assessed by BRGM and is not aware of any more recent available estimate or data pertaining to the same.

8. The Company intends to evaluate those matters listed in Table 1 of the JORC Code (Appendix 5A of the ASX Listing Rules) which are relevant to the Historical and Foreign Estimate and conduct exploration for the purposes of allowing a Competent Person to take responsibility for an estimate of Mineral Resources and or Ore Reserves in order that they may be reported by the Company in accordance with the JORC Code (refer also paragraph 5 above).

9. The Company confirms that this market announcement is consistent with the guidance contained in ASX Companies Update No. 05/04 (JORC Code Compliance, Chapter 5 of ASX Listing Rules) dated 25 March 2004.

10. Mr Hem Shanker Madan, the Managing Director of Alara Resources Limited and the Competent Person under the JORC Code named in this market announcement, accepts responsibility for the accuracy of the statements of historical (pre-JORC Code or before the requirement to name the Competent Person) estimates and foreign resource and reserve estimates currently not reported in accordance with the JORC Code, reported in this announcement based on previously prepared reports and the accuracy of the information disclosed in this Annexure B to address the Requirements for Non-JORC Code Compliant Historical and Foreign Reporting in the Joint Statement of ASX and JORC (contained in ASX Companies Update No. 11/07 (Historical estimates and foreign resource and reserve estimates, currently not reported in accordance with the JORC Code ) dated 5 December 2007).

# COMPANY PROJECTS

## 2. Acquisition of Interest in El Quillay Copper-Gold Project (Chile)

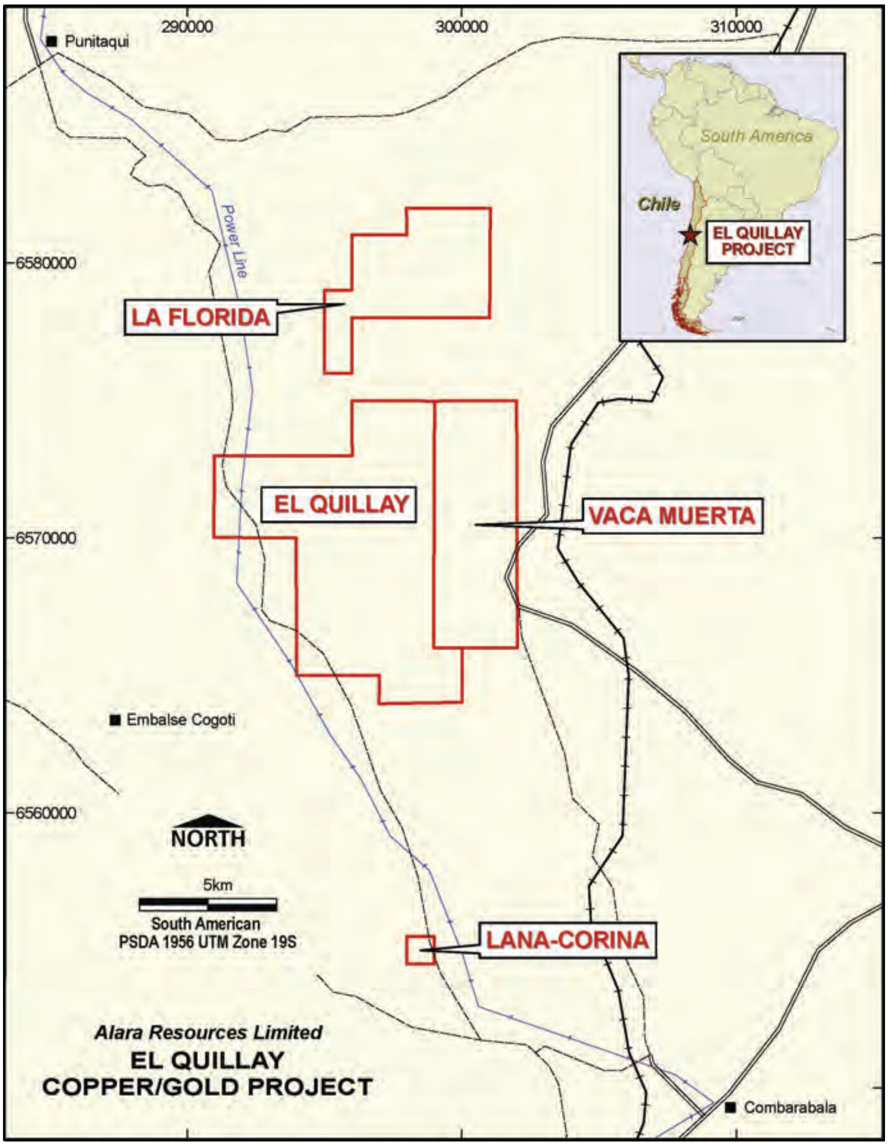
(Alara - right to earn-in 70%)

In August 2010, Alara secured rights to acquire (subject to completion of due diligence) a 70% interest in the El Quillay Copper-Gold Project located in the north of Chile.

The project, which comprises 4 project areas (El Quillay (North, Central and South prospects), Lana-Corina, Vaca Muerta and La Florida), presents several drill targets:

- El Quillay Norte (North) - Copper prospect along the El Quillay regional fault zone (which has a recent decline);
- El Quillay Central – Copper prospect along the El Quillay fault zone;
- El Quillay Sue (South) – Copper-gold prospect along the regional fault zone;
- Lana-Corina – Two breccia pipes 40m to 50m wide with a deep shaft and underground workings. The breccia pipes extend into a porphyry copper deposit where 2 holes have intersected greater than 130m of mineralisation, one of which intersected 180m of 0.70% Cu and up to 200ppm Mo;
- Vaca Muerta – along the El Quillay regional fault zone with many workings in parallel near vertical structures with grades encountered from due diligence sampling of up to 3.8% Cu over 2m; and
- La Florida – exploration potential along the El Quillay regional fault zone.

Figure 11: El Quillay Project Areas Location Map



# COMPANY PROJECTS

## Geology

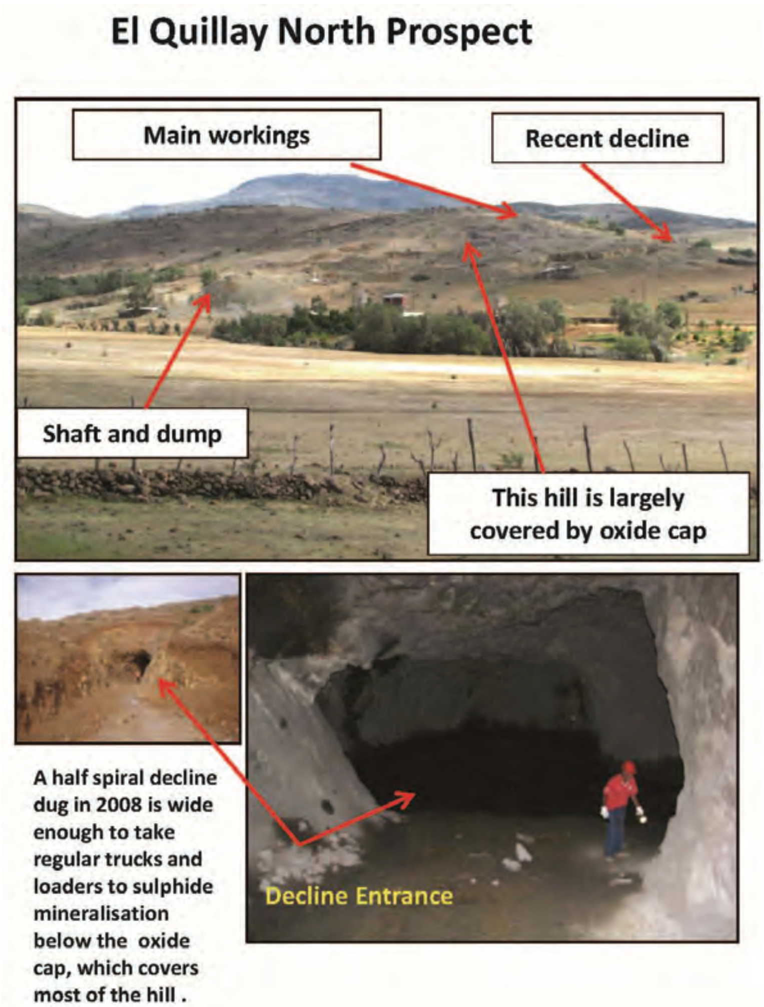
Work previously conducted by the vendors (which is the subject of due diligence currently being conducted by Alara) indicates that the El Quillay deposit is formed by a series of lentiform mineralised bodies, containing Cu, Cu-Au-Ag and Cu-Au ore. These structures appear to be located within a belt ~6 kilometres long, with NS to NNW strike, related to a low angle fault system.

The mineralised bodies are hosted by volcanic andesitic rocks which show hydrothermal-metasomatic alteration. These mainly contain silica (quartz), sericite, albite-adularia, chlorite-epidote and hematite.

The lengths of the lenses (3 bodies of this type have been recognised to date) potentially range from 300 to 1,000 metres with widths ranging from 20 to 200 metres.

The mineralisation appears in the shape of veins, veinlets-stockwork and disseminations. The oxidation zone reaches up to 25 metres depth. Thereafter the primary sulphide zone has been observed to continue to a depth of at least 80 metres in old workings. The widths of mineralisation indicate the potential for open cut mining.

The mineralisation appears to continue over a strike length of ~3 kilometres. The hydrothermal alteration has been observed to continue over a further ~3 kilometres.




Alara intends to develop an initial exploration programme over priority targets within the project area as a precursor to the commencement of a staged 10,000 metre drilling programme over the next 12 months.

## Target Mineralisation

The project comprises known copper/gold mineralisation in old workings presenting as lenticular bodies extending over a strike distance of ~3 kilometres with widths of up to 200 metres.

In particular, five copper, copper gold and copper moly IOCG (Iron oxide-Copper-Gold) type and porphyry prospects have been identified with deep workings along a ~6 kilometre strike located along a major fault system in andesitic lavas and in diorite.

Alara projects the following target mineralisation ranges:

- 8 to 10Mt of oxide cap @ 0.5% to 1.00% Cu to 30m depth and 20Mt to +40Mt @1.5% Cu equivalent as copper sulphides, gold and silver below an oxide cap (based upon 550 samples extracted from outcroppings, underground and surface mine workings, assumed continuity of mineralisation along strike between the samples and assumed continuity of mineralisation to a depth of 200 metres); and
- 30Mt to 60Mt@ 0.7% to 0.8% Cu equivalent in breccia pipes and porphyry (based on 2 drill holes which intersected greater than 130m of mineralisation, one of which intersected 180m @ 0.70% Cu and up to 200ppm Mo) .

(The potential quantity and grade of the target mineralisation of copper equivalent is conceptual in nature. There has been insufficient exploration to define a mineral resource in relation to that target mineralisation of copper equivalent. It is uncertain if further exploration will result in the determination of a mineral resource in relation to that target mineralisation of copper equivalent)

# COMPANY PROJECTS

Figure 12: Lana-Corina Project Area Geology Plan

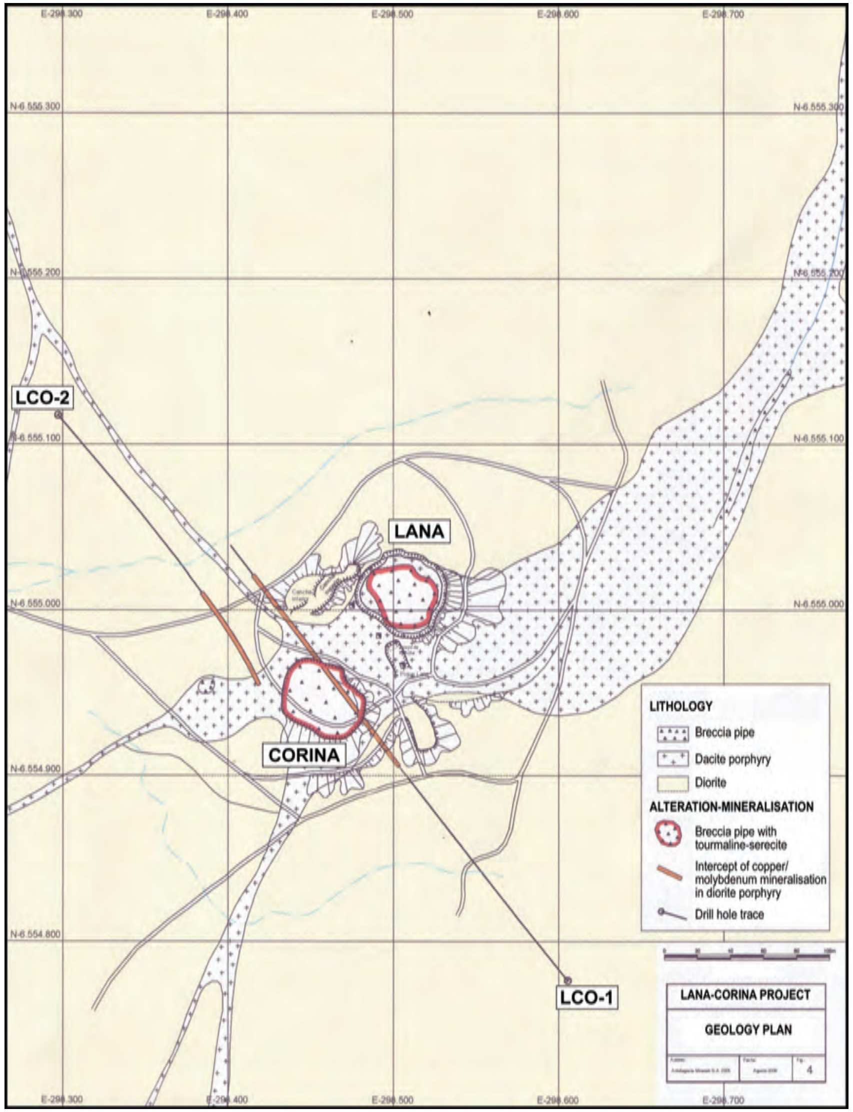
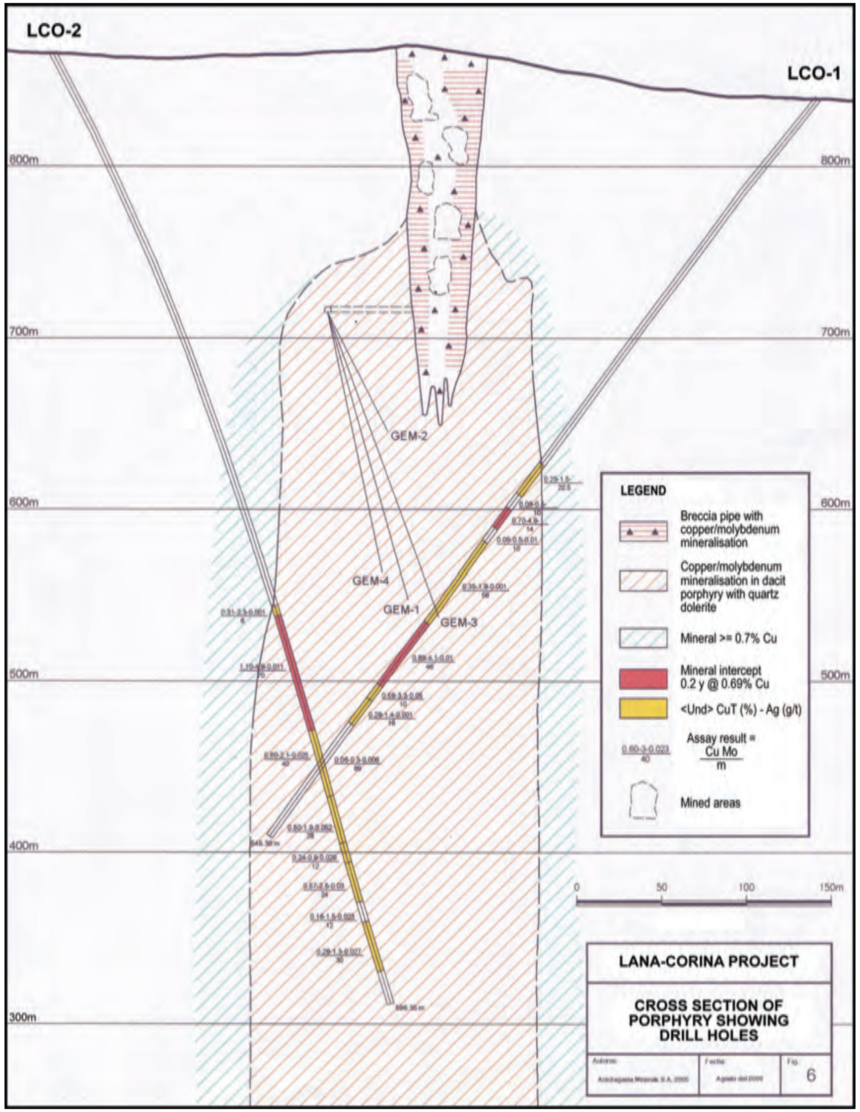
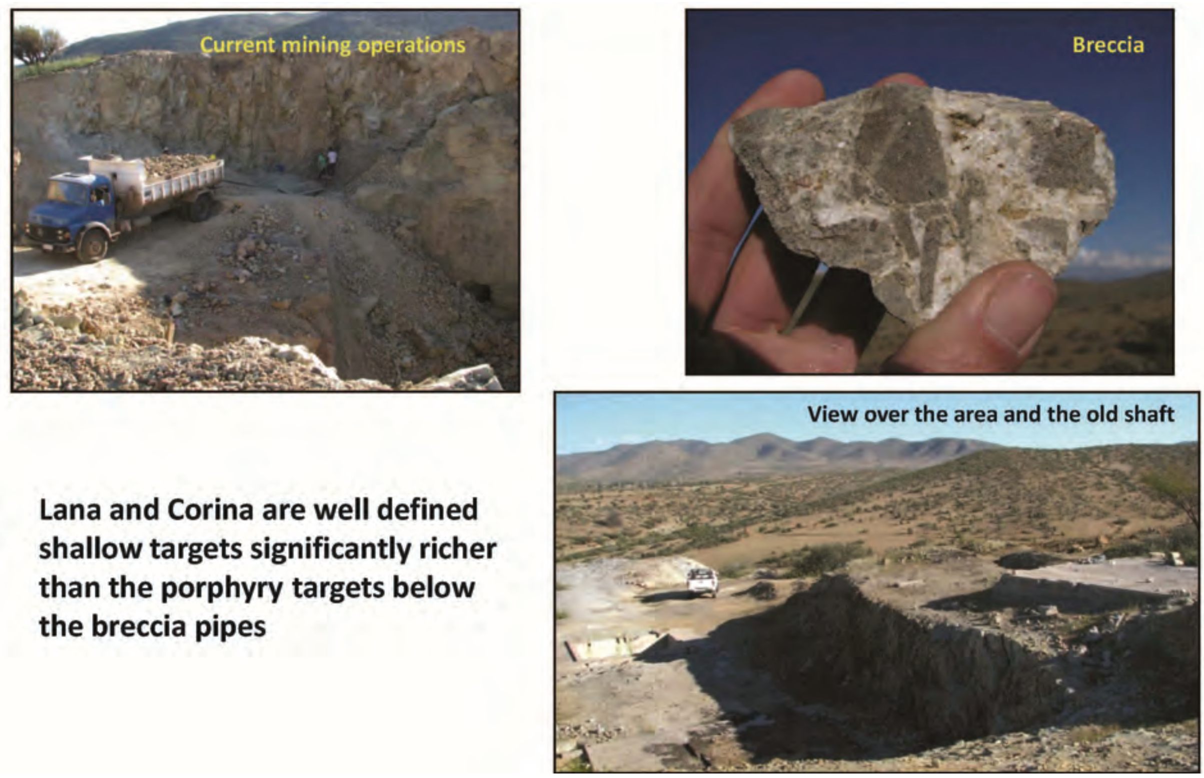



Figure 13: Lana-Corina Project Area Cross Section



# COMPANY PROJECTS




### Agreement Terms

On 22 August 2010, Alara Resources Limited entered into a term sheet (dated 17 August 2010) (the **Term Sheet**) with Chilean vendors of the El Quillay Copper-Gold Project in Chile, Inversiones EM DOS Limitada and Mr Miguel Nenadovich del Río (the **Vendors**) pursuant to which upon completion of due diligence to the satisfaction of Alara (originally 60 days but which has subsequently been extended by mutual agreement for a further 60 days to enable Alara's lawyers in Chile to complete their legal review of the mineral concessions) and the execution of a more definitive joint venture agreement (**JV Agreement**) between the parties, Alara will pay the Vendors US$500,000 and Alara will be granted an option to acquire 70% of a new joint venture entity (**JVCo**) (which will hold the mineral concessions) in consideration of 3 tranche payments totalling US$9.5 million to the Vendors over a 3 year term (**Earn-In Period**).

During the Earn-In Period, Alara will manage and fund all exploration, evaluation and development costs, including a minimum 20,000 metre drilling programme to be completed over the first two years of the Earn-In Period (with a minimum of 10,000 metres to be completed during the first year).

After the completion of the Earn-In, as a 70% shareholder, Alara will have Board and operational control of JVCo and will continue to fund development costs up to completion of a Definitive (Bankable) Feasibility Study (**DFS**) in respect of each copper prospect within the project area. Thereafter, the parties will contribute to all cash calls in proportion to their respective participating interests in JVCo or be diluted in accordance with an industry standard dilution formula.

Alara's due diligence investigations are on-going and the parties are progressing towards the execution of the more definitive JV Agreement. Alara envisages this to occur during the current quarter ending 31 December 2010.

Please refer to pages 36 and 37 of this Annual Report for further information on the El Quillay joint venture terms.

# COMPANY PROJECTS

## 3. Acquisition of Interest in Daris Copper Project (Oman)

(Alara – 50% with right to increase to 70%+)

In August 2010, Alara secured rights to acquire up to a 70% interest in the Daris Copper Project located in Oman.

Alara plans to pursue a twofold strategy in the project area:

(1) To develop high grade oxide / sulphide mineralisation that may be amenable to heap leaching or at custom treatment facilities nearby; and

(2) To explore shallow and deeper sulphide mineralisation using modern geophysical and geochemical techniques.

The proximity to the capital city, a paved highway and modern copper extraction facilities nearby (in Sohar) should assist in the development of early cash flow from any discoveries made in the Daris Project area.

Figure 14: Daris Copper Project Location


### Geology

The project is located in the Semail Ophiolite belt in Northern Oman that extends over 800km. This belt provides a prospective setting for Cyprus-type VMS copper gold deposits. In the past, the Government-owned Oman Mining Company has produced, mined and treated 14 million tonnes of copper resource at between 1-2% copper from open cut mines at their Lasail, Arja and Baida mines. More recently, a privately owned Omani Company has located a large resource of copper nearby within 50km from the Daris Project area.

Alara believes that the project area has the potential to host substantial copper mineralisation. During the course of its due diligence, Alara has identified a number of potential targets in addition to those previously drilled in the project area on a reconnaissance basis by the Government or consultants on its behalf. Drilling to date has identified the possibility of high grade oxide and sulphide mineralisation at shallow depths. The latest drilling was done in the 1990's.

# COMPANY PROJECTS

## Initial Drilling Programme

An initial 27 hole diamond and rotary drilling programme has been completed on targets identified by Alara.

The drilling campaign focused on two initial prospects within the concession to define a shallow oxide resource (21 rotary and 3 diamond core holes at the Daris East prospect) as well as a shallow high grade sulphide mineralisation (3 core diamond holes at the Daris 3A-5 prospect, approximately 10 kilometres south-east of Daris East), to build an exploration and development model for the project area. These are two of the twelve known copper occurrences within the Daris Project area.

### Daris 3A-5 Prospect

The 3 hole diamond core drilling programme at Daris 3A-5 was conducted to test shallow sulphide mineralisation around a known gossan, based upon previously conducted reconnaissance work by Oman Copper. All holes were drilled to a maximum depth of 72m. Significant intersections of exceptionally high grade massive copper sulphide mineralisation generally within a wider halo of gold mineralisation were encountered in all three diamond core holes drilled:

**Daris 3A-5 Hole D3DC003**:

- 17.20m at 8.05% copper, as copper sulphides and 2.67 g/t gold, from 51.50m including several intersections between 10% to 14.7% copper

**Daris 3A-5 Hole D3DC002**:

- 11.90m at 5.74% copper, as copper sulphides from 34.35m
- 3.45m at 10.28% copper (including 1m at 16.0% copper), as copper sulphides from 50.60m
- 17.85m at 2.61 g/t gold from 28.40m
- 3.45m at 3.10 g/t gold from 50.60m

**Daris 3A-5 Hole D3DC001**:

- 6.10m at 5.81% copper, as copper sulphides from 31.55m
- 18.65m at 3.80 g/t gold from 19.0m

The copper gold mineralisation occurs in a typical Cyprus type VMS environment within a relatively unexplored ophiolite sequence, where recent discoveries have highlighted the need for modern and systematic exploration.

Whilst exploration is still at an early stage at the Daris Copper Project, the Company is encouraged by these results given the intervals and grades of mineralisation at relatively shallow depths. Furthermore, there are numerous other known gossanous copper occurrences in the concession, including old workings dating back over a century with no record of recent exploration.

Copper mineralisation throughout the district generally occurs at a particular stratigraphic level as exhalative deposits at or near the contact between two submarine volcanic units and also as breccia pipes that feed mineral rich fluids into such deposits. Individual deposits vary considerably in size and grade.

The Company therefore notes that much more work needs to be done to build an economically minable quantity of mineralisation and that such high grades in sulphide zones are unusual for the district and may not be sustainable. To date the Company has only tested a strike distance within 70m from an outcropping gossan and therefore the extent of mineralisation along strike may well be limited.

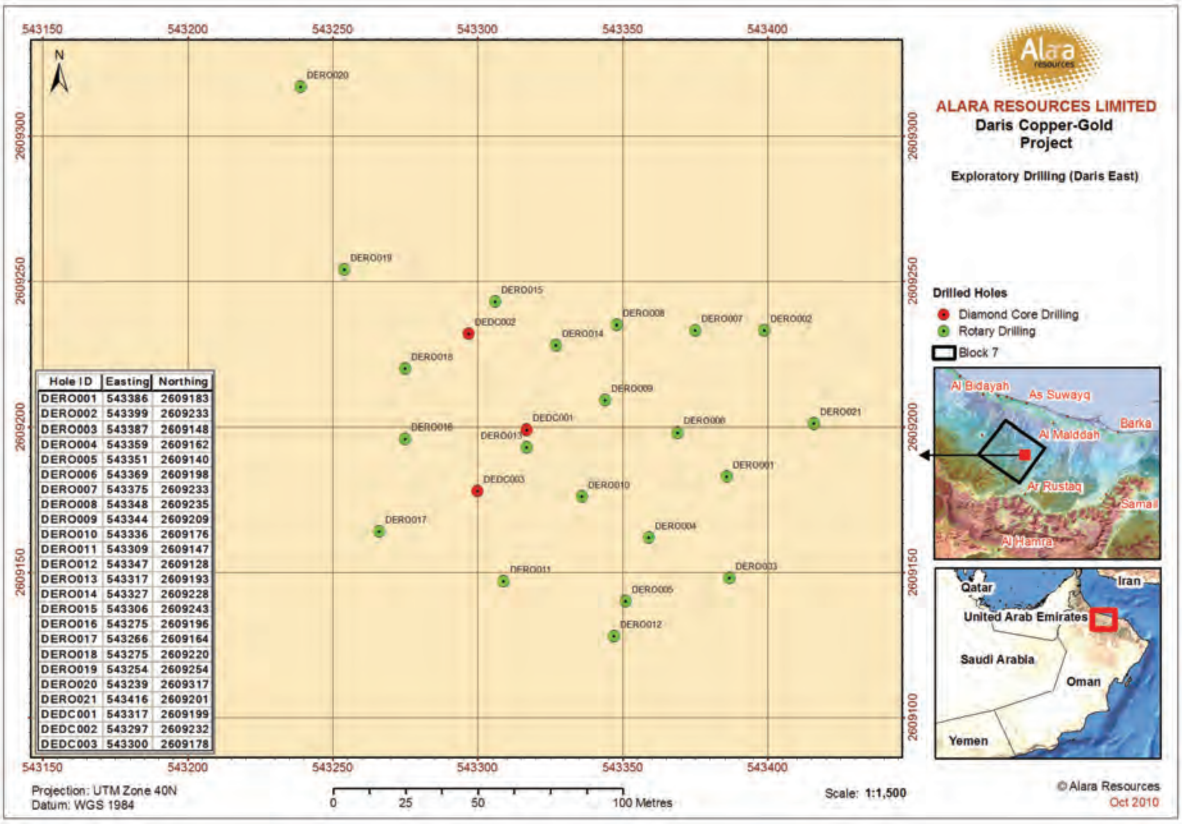
# COMPANY PROJECTS

**Daris East Prospect**

A 21 hole rotary and 3 diamond core drilling programme (with a cumulative metreage of 804 metres) was also conducted to test shallow oxide mineralisation approximately 10km south-east from the sulphide zone, for a potential heap leach operation and to locate massive sulphide zones beneath the oxide cap. An area of approximately 180 by 130 metres was drilled with close-spaced grid ranging from 20 to 40 metres

The 3 deeper diamond core holes (shown in red in the figure below) were undertaken to test the extension of sulphide mineralisation intersected in hole DERO 09.

Figure 15: Daris East Prospect - 24 Hole Initial Drilling Programme




Shallow oxide and sulphide mineralisation was intersected in 14 of the 21 rotary holes, with significant intersections of oxide mineralisation and average gold grades ranging upwards from 0.25 g/t to a maximum of 12.4 g/t.

Sulphide copper with an oxide cap was intersected in two drill holes (DERO009 and DERO018) drilled about 70m apart and open to the west.

**Summary of Significant Daris East Drill Hole Intersections:**

**DERO001**:

- 18m at 0.6% copper as copper oxide from 10m, including 3m at 1.1% copper from 21m.

**DERO004**:

- 8m at 1.26% copper as copper oxide from 28m.
- 8m at 2.88g/t gold from 1m, including 1m at 12.4 g/t from 4m.

# COMPANY PROJECTS

**DERO005**:

- 9m at 1.52g/t gold from 9m.

**DERO006**:

- 23m at 1.23% copper as copper oxide from 7m, including 1m at 2.7% copper from 17m.

**DERO009**:

- 4m at 5.33% copper as copper sulphides and 0.41g/t gold from 34m, including 1m at 6.46% copper from 34m.
- 7m at 2.45% copper as copper sulphides and 0.25g/t Gold from 38m.
- 2m at 1.02% copper as copper oxide from 27m.

**DERO010**:

- 1m at 5.34g/t gold from 13m (hole abandoned at 14m due to groundwater pressure and no sample return).

**DERO012**:

- 3m at 1.13% copper as copper oxide from 4m, and 5m at 1.54% copper as copper oxide from 21m.

**DERO013**:

- 12m at 1.54g/t gold from 7m.

**DERO014**:

- 7m at 2.45% copper as copper sulphides and 0.25g/t Gold from 38m.
- 12m at 1.16% copper as copper oxide from 33m, including 7m at 0.9% native copper from 34m.
- 14m at 0.30% copper as copper oxide from 14m.

**DERO015**:

- 3m at 1% copper as copper oxide from 22m.

**DERO018**:

- 14m at 0.54% copper as copper sulphides from 17m.
- 18m at 0.31g/t gold from 12m.

The Company is still awaiting assay results from the three diamond core holes as they were completed only recently, however visible massive sulphide mineralisation was logged in DEDC002 and oxide mineralisation in all three core holes DEDC001, DEDC002 and DEDC003.

The results of the drilling campaign have confirmed the presence of sulphide mineralisation over a strike distance of over 100m covered by a wider cap of oxide mineralisation with variable thicknesses and grades.

The Company is encouraged by the presence and continuity of sulphide mineralisation at relatively shallow depths and believes this affords the potential for further extension of mineralisation along strike and at depth.

Furthermore, the Company notes that the Daris East and Daris 3A-5 prospects that have been targeted to date comprise only two of a total of twelve known copper occurrences within the Daris Project area and there is therefore significant exploration upside in the Daris Project area.

Alara proposes to map all known occurrences and conduct an airborne or ground based EM survey over the project area within the next six months. After reviewing the results of this survey, a further drilling programme will be planned for the project.

# COMPANY PROJECTS

## Agreement Terms

On 28 August 2010, Alara Oman Operations Pty Limited, a wholly owned subsidiary of the Company, entered into a shareholders' agreement with Daris Copper Project concession holder, Al Tamman Trading Establishment LLC (**ATTE**) pursuant to which Alara will invest up to a total of US$7 million into a new joint venture company ("Daris Resources LLC" (**DarisCo**)) to gain up to a 70% shareholding. Alara will have 50% of DarisCo on incorporation (with the concession owner holding 50%) and will advance US$3 million as equity during a 3 year period. Thereafter, Alara will advance a further US$4 million to DarisCo as a loan (on commercial terms and repayable as a priority before distribution of dividends) - convertible into equity in DarisCo to take Alara's interest to 70%.

DarisCo will have exclusive rights under a management agreement with the concession owner to manage, operate and commercially exploit the concession.

The shareholders' agreement is subject to conditions precedent to be satisfied or waived by Alara within 6 months, including the incorporation of DarisCo, the execution of the management agreement and ancillary loan agreement and the concession being renewed with mineral rights expanded from copper to include gold, silver and other base metals. As at the date of this report, the conditions precedent have not been satisfied. Alara envisages this to occur during the current quarter ending 31 December 2010.

## Other Project Opportunities in Oman

Alara is also forming a new joint venture company ("Alara Resources LLC" (**AlaraCo**)) with Sur United International Co. LLC (**SUR**), to identify, secure and commercially exploit other resource projects in Oman.

On 8 August 2010, Alara Oman Operations Pty Limited entered into a shareholders' agreement with Sur United International Co. LLC (**SUR**) pursuant to which a new joint venture company ("Alara Resources LLC" (**AlaraCo**)) **will be established to** identify, secure and commercially exploit other resource projects in Oman. Alara will contribute 100% of the initial capital of 150,000 Omani Rials (RO) (equivalent to ~A$425,000) for a 70% shareholding interest in AlaraCo with SUR holding the balance of 30%. Thereafter, Alara will advance funds to AlaraCo as a loan (on commercial terms and repayable as a priority before distribution of dividends).

SUR is entitled to receive a priority payment out of net profits equivalent to 2% NSR (Net Smelter Return) – which amount is deducted from the dividend entitlement of SUR. There is a mechanism for the dilution of SUR's profit interest (ie. 30%) if SUR fails to meet capital calls after a 'Decison to Mine' has been made by Alara in respect of a proposed 'Mine' (supported by the results of any feasibility study confirming the commercial viability of the exploitation of a 'Mine'). If SUR's entitlement to dividends is diluted below 10% as above, SUR has an option to assign its dividend rights to Alara in return for a 2% NSR payment from AlaraCo, subject to AlaraCo making a net profit.

The shareholders agreement is subject to conditions precedent to be satisfied or waived by Alara within 6 months, including the incorporation of AlaraCo, the execution of an ancillary loan agreement and an exploration license being granted to AlaraCo – it is the intention of the parties for AlaraCo to lodge an application for an exploration licence over an open area prospective for base metals. As at the date of this report, the conditions precedent has not been satisfied. Alara envisages this to occur during the current quarter ending 31 December 2010.

Please refer to pages 37 and 38 of this Annual Report for further information on the Daris and AlaraCo joint venture terms.

# COMPANY PROJECTS

*NOTES:*

*The information in this Annual Report 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 Annual Report of the matters based on his information in the form and context in which it appears.*

*Mr Madan also accepts responsibility for the accuracy of the statements of historical (pre-JORC Code or before the requirement to name the Competent Person) estimates and foreign resource and reserve estimates currently not reported in accordance with the JORC Code, reported in the Company's announcement dated 5 October 2010 and entitled "Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia" (reproduced at pages 10 to 23 of this Annual Report) based on previously prepared reports and the accuracy of the information disclosed in this report to address the Requirements for Non-JORC Code Compliant Historical and Foreign Reporting in the Joint Statement of ASX and JORC reported in the ASX Companies Update No. 11/07 dated 5 December 2007.*

*The Company's announcement dated 5 October 2010 and entitled "Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia" (reproduced at pages 10 to 23 of this Annual Report) is consistent with the guidance contained in ASX Companies Update No. 11/07 (Historical estimates and foreign resource and reserve estimates, currently not reported in accordance with the JORC Code) dated 5 December 2007 and Companies Update No. 05/04 (JORC Code Compliance, Chapter 5 of ASX Listing Rules) dated 25 March 2004.*

*The Company has obtained a waiver from ASX Listing Rule 5.6 for the purposes of reporting statements of estimates and foreign resource and reserve estimates currently not reported in accordance with the JORC Code, in the Company's announcement dated 5 October 2010 and entitled "Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia" (reproduced at pages 10 to 23 of this Annual Report).*

# DIRECTORS' REPORT

The Directors present their report on Alara Resources Limited (**Company** or **AUQ**) and its controlled entities (the **Consolidated Entity** of **Alara**) for the financial year ended 30 June 2010 (**Balance Date**).

Alara has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

## PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year were:

- the maintenance of its existing early-stage exploration projects;
- the pursuit of new resource projects for investment, exploration, evaluation and development; and
- the management of its net assets.

## OPERATING RESULTS

| Consolidated | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Total revenue | 493,552 | 444,420 |
| Total expenses | (2,300,866) | (9,308,774) |
| Loss before tax | (1,807,314) | (8,864,354) |
| Income tax benefit | 3,036 | - |
| Net loss after tax attributable to members | (1,804,278) | (8,864,354) |

Total revenue includes:

(1) $208,326 interest received (2009: $444,420); and

(2) $285,226 net gain on financial assets held at fair value through profit or loss (2009: $272,571 net loss).

Total expenses include:

(1) $164,805 costs in relation to resources projects (2009: $256,398);

(2) $103,055 impairment of resource projects (2009: $6,610,985);

(3) $822,317 personnel expenses – options remuneration (non-cash) (2009: $843,168);

(4) $766,753 personnel expenses – cash remuneration (2009: $830,312); and

(5) $104,830 travel, accommodation and incidentals (2009: $24,705).

## LOSS PER SHARE

| Consolidated | 2010 | 2009 |
|---|---|---|
| Basic loss per share (cents) | (2.24) | (11.01) |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share | 80,507,500 | 80,507,500 |

## DIVIDENDS

No dividends have been paid or declared during the financial year.

# DIRECTORS' REPORT

## FINANCIAL POSITION

| Consolidated Entity | 2010 $ | 2009 $ |
|---|---|---|
| Cash | 4,309,770 | 5,492,074 |
| Financial assets held at fair value through profit and loss | 1,786,260 | 1,501,034 |
| Receivables | 145,126 | 138,175 |
| Resource projects | - | - |
| Other assets | 42,175 | 66,325 |
| **Total assets** | 6,283,331 | 7,197,608 |
| Payables | (496,801) | (119,966) |
| Provisions | (68,001) | (80,541) |
| **Total liabilities** | (564,802) | (200,507) |
| **Net assets** | 5,718,529 | 6,997,101 |
| Issued capital | 14,754,059 | 14,754,059 |
| Reserves | 1,523,171 | 5,057,118 |
| Accumulated losses | (10,558,701) | (12,814,076) |
| **Total equity** | 5,718,529 | 6,997,101 |

## REVIEW OF OPERATIONS

### 1. Company Projects

Alara Resources Limited (ASX Code: AUQ) is an Australian-based mineral exploration and development company. Alara has a current portfolio of exploration projects in Oman, Chile, Peru and Australia as follows:

| PROJECTS | | LOCATION |
|---|---|---|
| (1) | El Quillay Copper-Gold | Chile |
| (2) | Daris Copper | Oman |
| (3) | Bigrlyi South Uranium | Northern Territory, Australia |
| (4) | Canning Well Base Metals | Pilbara, Western Australia |
| (5) | Mt James Uranium | Gascoyne, Western Australia |
| (6) | Crucero, Pampacolca and Coasa Uranium | Peru |

Alara has reviewed and discounted a number of new exploration opportunities and has recently acquired interests in the Daris Copper Project (Oman) and the El Quillay Copper-Gold Project (Chile). The Company is currently in negotiations with vendors in relation to the acquisition of one or more other overseas resource projects

Alara has reduced exploration expenditure on its existing early-stage Australian and Peruvian exploration projects.

No field work was conducted during the financial year and none is planned in the Mt James, Canning Well, Crucero, Pampacolca and Coasa Project areas. The Bigrlyi South Uranium Project and the granted Canning Well Project tenement (EL 46/629) have been farmed out to ASX listed joint venture parties.

# DIRECTORS' REPORT

## 1. Acquisition of Interest in El Quillay Copper-Gold Project (Chile)

(Alara - right to earn-in 70%)

In August 2010, Alara secured rights to acquire (subject to completion of due diligence) a 70% interest in the El Quillay Copper/Gold Project located in the north of Chile.

The project is located south of the town of El Quillay, ~350 kilometres north of Santiago (the capital of Chile) and comprises 68 concessions totaling ~15,000 hectares across four project areas located within a radius of ~10 kilometres.

**Geology**

Work previously conducted by the vendors (which is the subject to due diligence to be conducted by Alara) indicates that the El Quillay deposit is formed by a series of lentiform mineralised bodies, containing Cu, Cu-Au-Ag and Cu-Au ore. These structures appear to be located within a belt ~6 kilometres long, with NS to NNW strike, related to a low angle fault system.

The mineralised bodies are hosted by volcanic andesitic rocks which show hydrothermal-metasomatic alteration. These mainly contain silica (quartz), sericite, albite-adularia, chlorite-epidote and hematite.

The lengths of the lenses (3 bodies of this type have been recognised to date) potentially range from 300 to 1,000 metres with widths ranging from 20 to 200 metres. The mineralisation appears in the shape of veins, veinlets-stockwork and disseminations. The oxidation zone reaches up to 25 metres depth. Thereafter the primary sulphide zone has been observed to continue to a depth of at least 80 metres in old workings. The widths of mineralisation indicate the potential for open cut mining. The mineralisation appears to continue over a strike length of ~3 kilometres. The hydrothermal alteration has been observed to continue over a further ~3 kilometres.

Alara will develop an initial exploration programme over priority targets within the project area as a precursor to the commencement of a staged 20,000 metre drilling programme over the next 12 months.

**Joint Venture Terms**

Under the terms of a term sheet (dated 17 August 2010) (the **Term Sheet**) entered into between Alara and Chilean vendors, Inversiones EM DOS Limitada and Mr Miguel Nenadovich del Río (the **Vendors**):

(i) Alara has 60 days to complete its due diligence analysis of the project;

(ii) The Vendors will establish a new joint venture entity (**JVCo**) in Chile to hold the concessions;

(iii) Upon completion of due diligence to the satisfaction of Alara and the execution of a more definitive joint venture agreement (**JV Agreement**) between the parties, Alara will pay the Vendors US$500,000 and JVCO will permit Alara to register a lien over the concessions;

(iv) Alara will be granted an option to acquire 70% of JVCo in consideration of the following payments to the Vendors over a 3 year term (**Earn-In Period**):

  (a) US$1,000,000 due and payable on or before the first anniversary of the JV Agreement;

  (b) US$3,000,000 due and payable on or before the second anniversary of the JV Agreement;

  (c) US$5,500,000 due and payable on or before the third anniversary of the JV Agreement;

  (d) A 'Resource Bonus' due and payable on or before the earlier of commencement of production or the third anniversary of the JV Agreement;

(v) The 'Resource Bonus' is calculated at the rate of US$0.0255 per pound of contained fine copper equivalent grading at or above 0.7% Cu defined as being economically mineable (within a JORC Proven and/or Probable Reserve and Measured and/or Indicated Resource) within the project area during the Earn-In Period, in excess of a threshold 250,000 tonnes of contained fine copper equivalent grading grading at or above 0.7% Cu (**Threshold Resource)**.

(vi) During the Earn-In Period, Alara will manage and fund all exploration, evaluation and development costs in relation to the project, including a minimum 20,000 metre drilling programme to be completed over the first two years of the Earn-In Period (with a minimum of 10,000 metres to be completed during the first year);

(vii) After the completion of the above Vendor payments (US$10 million plus the 'Resource Bonus') and the completion of a 20,000 metre drilling programme (the **Earn-In**), Alara will secure a 70% shareholding interest in JVCo;

# DIRECTORS' REPORT

(viii) After the completion of the Earn-In, Alara will continue to manage and fund all exploration, evaluation and development costs up to completion of a Definitive (Bankable) Feasibility Study (**DFS**) in respect of each copper prospect within the project area;

(ix) Thereafter, the parties will contribute to all cash calls in proportion to their respective participating interests in JVCo or be diluted in accordance with an industry standard dilution formula;

(x) Alara further commits to advancing loan funds of up to US$10 million to the Vendors (on commercial terms) to fund the Vendors' share of cash calls into JVCo (after the completion of a DFS) – this loan will be repaid to Alara out of the Vendors' share of profits from JVCo;

(xi) After the Earn-In Period, a further 'Resource Bonus' is payable to the Vendors (calculated in the same manner as described above) in respect of additional contained fine copper defined within the project area (or processed by JVCo at average grades below 0.7% Cu equivalent) in excess of the Threshold Resource; and

(xii) After the Earn-In, Alara shall have Board and operational control of JVCo.

Alara's due diligence investigations are on-going and the parties are progressing towards the execution of the more definitive JV Agreement.

## 2. Acquisition of Interest in Daris Copper Project (Oman)

(Alara - right to earn-in 70%)

In August 2010, Alara secured rights to acquire up to a 70% interest in the Daris Copper Project located in Oman.

The project is located ~150 km west of Muscat, the capital of Oman and currently comprises a mineral excavation license for copper ores of ~58,728 hectares. The concession owner is seeking to renew the license with mineral rights expanded from copper to include gold, silver and other base metals.

**Geology**

The project is located in the Semail Ophiolite belt in Northern Oman that extends over 800km. This belt provides a prospective setting for Cyprus-type VMS copper gold deposits. In the past, the Government-owned Oman Mining Company has produced, mined and treated 14 million tonnes of copper resource at between 1-2% copper from open cut mines at their Lasail, Arja and Baida mines. More recently, a privately owned Omani Company has located a large resource of copper nearby within 50km from the Project area.

Alara believes that the project area has the potential to host substantial copper mineralisation. During the course of its due diligence, Alara has identified a number of potential targets in addition to those previously drilled in the project area on a reconnaissance basis by the Government or consultants on its behalf. Drilling to date has identified the possibility of high grade oxide and sulphide mineralisation at shallow depths. The latest drilling was done in the 1990's.

Alara plans to pursue a twofold strategy in the project area:

(1) To develop high grade oxide resources that may be amenable to heap leaching; and

(2) To explore shallow and deeper sulphide mineralisation using modern geophysical techniques.

The proximity to the capital city, a paved highway and modern copper extraction facilities nearby (in Sohar) should assist in the development of early cash flow from any discoveries made in the project area.

**Initial Drilling Programme**

An initial ~25 hole diamond and percussion drilling programme using two drill rigs has commenced on targets identified by Alara. The drilling campaign is focused on 2 prospects within the concession to define a shallow oxide resource as well as a shallow high grade sulphide mineralisation, with a view to development as well as understanding and building an exploration model for the area.

**Joint Venture Terms**

(1) Under a Shareholders' Agreement (dated 28 August 2010) entered into between Alara and the concession holder, Al Tamman Trading Establishment LLC (**ATTE**), Alara will invest up to a total of US$7 million into a new joint venture company ("Daris Resources LLC" (**DarisCo**)) to gain up to a 70% shareholding. Alara will have 50% of DarisCo on incorporation (with the concession owner holding 50%) and will advance

# DIRECTORS' REPORT

US$3 million as equity during a 3 year period. Thereafter, Alara will advance a further US$4 million to DarisCo as a loan (on commercial terms and repayable as a priority before distribution of dividends) - convertible into equity in DarisCo to take Alara's interest to 70%.

(2) DarisCo will have exclusive rights under a management agreement with the concession owner to manage, operate and commercially exploit the concession. There are no vendor payments to the concession owner.

(3) The Shareholders Agreement is subject to conditions precedent to be satisfied or waived by Alara within 6 months, including the incorporation of DarisCo, the execution of the management agreement and ancillary and loan agreement and the concession being renewed with mineral rights expanded from copper to include gold, silver and other base metals.

**Other Project Opportunities in Oman**

Alara is also forming a new joint venture company ("Alara Resources LLC" (**AlaraCo**)) with Sur United International Co. LLC (**SUR**), to identify, secure and commercially exploit other resource projects in Oman.

Under the terms of a shareholders' agreement (dated 8 August 2010) between Alara and SUR:

(1) Alara will contribute 100% of the initial capital of 150,000 RO (equivalent to ~US$400,000) for a 70% shareholding interest in AlaraCo with SUR holding the balance of 30%. Thereafter, Alara will advance funds to AlaraCo as a loan (on commercial terms and repayable as a priority before distribution of dividends);

(2) SUR is entitled to receive a priority payment out of net profits equivalent to 2% NSR (Net Smelter Return) – which amount is deducted from the dividend entitlement of SUR;

(3) There is a mechanism for the dilution of SUR's profit interest (ie. 30%) if SUR fails to meet capital calls after a 'Decison to Mine' has been made by Alara in respect of a proposed 'Mine' (supported by the results of any feasibility study confirming the commercial viability of the exploitation of a 'Mine'). If SUR's entitlement to dividends is diluted below 10% as above, SUR has an option to assign its dividend rights to Alara in return for a 2% NSR payment from AlaraCo, subject to AlaraCo making a net profit.

## 3. Future Capital Raising

The Directors contemplate that the Company will be undertaking a capital raising to:

(a) fund the Consolidated Entity's commitments (being vendor payments and exploration and evaluation expenditure commitments) under the El Quillay Project and Daris Project joint ventures;

(b) fund commitments under new acquisitions undertaken by the Consolidated Entity (if any); and

(c) supplement existing cash reserves to meet the Consolidated Entity's other working capital requirements.

## 4. Canning Well Manganese Farm Out Agreement

In March 2010, Alara entered into a farm-out agreement with Process Minerals International Pty Ltd (**PMI**), a subsidiary of ASX-listed Mineral Resources Limited (ASX Code: MIN), for the potential mining of manganese from Alara's Canning Well tenement in the East Pilbara region of Western Australia. Mineral Resources Limited is an integrated Australian-based mining services and processing company with operations in contract crushing, general mine services, infrastructure provision and recovery of base metal concentrate for export, including the mining and sale of manganese in the Pilbara.

Under the agreement, PMI will determine the feasibility of a manganese mining operation on the Canning Well EL 46/629 tenement. If the operation is feasible, PMI will acquire the manganese rights in the tenement and develop an operation to mine and process manganese from the tenement. Upon commencement of mining, PMI will pay Alara ~A$4.20 per dry metric tonne of manganese fines and lump mined - subject to variation in accordance with manganese price benchmarks and to the levels of manganese fines and lump produced.

The Canning Well tenement is located in the Eastern Pilbara region of Western Australia, approximately 360 kilometres south-east of Port Hedland. A MAGLAG sampling programme carried out by Alara targeting sulphide anomalies yielded samples analysing as high as 9.6% manganese (Mn). A follow-up rock chip sampling programme identified outcropping manganiferous rocks analysing up to 55.3% Mn.

# DIRECTORS' REPORT

PMI has conducted an evaluation of exploration data (including Alara's mag/lag and rock chip samples) and is planning further interpretation of magnetic and gravity data and field work (rock chip sampling) on the tenement.

### 5. Bigrlyi South Uranium (Northern Territory) Joint Venture

(Alara 30% with Thundelarra Exploration Ltd having a right to earn-in 70%)

Under a joint venture agreement, ASX listed Thundelarra Exploration Ltd (ASX Code: THX) is earning-in a 70% interest in Exploration Licenses EL 24879, EL 24928 and EL 24929 by incurring $750,000 of expenditure on these tenements over a period of 5 years from the date of the agreement on 12 May 2009 and a 70% interest in Exploration License application EL 24927 by incurring $750,000 of expenditure on this tenement over a period of 5 years from the date of grant.

Thundelarra has tenements (~1,950 km$^2$) contiguous with Alara's tenements (~1,350km$^2$) in the Bigrlyi South project area, located ~350 kilometres north-west of Alice Springs in the Northern Territory of Australia and adjacent to tenements surrounding the Bigrlyi uranium deposit (being developed by Energy Metals Limited – ASX Code: "EME").

Thundelarra has advised Alara that it has undertaken the following activities during and since the end of the financial year:

(a) Thundelarra has recovered digital seismic data from Magellan Petroleum's vaults in Brisbane. This data has been transcribed on to modern media with data recovery specialists in Perth. At least 15 seismic lines have been surveyed over the joint venture area. Field observations by Thundelarra's structural geologist have indicated the deformation of the sediments to be associated with the Yuendumu Thrust, which further refines the interpretation of gravity data;

(b) A confidentiality agreement has been signed in relation to tenement ELA 24927 (under application) with the Central Land Council (**CLC**) and negotiations with the CLC are on-going in relation to a Tripartite Deed for the conduct of exploration on the tenement, as a precursor to the grant of the tenement;

(c) Thundelarra entered into an agreement for the Joint Surveys Uranium (JSU) Project with CSIRO, the Northern Territory Geological Survey (NTGS) and 2 other ASX listed resource companies. This collaborative project will involve detailed investigations by CSIRO scientists (which include the application of several CSIRO technologies) at the Bigrlyi uranium project site, surrounding prospects (which include Alara's Bigrlyi South project area) and the surrounding Ngalia Basin region. These investigations will assist the Alara/ Thundelarra joint venture in the interpretation of magnetic, gravity and seismic datasets;

(d) CSIRO has completed 3D geological modeling of the Bigrlyi prospect (which includes Alara's Bigrlyi South project area) and the surrounding Ngalia Basin region and ASTER satellite night-time thermal imagery data has been processed - a major paleochannel system has been interpreted from this process. Data compilation and analysis is on-going;

(e) Thundelarra has obtained a grant of $100,000 from the NT government to conduct a regional airborne EM survey (which includes Alara's Bigrlyi South project area) to map the thickness of the Tertiary sequence, target Tertiary paleochannels, map lithological variation (e.g. shale vs. sandstone) within the Mt Eclipse Sandstone to provide paleo-permeability constraints and detect potential large massive sulphide deposits. This airborne survey is expected to commence in October 2010;

(f) Thundelarra is in the process of obtaining heritage and regulatory approvals for a regional 53-hole air-core drilling programme (which includes Alara's Bigrlyi South project area) to test Tertiary targets and thickness and provide interface sampling on the Mt Eclipse Sandstone.

# DIRECTORS' REPORT

### 6. Termination of Farm-In Agreements

During the financial year, Alara terminated two farm-in agreements within its Mt James Project in Western Australia as follows:

| Status | Tenement | Location / Property Name | Previous Company's Interest |
|---|---|---|---|
| Alara terminated the farm-in agreement with Epsilon Energy Limited | EL 09/1195 | Mt James | Right to earn up to a 60% interest (from Epsilon Energy Limited) |
| | EL 09/1196 | Mt James | |
| Alara terminated the farm-in agreement with United Orogen Limited (formerly Uranium Oil & Gas Limited)/Helen Mary Ansell | E 09/1245 | Rubberoid Well | 70% held by Alara Operations Pty Ltd (30% retained by United Orogen Limited (formerly Uranium Oil & Gas Limited)/Helen Mary Ansell) |

During the financial year, Alara also terminated an agreement with Sheridan Platinum Group Peru S.A.C in relation to the Rosita 2007 Concession, within the Crucero Project area in Peru.

Alara had determined that, based on exploration activities undertaken to date, that continuing with the exploration activities and expenditure on these tenements/concession was not commercially appropriate. Alara had maintained the tenements/concession in good standing up to the date of withdrawal and has no further liability to the vendors under their respective farm-in agreements.

### 7. Share Investments

As at 30 June 2010, Alara's investment in listed securities had a total value of $1.79 million (30 June 2009: $1.5 million). Alara has posted a $0.29 million unrealised net gain on its share investments for the financial year ended 30 June 2010 (30 June 2009: $0.27 million net loss).

## SECURITIES IN THE COMPANY

### 1. Current Issued Capital

The Company had the following total securities on issue as at the date of this report:

| | Quoted on ASX | Unlisted | Total |
|---|---|---|---|
| Fully paid ordinary shares | 80,507,500 | - | 80,507,500 |
| $0.55 (26 July 2012) Unlisted Options[7] | - | 500,000 | 500,000 |
| $0.35 (16 September 2013) Unlisted Options[8] | - | 16,400,000 | 16,400,000 |
| $0.35 (16 September 2013) Unlisted Options[8] | - | 1,035,000 | 1,035,000 |
| $0.35 (25 October 2014) Unlisted Options[9] | - | 3,650,000 | 3,650,000 |
| $0.60 (25 October 2014) Unlisted Options[9] | - | 2,000,000 | 2,000,000 |
| $0.35 (22 August 2015) Unlisted Options[10] | - | 400,000 | 400,000 |
| **Total** | **80,507,500** | **23,985,000** | **104,492,500** |

[7] Terms and conditions of issue are set out in a Notice of Meeting and Explanatory Statement dated 21 June 2007 for a General Meeting held on 7 July 2007 and in an ASX Appendix 3B New Issue Announcement lodged on 3 August 2007

[8] Terms and conditions of issue are set out in a Notice of Meeting and Explanatory Statement dated 18 August 2008 for a General Meeting held on 17 September 2008 and in an ASX Appendix 3B New Issue Announcement lodged on 24 September 2008

[9] Terms and conditions of issue are set out in a Notice of Meeting and Explanatory Statement dated 26 October 2009 for an Annual General Meeting held on 30 November 2009 and in ASX Appendix 3B New Issue Announcements lodged on 26 October 2009 and 1 December 2009

[10] Terms and conditions of issue are set out in an ASX Appendix 3B New Issue Announcements lodged on 23 August 2010

# DIRECTORS' REPORT

**2. Summary of Unlisted Directors' and Employee Options Issued/Lapsed**

During and subsequent to the end of the financial year, the Company issued the following unlisted Directors' and Employees' options:

(a) The Company issued the following unlisted options to employees, as part of a review of their remuneration package:

| No. of Options Issued | Date of Issue | Description of Unlisted Options | Exercise Price | Expiry Date | Vesting Criteria |
|---|---|---|---|---|---|
| 1,000,000 | 26 October 2009 | $0.60 (25 October 2014) Options | $0.60 | 25 October 2014 | 100% on date of issue |
| 1,650,000 | 26 October 2009 | $0.35 (25 October 2014) Options | $0.35 | 25 October 2014 | 100% on date of issue |
| 400,000 | 23 August 2010 | $0.35 (22 August 2015) Options | $0.35 | 22 August 2015 | 100% on date of issue |

(b) The Company issued the following unlisted options to Director, William Johnson, after receiving shareholder approval at the Company's annual general meeting held on 30 November 2009:

| No. of Options Issued | Date of Issue | Description of Unlisted Options | Exercise Price | Expiry Date | Vesting Criteria |
|---|---|---|---|---|---|
| 1,000,000 | 30 November 2009 | $0.60 (25 October 2014) Options | $0.60 | 25 October 2014 | 100% on date of issue |
| 2,000,000 | 30 November 2009 | $0.35 (25 October 2014) Options | $0.35 | 25 October 2014 | 100% on date of issue |

During and subsequent to the end of the financial year, the following unlisted employee' and director's options lapsed:

| No. of Options | Date of Lapse | Description of Unlisted Options | Exercise Price | Expiry Date |
|---|---|---|---|---|
| 112,500 | 12 March 2010 | $0.35 (16 September 2013) Employee's Options | $0.35 | 16 September 2013 |
| 337,500 | 11 April 2010 | $0.35 (16 September 2013) Employee's Options | $0.35 | 16 September 2013 |
| 900,000 | 19 August 2010 | $0.35 (16 September 2013) Director's Unlisted Options | $0.35 | 16 September 2013 |

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity that occurred during the financial year not otherwise disclosed in this Directors' Report or the financial statements.

## FUTURE DEVELOPMENTS

The Consolidated Entity notes the Carbon Pollution Reduction Scheme (**CPRS**) previously announced by Government. As the CPRS (or a form of the same) has not yet been implemented, the Directors are unable to reliably quantify the potential future impact of both direct and indirect costs related to this scheme. As such any costs associated with the CPRS have not been taken into account when preparing budgets, forecasts and/or valuation models for measurement of recognised amounts.

In the opinion of the Directors, it may prejudice the interests of the Consolidated Entity to provide additional information (beyond that reported in this Directors' Report) in relation to future developments and the business strategies and operations of the Consolidated Entity and the expected results of those operations in subsequent financial years.

# DIRECTORS' REPORT

## ENVIRONMENTAL REGULATION AND PERFORMANCE

In the course of its mineral exploration, evaluation and development activities, the Consolidated Entity adheres to mineral tenement/concession licence conditions and environmental regulations imposed upon it by various authorities. The Consolidated Entity has complied with all licence conditions and environment requirements up to the date of this report. There have been no material breaches of the Consolidated Entity's licence conditions and environmental regulations.

The Consolidated Entity notes the reporting requirements of both the *Energy Efficiency Opportunities Act 2006* (**EEOA**) and the *National Greenhouse and Energy Reporting Act 2007* (**NGERA**). The *Energy Efficiency Opportunities Act 2006* requires affected companies to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the company intends to take as a result. The *National Greenhouse and Energy Reporting Act 2007* requires affected companies to report its annual greenhouse gas emissions and energy use.

The Consolidated Entity has determined that it does not operate a recognised facility requiring registration and reporting under the NGERA and in any event, it would fall under the threshold of greenhouse gas emissions required for registration and reporting. Similarly, the Consolidated Entity's energy consumption would fall under the threshold required for registration and reporting under the EEOA.

The Consolidated Entity is not otherwise subject to any particular or significant environmental regulation under either Commonwealth or State legislation. To the extent that any environmental regulations may have an incidental impact on the Consolidated Entity's operations, the Directors are not aware of any breach by the Consolidated Entity of those regulations.

## LEGAL PROCEEDINGS ON BEHALF OF CONSOLIDATED ENTITY

No person has applied for leave of a court to bring proceedings on behalf of the Consolidated Entity or intervene in any proceedings to which the Consolidated Entity is a party for the purpose of taking responsibility on behalf of the Consolidated Entity for all or any part of such proceedings. The Consolidated Entity was not a party to any such proceedings during and since the financial year.

## BOARD OF DIRECTORS

Information concerning Directors in office during or since the financial year is as follows:

| **H. Shanker Madan** | **Managing Director** |
|---|---|
| *Appointed* | 18 May 2007 |
| *Qualifications* | Honours and Masters Science degrees in Applied Geology |
| *Experience* | Mr Madan has had world-wide experience in the exploration and evaluation of mineral deposits for various commodities. Mr Madan has been a Manager with Hamersley Iron, Group Leader with BHP Minerals, Chief Geologist with Hancock and Wright Prospecting and a Senior Geological Consultant to the Rio Tinto Group.<br><br>Mr Madan has managed a range of mineral evaluation studies in Iran, Brazil and Western Australia for BHP, Rio Tinto and Hamersley Iron. He has also acted as a consultant to Rio Tinto, Ashton Mining and others on mineral projects in Brazil, South Africa, India, the Philippines, Fiji and United States, working on a range of iron-ore, diamonds, gold, copper and chromite deposits.<br><br>He has been involved in the discovery of 3 world class iron deposits in Western Australia for TexasGulf and BHP Minerals. From 1997 to 2001, Mr Madan managed the evaluation of resource projects for Hamersley Iron and completed a resource due diligence study of the billion-dollar West Angelas project in the Pilbara region of Western Australia. |
| *Relevant interest in securities* | Shares – 278,375[11]<br>Unlisted $0.35 (16 September 2013) Options – 8,200,000 |
| *Other current directorships in listed entities* | Non-Executive Chairman of Strike Resources Limited (SRK) (since 25 March 2010) (Managing Director of SRK between 26 September 2005 and 24 March 2010) |

[11] Held jointly: Mr Hem Shanker Madan & Mrs Anupam Shobha Madan <The AS and HS Madan S/F A/C>

# DIRECTORS' REPORT

| **Farooq Khan** | **Executive Director** |
|---|---|
| *Appointed* | 18 May 2007 |
| *Qualifications* | BJuris , LLB. (*Western Australia*) |
| *Experience* | Mr Khan is a qualified lawyer having previously practised principally in the field of corporate law. Mr Khan has extensive experience in the securities industry, capital markets and the executive management of ASX listed companies. In particular, Mr Khan has guided the establishment and growth of a number of public listed companies in the investment, mining and financial services sector. He has considerable experience in the fields of capital raisings, mergers and acquisitions and investments. |
| *Relevant interest in securities* | Shares – 98,242 (directly) and 9,332,744 indirectly[12]<br>Unlisted $0.35 (16 September 2013) Options – 8,200,000 directly |
| *Other current directorships in listed entities* | Current Chairman and Managing Director of:<br>(1) Queste Communications Ltd (QUE) (since 10 March 1998)<br>Current Executive Chairman of:<br>(2) Orion Equities Limited (OEQ) (since 23 October 2006)<br>(3) Bentley Capital Limited (BEL) (director since 2 December 2003)<br>Current Non-Executive Director of:<br>(4) Strike Resources Limited (SRK) (since 9 September 1999)<br>(5) ITS Capital Limited (ITS) (since 27 April 2006) |

| **William M. Johnson** | **Executive Director** |
|---|---|
| *Appointed* | 26 October 2009 |
| *Qualifications* | MA (Oxon), MBA |
| *Experience* | Mr Johnson commenced his career in resource exploration and has most recently held senior management and executive roles in a number of public companies in Australia, New Zealand and Asia. Mr Johnson brings a considerable depth of experience in business strategy, investment analysis, finance and execution. |
| *Relevant interest in securities* | Shares – 27,000[13]<br>Unlisted $0.60 (25 October 2014) Options – 1,000,000<br>Unlisted $0.35 (25 October 2014) Options – 2,000,000 |
| *Other current directorships in listed entities* | Current Executive Director of:<br>(1) Orion Equities Limited (OEQ) (since 28 February 2003)<br>(2) Bentley Capital Limited (BEL) (since 13 March 2009)<br>Current Non-Executive Director of:<br>(3) Strike Resources Limited (SRK) (14 July 2006) |
| *Former directorships in other listed entities in past 3 years* | (1) Drillsearch Energy Limited (DLS) (24 October 2006 to 11 August 2008)<br>(2) Scarborough Equities Limited (merged with BEL on 13 March 2009 and delisted)<br>*(3)* Sofcom Limited (SOF) (18 October 2005 to 19 March 2008) |

12 Held indirectly: Mr Khan is deemed under the Corporations Act to have a relevant interest in 9,332,744 shares held by Orion Equities Limited (**OEQ**) as Mr Khan has a greater than 20% interest in Queste Communications Ltd (**QUE**), which is deemed to be in control of OEQ, Mr Khan also holds 98,242 shares directly.

13 Held jointly: Mr William Matthew Johnson & Mrs Joanne Doris Johnson <WIJOA SUPER FUND A/C>

# DIRECTORS' REPORT

| **John Stephenson** | **Former Chairman** |
|---|---|
| *Appointed* | 18 May 2007 |
| *Ceased* | 19 February 2010 |
| *Qualifications* | BSc (honours) in Geology from the University of London through the former University College of Rhodesia and a PhD in Geology from the University of Manitoba, Canada. |
| *Relevant interest in securities* | Shares – 217,072[14] |
| *Other directorships in listed entities* | Chairman of Strike Resources Limited (SRK) (26 October 2005 to 19 February 2010) |
| *Former directorships in other listed entities in past 3 years* | None |

**Vale – Chairman, Dr John Stephenson**

The Directors and staff of Alara are greatly saddened by the passing of Chairman Dr John Stephenson on 19 February 2010. In the breadth and depth of his experience in the mining industry, Dr Stephenson had few peers. His industry knowledge, sharp intellect and personal warmth made him an excellent leader, loved and respected by all who knew him. Dr Stephenson fought a battle with cancer, showing exemplary courage and determination. While his illness weakened his body, his great intellectual capacity was undiminished until the last. Dr Stephenson was a great friend and mentor to many in the Company. He will be greatly missed.

## COMPANY SECRETARY

| **Victor P. H. Ho** | **Company Secretary** |
|---|---|
| *Appointed* | 4 April 2007 |
| *Qualifications* | BCom, LLB (*Western Australia*) |
| *Experience* | Mr Ho has been in company secretarial/executive roles with a number of public listed companies since 2000. Previously, Mr Ho had 9 years experience in the taxation profession with the Australian Tax Office and in a specialist tax law firm. Mr Ho has extensive experience in the structuring and execution of commercial and corporate transactions, capital raisings, capital management matters, public company administration, corporations law and stock exchange compliance and shareholder relations. |
| *Relevant interest in securities* | Shares – 171,090<br>Unlisted \$0.35 (16 September 2013) Options – 700,000<br>Unlisted \$0.60 (25 October 2014) Options – 1,000,000<br>Unlisted \$0.35 (25 October 2014) Options – 1,650,000 |
| *Other positions held in listed entities* | Current Executive Director and Company Secretary of:<br>(1) Orion Equities Limited (OEQ) (Secretary since 2 August 2000 and Director since 4 July 2003)<br>Current Company Secretary of:<br>(2) Bentley Capital Limited (BEL) (since 5 February 2004)<br>(3) Queste Communications Ltd (QUE) (since 30 August 2000) |
| *Former directorships in other listed entities in past 3 years* | (1) Strike Resources Limited (Secretary between 9 March 2000 and 30 April 2010 and Director between 12 October 2000 and 30 April 2010)<br>(2) Scarborough Equities Limited (merged with BEL on 13 March 2009 and delisted)<br>(3) Sofcom Limited (SOF) (Director between 3 July 2002 and 19 March 2008; Secretary between 23 July 2003 and 19 March 2008) |

[14] Held jointly: John Francis Stephenson & Susan Margaret Franklin <Stephenson Franklin FMY A/C>

# DIRECTORS' REPORT

## DIRECTORS' MEETINGS

The following table sets out the numbers of meetings of the Company's Directors held during the financial year (including Directors' circulatory resolutions), and the numbers of meetings attended by each Director of the Company:

| Name of Director | Meetings Attended | Maximum Possible Meetings |
|---|---|---|
| H. Shanker Madan | 9 | 9 |
| Farooq Khan | 9 | 9 |
| William Johnson (appointed 26 October 2009) | 6 | 6 |
| John Stephenson (ceased 19 February 2010) | 4 | 6 |

There were no meetings of committees of the Board.

**Board Committees**

During the financial year and as at the date of this Directors' Report, the Company did not have separate designated Audit or Remuneration Committees. In the opinion of the Directors, in view of the size of the Board and nature and scale of the Consolidated Entity's activities, matters typically dealt with by an Audit or Remuneration Committee are dealt with by the full Board.

## REMUNERATION REPORT (audited)

This report details the nature and amount of remuneration for each Director and Company Executive (being a company secretary or senior managers with authority and responsibility for planning, directing and controlling the major activities of the Company or Consolidated entity, directly or indirectly) (**Key Management Personnel**) of the Consolidated Entity.

The information provided under headings (1) to (5) below has been audited as required under section 308(3)(c) of the *Corporations Act 2001*.

### (1) Remuneration Policy

The Board determines the remuneration structure of all Directors and Company Executives (being a company secretary or senior manager) (**Key Management Personnel**) having regard to the Consolidated Entity's nature, scale and scope of operations and other relevant factors, including the frequency of Board meetings, length of service, particular experience and qualifications, market practice (including available data concerning remuneration paid by other listed companies in particular companies of comparable size and nature), the duties and accountability of Key Management Personnel and the objective of maintaining a balanced Board which has appropriate expertise and experience, at a reasonable cost to the Company.

**Fixed Remuneration:** The Key Management Personnel of the Company are paid a fixed amount per annum plus applicable employer superannuation contributions. The Non-Executive Directors of the Company are paid a maximum aggregate base remuneration of $100,000 per annum inclusive of minimum employer superannuation contributions where applicable, to be divided as the Board determines appropriate.

The Board has determined current Key Management Personnel remuneration as follows:

(a) Mr H. Shanker Madan (Managing Director) – a base salary of $200,000 per annum plus employer superannuation contributions;

(b) Mr Farooq Khan (Executive Director) – a base salary of $175,000 per annum plus employer superannuation contributions;

(c) Mr William Johnson (Executive Director) – a base salary of $85,000 per annum plus employer superannuation contributions;

(d) Mr Victor Ho (Company Secretary) – a base salary of $90,000 per annum plus employer superannuation contributions.

# DIRECTORS' REPORT

Former Chairman, Dr John Stephenson (ceased on 19 February 2010), received a base fee of $40,000 per annum plus employer superannuation contributions.

Key Management Personnel can also opt to "salary sacrifice" their cash fees/salary and have them paid wholly or partly as further employer superannuation contributions or benefits exempt from fringe benefits tax.

**Special Exertions and Reimbursements:** Pursuant to the Company's Constitution, each Director is entitled to receive:

(a) Payment for the performance of extra services or the making of special exertions at the request of the Board and for the purposes of the Company.

(b) Payment for reimbursement of all reasonable expenses (including traveling and accommodation expenses) incurred by a Director for the purpose of attending meetings of the Company or the Board, on the business of the Company, or in carrying out duties as a Director.

**Long Term Benefits:** Key Management Personnel have no right to termination payments save for payment of accrued annual leave (other than Non-Executive Directors).

**Post Employment Benefits:** The Company does not presently provide retirement benefits to Key Management Personnel.

**Performance Related Benefits/Variable Remuneration:** The Company does not presently provide short or long incentive/performance based benefits related to the Company's performance to Key Management Personnel, including payment of cash bonuses. The current remuneration of Key Management Personnel is fixed, is not dependent on the satisfaction of a performance condition and is unrelated to the Company's performance.

**Service Agreements:** The Company does not presently have formal service agreements or employment contracts with any Key Management Personnel.

**Financial Performance of Company:** There is no relationship between the Company's current remuneration policy and the Company's performance.

**Equity Based Benefits:** The Company has issued options to a Director and employees during the year. Further details are provided in section (3) of the Remuneration Report below.

The reasons for the grant of these options to a Director and employees are as follows:

- The options issue was designed to act as an incentive for the recipient Directors and employees to strive to achieve the Company's goals with the aim of enhancing shareholder value.
- The options provide an equity holding opportunity for each recipient Director and employee which is linked to the Company's share price performance.
- Based on the option exercise price and the rate at which the options vest, the exercise of the options by the Directors and employees is potentially only likely to occur if there is sustained upward movement in the Company's share price.
- The number of options issued to the Directors and employees have been determined having regard to the level of Directors and employees' salaries/fees being paid and is a cash free, effective and efficient way of providing an appropriate level of remuneration as well as providing ongoing equity based incentives for the Directors and employees to remain with the Company with a view to improving the future growth of the Company.
- As a relatively junior exploration company with much of its available funds dedicated or committed to its resource projects (and also in seeking opportunities in relation to the same) and in financing its day to day working capital requirements, the Company is not always in a position to maintain competitive cash salary ranges for its Directors and employees within the industry in which it operates.

# DIRECTORS' REPORT

### (2) Details of Remuneration of Key Management Personnel

Details of the nature and amount of each element of remuneration of each Key Management Personnel of the Company paid or payable by the Consolidated Entity during the financial year are as follows:

| **Key Management Person** | | **Short-term Benefits** | | **Post Employment Benefits** | **Other Long-term Benefits** | **Equity Based Benefits** | |
|---|---|---|---|---|---|---|---|
| **2010** | **Performance related %** | **Cash, salary and commissions $** | **Non-cash benefit $** | **Superannuation $** | **Long service leave $** | **Options $** | **Total $** |
| **Non-Executive Director:** | | | | | | | |
| John Stephenson (ceased 19 February 2010) | - | 26,923 | - | 2,423 | - | 1,673 | 31,019 |
| **Executive Directors:** | | | | | | | |
| Shanker Madan | - | 161,538 | - | 14,538 | - | 15,243 | 191,319 |
| Farooq Khan | - | 153,361 | - | 13,803 | - | 15,243 | 182,407 |
| William Johnson (appointed 26 October 2009) | - | 51,055 | - | 4,595 | - | 354,014 | 409,664 |
| **Company Secretary** | | | | | | | |
| Victor Ho | - | 68,363 | - | 6,153 | - | 428,703 | 503,219 |

| **Key Management Person** | | **Short-term Benefits** | | **Post Employment Benefits** | **Other Long-term Benefits** | **Equity Based Benefits** | |
|---|---|---|---|---|---|---|---|
| **2009** | **Performance related %** | **Cash, salary and commissions $** | **Non-cash benefit $** | **Superannuation $** | **Long service leave $** | **Options $** | **Total $** |
| **Non-Executive Director:** | | | | | | | |
| John Stephenson | - | 40,000 | - | 3,600 | - | 35,662 | 79,262 |
| **Executive Directors:** | | | | | | | |
| Shanker Madan | - | 150,000 | - | 13,500 | - | 324,396 | 487,896 |
| Farooq Khan | - | 150,000 | - | 13,500 | - | 324,240 | 487,740 |
| **Company Secretary** | | | | | | | |
| Victor Ho | - | 50,000 | - | 4,500 | - | 58,892 | 113,392 |

Victor Ho is also Company Secretary of the Company.

The value of Equity based benefits are based on the fair value of vested options expensed up to balance date; this is described in further detail in section (3) of this Remuneration Report.

The Company did not have any Company Executives (other than Executive Directors and the Company Secretary) during the financial year or the previous financial year.

# DIRECTORS' REPORT

## (3) Options Issued to Key Management Personnel

During the financial year, a total of 5,650,000 unlisted options were issued to Key Management Personnel as follows:

| No. of Options Issued to Key Management Personnel | | Date of Issue | Description of Unlisted Options | Exercise Price | Expiry Date | Vesting Criteria[15] | Total Fair Value as at date of issue |
|---|---|---|---|---|---|---|---|
| William Johnson | 1,000,000 | 30 November 2009 | $0.60 (25 October 2014) Options[16] | $0.60 | 25 October 2014 | 100% on date of issue | $106,698 or $0.11 each |
| Victor Ho | 1,000,000 | 26 October 2009 | | | | | $147,306 or $0.15 each |
| William Johnson | 2,000,000 | 30 November 2009 | $0.35 (25 October 2014) Options[9] | $0.35 | 25 October 2014 | 100% on date of issue | $247,316 or $0.12 each |
| Victor Ho | 1,650,000 | 26 October 2009 | | | | | $276,366 or $0.17 each |

Mr Johnson's options were issued pursuant to shareholder approval obtained at the Company's annual general meeting held on 30 November 2009 as required under the Corporations Act 2001 and the ASX Listing Rules.

On 23 August 2010, 400,000 new $0.35 (22 August 2015) Unlisted Options were issued to another employee (who is not regarded as a Company Executive/Key Management Personnel).

There were no shares issued as a result of the exercise of any Directors' or employees options during the financial year.

The fair value of Directors' and employees' options are expensed, from their date of grant, over their vesting period; fair values are determined as at date of grant using a binomial tree options valuation model that takes into account the exercise price, the term of the option, the underlying share price as at date of grant, the expected price volatility of the underlying shares and the risk-free interest rate for the term of the option.

The cost of the 5,650,000 unlisted options issued to Key Management Personnel during the financial year assessed at fair value as at date of grant is $777,685 in total; the fair value of vested options expensed up the balance date in the above table is the fair amount of the total fair value which the Company is required to expense from their date of grant to the balance date, on the basis that the fair value cost at date of grant is apportioned over the vesting period applicable to each option.

The model inputs for assessing the fair value of options granted during the year are as follows:

(a) options are granted for no consideration and vest as described in the table above;

(b) exercise price is as described in the table above;

(c) grant date is as described in the table above;

(d) expiry date is as described in the table above;

(e) share price is based on the last bid price on ASX as at date of grant, as described in the table below;

(f) expected price volatility of the Company's shares has been assessed independently as described in the table below;

(g) expected dividend yield is nil;

(h) risk-free interest rate is based on the 5 year Commonwealth bond yield, as described in the table below.

[15] Options which have vested may be exercised at any time thereafter, up to their expiry date

[16] Terms and conditions of issue are set out in a Notice of Meeting and Explanatory Statement dated 26 October 2009 for an Annual General Meeting held on 30 November 2009 and in ASX Appendix 3B New Issue Announcements lodged on 26 October 2009 and 1 December 2009

# DIRECTORS' REPORT

| Date of Issue | Description of Unlisted Options | AUQ Share Price at Grant Date | Risk Free Rate | Expected price volatility of the Company's shares |
|---|---|---|---|---|
| 30 November 2009 | $0.60 (25 October 2014) Options | $0.19 | 4.95% | 95% |
| 26 October 2009 | $0.60 (25 October 2014) Options | $0.24 | 5.57% | 95% |
| 30 November 2009 | $0.35 (25 October 2014) Options | $0.19 | 4.95% | 95% |
| 26 October 2009 | $0.35 (25 October 2014) Options | $0.24 | 5.57% | 95% |

On 19 August 2010 (subsequent to the end of the financial year), former Director, Dr John Stephenson's unlisted options lapsed as follows (in accordance with their terms of issue):

| Lapsed Options previously held by Key Management Personnel | Date of Issue | Date of Lapse | Description of Unlisted Options | Exercise Price | Expiry Date | Vesting Criteria | Total Fair Value as at date of issue |
|---|---|---|---|---|---|---|---|
| 900,000 | 17 September 2008 | 19 August 2010 | $0.35 (16 September 2013) Options | $0.35 | 16 September 2013 | 75% on grant and 25% on 17 September 2009 | $31,230[8] or $0.035 each |

Details of each Key Management Personnel's holdings of unlisted options during the year are as follows:

| Name of Key Management Personnel | No. options granted during the year | | No. options cancelled during the year | | No. options vested during the year | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| H. Shanker Madan | - | 8,200,000 $0.35 (16 September 2013) Options | - | 8,800,000 $0.55 (26 July 2012) Options | 2,050,000 $0.35 (16 September 2013) Options | 6,150,000 $0.35 (16 September 2013) Options |
| Farooq Khan | - | 8,200,000 $0.35 (16 September 2013) Options | - | 8,775,000 $0.55 (26 July 2012) Options | 2,050,000 $0.35 (16 September 2013) Options | 6,150,000$0.35 (16 September 2013) Options |
| William Johnson | 2,000,000 $0.35 (25 October 2014) Options | - | - | - | 2,000,000 $0.35 (25 October 2014) Options | - |
| | 1,000,000 $0.60 (25 October 2014) Options | | | | 1,000,000 $0.60 (25 October 2014) Options | |
| John Stephenson | - | 900,000 $0.35 (16 September 2013) Options | - | 975,000 $0.55 (26 July 2012) Options | 225,000 $0.35 (16 September 2013) Options | 675,000 $0.35 (16 September 2013) Options |
| Victor Ho | 1,650,000 $0.35 (25 October 2014) Options | 700,000 $0.35 (16 September 2013) Options | - | 500,000 $0.55 (26 July 2012) Options | 1,650,000 $0.35 (25 October 2014) Options | 350,000 $0.35 (16 September 2013) Options |
| | 1,000,000 $0.60 (25 October 2014) Options | | | | 1,000,000 $0.60 (25 October 2014) Options | |
| | | | | | 350,000 $0.35 (16 September 2013) Options | |

# DIRECTORS' REPORT

### (4) Employee Share Option Plan

The Company has an Employee Share Option Plan (the **ESOP**) which was approved by shareholders at the 2008 annual general meeting held on 6 November 2008. The ESOP was developed to assist in the recruitment, reward, retention and motivation of employees (excluding Directors) of the Alara group. Under the ESOP, the Board will nominate employees to participate and will offer options to subscribe for shares to those employees. A summary of the terms of ESOP is set out in Annexure A to Alara's Notice of Annual General Meeting dated 1 October 2008.

### (5) Other Benefits Provided to Key Management Personnel

No Key Management Personnel has during or since the end of the 30 June 2010 financial year, received or become entitled to receive a benefit, other than a remuneration benefit as disclosed above, by reason of a contract made by the Company or a related entity with the Director or with a firm of which he is a member, or with a Company in which he has a substantial interest.

This concludes the audited Remuneration Report.

## DIRECTORS' AND OFFICERS' INSURANCE

The Directors have not included details of the nature of the liabilities covered or the amount of premiums paid in respect of a Directors and Officers liability and legal expenses' insurance contract, as such disclosure is prohibited under the terms of the contract.

## DIRECTORS' DEEDS

In addition to the rights of indemnity provided under the Company's Constitution (to the extent permitted by the Corporations Act), the Company has also entered into a deed with each of the Directors to regulate certain matters between the Company and each Director, both during the time the Director holds office and after the Director ceases to be an officer of the Company, including the following matters:

(i) The Company's obligation to indemnify a Director for liabilities or legal costs incurred as an officer of the Company (to the extent permitted by the Corporations Act);

(ii) Subject to the terms of the deed and the Corporations Act, the Company may advance monies to the Director to meet any costs or expenses of the Director incurred in circumstances relating to the indemnities provided under the deed and prior to the outcome of any legal proceedings brought against the Director; and

## AUDITOR

Details of the amounts paid or payable to the Consolidated Entities' auditors (Grant Thornton Audit Pty Ltd) for audit and non-audit services (paid to a related party of Grant Thornton Audit Pty Ltd) provided during the financial year are set our below:

| Audit & Review Fees $ | Fees for Other Services $ | Total $ |
|---|---|---|
| 25,275 | 3,700 | 28,975 |

The Board is satisfied that the provision of non audit services by the auditors during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The Board is satisfied that the nature of the non-audit services disclosed above did not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327B of the *Corporations Act 2001*.

# DIRECTORS' REPORT

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 forms part of this Directors Report and is set out on page 52. This relates to the Audit Report, where the Auditors state that they have issued an independence declaration.

## EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matters or circumstances at the date of this Directors' Report, other than those referred to in this Directors' Report (in particular, in Review of Operations) or the financial statements or notes thereto (in particular Subsequent Events Note 23), that have significantly affected or may significantly affect the operations, the results of operations or the state of affairs of the Company and Consolidated Entity in subsequent financial years.

Signed for and on behalf of the Directors in accordance with a resolution of the Board.

**Shanker Madan**
**Managing Director**
Perth, Western Australia

**Farooq Khan**
**Director**

24 September 2010

Grant Thornton

Grant Thornton Audit Pty Ltd
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## Auditor's Independence Declaration
## To the Directors of Alara Resources Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Alara Resources Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

P. Warr.

P W Warr
Director - Audit & Assurance

Perth, 24 September 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## for the year ended 30 June 2010

| | Note | 2010 $ | 2009 $ |
|---|---|---|---|
| Revenue | 3 | 493,552 | 444,420 |
| | | 493,552 | 444,420 |
| | 3 | | |
| Net loss on financial assets held at fair value through profit or loss | | - | (272,571) |
| Costs relating to resource projects | | (164,805) | (256,398) |
| - Impairment of resource projects | | (103,055) | (6,610,985) |
| Personnel | | (771,102) | (857,999) |
| - Options remuneration (non-cash) | | (822,317) | (843,168) |
| Occupancy costs | | (80,307) | (29,318) |
| Foreign exchange movement | | (14,404) | (29,796) |
| Finance expenses | | (6,156) | (4,800) |
| Borrowing costs | | (471) | (39) |
| Corporate expenses | | (25,379) | (54,167) |
| Administration expenses | | (312,870) | (349,533) |
| **LOSS BEFORE INCOME TAX** | 3 | (1,807,314) | (8,864,354) |
| Income tax benefit | 4 | 3,036 | - |
| **LOSS FOR THE YEAR** | | (1,804,278) | (8,864,354) |
| **Other comprehensive income** | | | |
| Exchange differences on translation of foreign operations | | (296,611) | 308,318 |
| Income tax relating to components of other comprehensive income | | - | - |
| **Total other comprehensive income** | | (296,611) | 308,318 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | (2,100,889) | (8,556,036) |
| Total comprehensive income and expense for the year attributable to: | | | |
| Owners of Alara Resources Limited | | (2,100,889) | (8,556,036) |
| Basic and diluted loss per share (cents) | 7 | (2.24) | (11.01) |

The accompanying notes form part of this financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## as at 30 June 2010

| | Note | 2010 $ | 2009 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 8 | 4,309,770 | 5,492,074 |
| Trade and other receivables | 9 | 145,126 | 138,175 |
| Other current assets | 10 | 1,891 | 18,582 |
| **TOTAL CURRENT ASSETS** | | 4,456,787 | 5,648,831 |
| **NON CURRENT ASSETS** | | | |
| Financial assets held at fair value through profit and loss | 11 | 1,786,260 | 1,501,034 |
| Property, plant and equipment | 12 | 40,284 | 47,743 |
| Resource projects | 13 | - | - |
| **TOTAL NON CURRENT ASSETS** | | 1,826,544 | 1,548,777 |
| **TOTAL ASSETS** | | 6,283,331 | 7,197,608 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 14 | 496,801 | 119,966 |
| Provisions | 15 | 56,034 | 46,287 |
| **TOTAL CURRENT LIABILITIES** | | 552,835 | 166,253 |
| **NON CURRENT LIABILITIES** | | | |
| Provisions | 15 | 11,967 | 34,254 |
| **TOTAL NON CURRENT LIABILITIES** | | 11,967 | 34,254 |
| **TOTAL LIABILITIES** | | 564,802 | 200,507 |
| **NET ASSETS** | | 5,718,529 | 6,997,101 |
| **EQUITY** | | | |
| Issued capital | 16 | 14,754,059 | 14,754,059 |
| Reserves | 17 | 1,523,171 | 5,057,118 |
| Accumulated losses | | (10,558,701) | (12,814,076) |
| **TOTAL EQUITY** | | 5,718,529 | 6,997,101 |

The accompanying notes form part of this financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## for the year ended 30 June 2010

| | Note | Issued Capital $ | Options Reserve $ | Foreign Currency Translation Reserve $ | Accumulated Losses $ | Total $ |
|---|---|---|---|---|---|---|
| **At 1 July 2008** | | 14,754,059 | 3,904,823 | 809 | (3,949,722) | 14,709,969 |
| Foreign currency translation reserve | 17 | - | - | 308,318 | - | 308,318 |
| Net income and expense recognised directly in equity | | - | - | 308,318 | - | 308,318 |
| Loss for the year | | - | - | - | (8,864,354) | (8,864,354) |
| **Total comprehensive income for the year** | | - | - | 308,318 | (8,864,354) | (8,556,036) |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Options issued during the year | 17 | - | 843,168 | - | - | 843,168 |
| **At 30 June 2009** | | 14,754,059 | 4,747,991 | 309,127 | (12,814,076) | 6,997,101 |
| **At 1 July 2009** | | 14,754,059 | 4,747,991 | 309,127 | (12,814,076) | 6,997,101 |
| Foreign currency translation reserve | 17 | - | - | (296,611) | - | (296,611) |
| Net income and expense recognised directly in equity | | - | - | (296,611) | - | (296,611) |
| Loss for the year | | - | - | - | (1,804,278) | (1,804,278) |
| **Total comprehensive income for the year** | | - | - | (296,611) | (1,804,278) | (2,100,889) |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Reduction of options reserve against accumulated losses | 17 | - | (4,059,653) | - | 4,059,653 | - |
| Options issued during the year | 17 | - | 822,317 | - | - | 822,317 |
| **At 30 June 2010** | | 14,754,059 | 1,510,655 | 12,516 | (10,558,701) | 5,718,529 |

The accompanying notes form part of this financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

## for the year ended 30 June 2010

| | Note | Consolidated 2010 $ | 2009 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Payments to suppliers and employees | | (799,563) | (1,595,652) |
| Payments for exploration and evaluation expenditure | | (267,860) | (981,855) |
| Interest received | | 207,228 | 411,242 |
| Interest paid | | (471) | (39) |
| Income taxes refunded | | 3,036 | - |
| **NET CASH OUTFLOW FROM OPERATING ACTIVITIES** | **8 b** | (857,630) | (2,166,304) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for plant and equipment | **12** | (13,659) | (21,362) |
| Payments for share investments | | - | (1,773,604) |
| **NET CASH OUTFLOW FROM INVESTING ACTIVITIES** | | (13,659) | (1,794,966) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS HELD** | | **(871,289)** | **(3,961,270)** |
| Cash and cash equivalents at beginning of the financial year | | 5,492,074 | 9,174,822 |
| Effect of exchange rate changes on cash | | (311,015) | 278,522 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR** | **8** | 4,309,770 | 5,492,074 |

The accompanying notes form part of this financial statements

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

### 1. SUMMARY OF ACCOUNTING POLICIES

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated

The financial report includes the financial statements for the Consolidated Entity consisting of Alara Resources Limited and its subsidiaries. Alara Resources Limited is a company limited by shares, incorporated in Western Australia, Australia and whose shares are publicly traded on the Australian Securities Exchange (**ASX**).

**1.1. Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretation, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001.*

***Compliance with IFRS***
The consolidated financial statements of the Consolidated Entity, Alara Resources Limited, also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

***Reporting Basis and Conventions***
The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

**AASB 101: *Presentation of Financial Statements***
The Consolidated Entity has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Consolidated Entity had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

**Consolidated Financial Statements Reporting**
Pursuant to the *Corporations Amendment (Corporate Reporting Reform) Bill 2010* (which was passed on 24 June 2010 and received Royal Assent on 28 June 2010), the reporting of the Company's financial statements are no longer required. However, there is still a requirement to present the Company's key financial information in the notes to the financial statements (Refer to Note 2 in this regard).

The following is a summary of the material accounting policies adopted by the Consolidated Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**1.2. Principles of Consolidation**

The consolidated financial statements incorporate the assets and liabilities of the subsidiaries of Alara Resources Limited as at 30 June 2010 and the results of its subsidiaries for the year then ended. Alara Resources Limited and its subsidiary are referred to in this financial report as the Consolidated Entity.

Subsidiaries are all entities over which the Consolidated Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Consolidated Entity controls another entity. Information on the controlled entity is contained in Note 2 to the financial statements.

Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

**1.3. Mineral Exploration and Evaluation Expenditure**

Exploration, evaluation and development expenditure incurred is accumulated (i.e. capitalised) in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

Under AASB 6 "Exploration for and Evaluation of Mineral Resources", if facts and circumstances suggest that the carrying amount of any recognised exploration and evaluation assets may be impaired, the Consolidated Entity must perform impairment tests on those assets and measure any impairment in accordance with AASB 136 "Impairment of Assets". Any impairment loss is to be recognised as an expense. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

**1.4. Operating Segments**

Operating segments are reported in a manner consistent with the internal reporting provided to Board.

***Change in accounting policy***
The Consolidated Entity has applied AASB 8 "Operating Segments" from 1 July 2009. The Consolidated Entity now presents the operating segments based on information that is internally provided to the management. Previously operating segments were determined and presented in accordance with AASB 114 "Segment Reporting". An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses. An operating segment's operating results are reviewed regularly by the management to make decisions on allocation of resources to the relevant segments and assess performance. Unallocated items comprise mainly share investments, corporate and office expenses. The Consolidated Entity's segment reporting is contained in Note 19 of the notes to the financial statements.

**1.5. Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. All revenue is stated net of the amount of goods and services tax (**"GST"**) except where the amount of GST incurred is not recoverable from the Australian Tax Office. The following specific recognition criteria must also be met before revenue is recognised:

***Sale of Goods and Disposal of Assets* -** Revenue from the sale of goods and disposal of other assets is recognised when the

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

Consolidated Entity has passed control of the goods or other assets to the buyer.

***Interest Revenue* -** Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

***Dividend Revenue* -** Dividend revenue is recognised when the right to receive a dividend has been established. The Consolidated Entity brings dividend revenue to account on the applicable ex-dividend entitlement date.

***Other Revenues* -** Other revenues are recognised on a receipts basis.

**1.6. Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each taxing jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses (if applicable).

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each taxing jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The amount of deferred tax assets benefits brought to account or which may be realised in the future, is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in other comprehensive income or equity are also recognised directly in other comprehensive income or equity.

**Tax consolidation legislation**

The Consolidated Entity implemented the tax consolidation legislation. The head entity, Alara Resources Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets (as appropriate) arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements within the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Consolidated Entity.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

**1.7. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**1.8. Employee Benefits**

***Short term obligations* -** Provision is made for the Consolidated Entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Employer superannuation contributions are made by the Consolidated Entity in accordance with statutory obligations and are charged as an expense when incurred.

***Other long term employee benefit obligations* -** The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

**1.9. Director/Employee Options**

The fair value of options granted by the Company to directors and employees is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the directors/employees become unconditionally entitled to the options. The fair value at grant date is determined using the Black-Scholes valuation model that takes into account the exercise price, the term of the option, the vesting criteria, the unlisted nature of the option, the share price at grant date and the expected price volatility of the underlying shares in the Company, and the risk-free interest rate for the term of the option. Upon the exercise of options, the balance of the reserve relating to those options is transferred to share capital.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

### 1.10. Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts (if any) are shown within short-term borrowings in current liabilities on the balance sheet.

### 1.11. Receivables

Trade and other receivables are recorded at amounts due less any provision for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when considered non-recoverable.

### 1.12. Financial Instruments

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

***Financial assets at fair value through profit and loss*** - A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: *Recognition and Measurement of Financial Instruments*. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

***Loans and receivables*** - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

***Financial liabilities*** - Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

At each reporting date, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

The Consolidated Entity's investment portfolio (comprising listed and unlisted securities) is accounted for as "financial assets at fair value through profit and loss".

### 1.13. Fair value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the consolidated entity is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques, including but not limited to recent arm's length transactions, reference to similar instruments and option pricing models. The consolidated entity may use a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for other financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Consolidated Entity for similar financial instruments.

The Consolidated Entity's investment portfolio (comprising listed and unlisted securities) is accounted for as a "financial assets at fair value through profit and loss" and is carried at fair value based on the quoted last bid prices at reporting date (refer to Note 11).

### 1.14. Property, Plant and Equipment

All plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable amount.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over the asset's useful life to the consolidated entity commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Office Equipment | 15-37.5% |
| Plant and Equipment | 15-33.3% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

### 1.15. Impairment of Non Financial Assets

At each reporting date, the Consolidated Entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss. Impairment testing is performed annually for goodwill and intangible assets with

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**1.16. Payables**

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**1.17. Issued Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

**1.18. Earnings Per Share**

***Basic Earnings per share*** is determined by dividing the operating result after income tax by the weighted average number of ordinary shares on issue during the financial period.

***Diluted Earnings per share*** adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial period.

**1.19. Foreign Currency Translation and Balances**

***Functional and presentation currency***
The functional currency of each entity within the consolidated entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

***Transaction and balances***
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge. Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

***Consolidated entity***
The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

(a) assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;

(b) income and expenses are translated at average exchange rates for the period; and

(c) retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the consolidated entity's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

**1.20. Leases**

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Consolidated Entity as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

**1.21. Summary Of Accounting Standards Issued Not Yet Effective**

The following new Accounting Standards and Interpretations (which have been released but not yet adopted) have no material impact on the Consolidated Entity's financial statements or the associated notes therein.

| AASB reference | Title and Affected Standard(s): | Nature of Change | Application date: |
|---|---|---|---|
| AASB 2009-5 (issued May 2009) | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process | Changes to AIFRSs as a result of the IASB's 2008 annual improvement process. | Periods commencing on or after 1 January 2010 |
| AASB 2009-8 (issued July 2009) | Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions | Clarifies the scope and accounting for group cash-settled share-based payment transactions in the individual financial statements of an entity receiving the goods/services when that entity has no obligation to settle the share-based payment transaction.<br>Supersedes Interpretation 8 *Scope of AASB 2* and Interpretation 11 AASB 2 – *Group and Treasury Share Transactions.* | Periods beginning on or after 1 January 2010 |
| AASB 9 (issued December 2009)<br>AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 | Financial Instruments | Amends the requirements for classification and measurement of financial assets.<br>AASB 9 introduces new requirements for the classification and measurement of financial assets. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the different rules in AASB 139 and removing the impairment requirement for financial assets held at fair value. | Periods beginning on or after 1 January 2013 |
| AASB Interpretation 19 (issued December 2009) | Extinguishing Financial Liabilities with Equity Instruments | Equity instruments issued to a creditor to extinguish all or part of a financial liability are 'consideration paid' to be recognised at the fair value of the equity instruments issued, unless their fair value cannot be measured reliably, in which case they are measured at the fair value of the debt extinguished. Any difference between the carrying amount of the financial liability extinguished and the 'consideration paid' is recognised in profit or loss. | Periods beginning on or after 1 July 2010 |
| *Improvements to IFRSs* | *Improvements to IFRSs* | Changes to IFRSs as a result of IASB's 2009 annual improvements project. | Periods commencing on or after 1 July 2010 or 1 January 2011. |
| AASB 124 (issued December 2009)<br>AASB 2009-12 Amendments to Australian Accounting Standards arising from AASB 124. | Related Party Disclosures | Simplifies disclosure requirements for government-related entities and clarifies the definition of a related party. | Annual reporting periods commencing on or after 1 January 2011. |
| AASB 2010-04<br>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13] | Annual Improvements Project | Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.<br>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.<br>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions<br>Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. | Annual reporting periods commencing on or after 1 January 2011. |
| AASB 101 | Presentation of Financial Statements | Clarifies that terms of a liability that could, at the option of the counterparty, result in the liability being settled by the issue of equity instruments, do not affect its classification. This means that unless the terms of such liabilities require a transfer of cash or other assets within 12 months, they do not necessarily have to be classified as current liabilities. | Periods commencing on or after 1 January 2010 |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

### 2. COMPANY INFORMATION

The following information provided relates to the Company, Alara Resources Limited as at 30 June 2010. The information presented here has been prepared using accounting policies as outlined in Note 1.

| | 2010 $ | 2009 $ |
|---|---|---|
| Current assets | 4,251,516 | 5,389,679 |
| Non current assets | 1,927,260 | 1,503,371 |
| **Total assets** | 6,178,776 | 6,893,050 |
| | | |
| Current liabilities | 102,060 | 97,283 |
| Non current liabilities | 11,967 | 25,870 |
| **Total liabilities** | 114,027 | 123,153 |
| **Net assets** | 6,064,749 | 6,769,897 |
| | | |
| Issued capital | 14,754,059 | 14,754,059 |
| Reserves | 1,510,655 | 4,747,991 |
| Accumulated losses | (10,199,965) | (12,732,153) |
| **Total equity** | 6,064,749 | 6,769,897 |
| | | |
| Loss for the year | (1,527,464) | (8,443,323) |
| Other comprehensive income for the year | - | - |
| Total comprehensive income for the year | (1,527,464) | (8,443,323) |

**Notes to the Statement of Financial Position**

**(a) Current assets**

**(i) Cash and cash equivalents**

| | 2010 $ | 2009 $ |
|---|---|---|
| Cash at bank | 651,044 | 781,897 |
| Term Deposits | 3,553,864 | 4,568,000 |
| | 4,204,908 | 5,349,897 |

**(b) Non current assets**

**(i) Financial assets at fair value through profit and loss**

| | 2010 $ | 2009 $ |
|---|---|---|
| Listed investments at fair value | 1,786,260 | 1,501,034 |

**(c) Related party transactions**

**(i) Loan to subsidiaries**

Details of the percentage of ordinary shares held in controlled entities are disclosed below. The amounts owed remain outstanding at balance date. Provision for impairment on amounts receivable have been raised in relation to any outstanding balances amounts owed by the following subsidiaries. Interest is not charged on such outstanding amounts.

| | 2010 $ | 2009 $ |
|---|---|---|
| Amounts owed by controlled entities | 2,825,020 | 2,601,728 |
| Provision for impairment | (2,695,125) | (2,601,728) |
| | 129,895 | - |
| **Movement in loans to subsidiaries** | | |
| Opening balance | 2,601,728 | 1,030,644 |
| Loans advanced | 223,292 | 1,609,686 |
| Loans repayment received | - | (38,602) |
| Closing balance | 2,825,020 | 2,601,728 |
| | | |
| **Movement in provision for impairment of receivables** | | |
| At 1 July | (2,601,728) | (971,146) |
| Provision for impairment recognised during the year | (93,397) | (1,630,582) |
| **Provision for impairment on amounts receivable** | (2,695,125) | (2,601,728) |

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2010

**2. COMPANY INFORMATION (continued)**

| **Investment in Controlled Entities** | **Percentage of Ownership 2010** | **2009** |
|---|---|---|
| **Hume Mining NL**<br>Incorporated in Australia on 29 March 1994 | 100% | 100% |
| **Alara Operations Pty Ltd (AOP)**<br>Incorporated in Australia on 5 February 2007 | 100% | 100% |
| **Alara Peru Operations Pty Ltd (APO)**<br>Incorporated in Australia on 5 February 2007 | 100% | 100% |
| **Alara Peru S.A.C (subsidiary of APO)**<br>Incorporated in Peru on 1 March 2007. | 100% | 100% |
| **Alara Chile Operations Pty Ltd (ACO)**<br>Incorporated in Australia on 28 October 2009 | 100% | - |
| **Alara Resources Ghana Limited**<br>Incorporated in Ghana on 8 December 2009 | 100% | - |
| **Alara Oman Operations Pty Limited (AOO)**<br>Incorporated in Australia on 28 June 2010 | 100% | - |

**3. LOSS FOR THE YEAR**

The operating loss before income tax includes the following items of revenue and expense:

| | **2010 $** | **2009 $** |
|---|---|---|
| **(a) Revenue** | | |
| Interest | 208,326 | 444,420 |
| Net gain on financial assets held at fair value through profit or loss | 285,226 | - |
| | 493,552 | 444,420 |
| **(b) Expenses** | | |
| Net loss on financial assets held at fair value through profit or loss | - | 272,571 |
| Costs relating to resource projects | 164,805 | 256,398 |
| - Impairment of resource projects | 103,055 | 6,610,985 |
| Personnel | | |
| - cash remuneration | 766,753 | 830,312 |
| - options remuneration (non-cash) | 822,317 | 843,168 |
| - employee benefits | 4,349 | 27,687 |
| Occupancy expenses | 80,307 | 29,318 |
| Foreign exchange movement | 14,404 | 29,796 |
| Finance expenses | 6,156 | 4,800 |
| Borrowing cost - interest paid | 471 | 39 |
| Corporate expenses | 25,379 | 54,167 |
| Administration expenses | | |
| - Communications | 11,198 | 25,641 |
| - Consultancy fees | 60,459 | 33,086 |
| - Travel, accommodation and incidentals | 104,830 | 24,705 |
| - Professional fees | 45,348 | 84,143 |
| - Insurance | 18,020 | 21,218 |
| - Depreciation | 21,118 | 15,709 |
| - Other administration expenses | 51,897 | 145,031 |
| | 2,300,866 | 9,308,774 |

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2010

**4. INCOME TAX EXPENSE**

| | 2010 $ | 2009 $ |
|---|---|---|
| **(a) Income tax expense** | | |
| **Current tax** | | |
| Current year | (3,036) | - |
| Total income tax expense/(benefit) per income statement | (3,036) | - |

| | 2010 $ | 2009 $ |
|---|---|---|
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| **Loss before income tax** | **(1,807,314)** | **(8,864,354)** |
| Tax at the Australian tax rate of 30% (2009: 30%) | (542,194) | (2,659,306) |
| Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income: | | |
| Non-deductible expenses | 350,175 | 1,694,252 |
| Other deductible expenses | (71,567) | (7,800) |
| Other non assessable income | (85,568) | (9,953) |
| Tax losses not brought to account | 349,154 | 982,807 |
| Income tax expense/ (benefit) attributable to operating profit | - | - |
| Under/(over) provision in respect to prior years | (3,036) | - |
| Income tax expense/ (benefit) | (3,036) | - |
| **(c) Deferred tax assets not brought to account at 30%** | | |
| Revenue losses | 1,089,777 | 703,486 |
| Other | 11,754 | 102,247 |
| Potential tax benefit @ 30% | 1,101,531 | 805,733 |

The Deferred Tax Asset not brought to account for the period will only be obtained if:

(i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;

(ii) the Company continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) the Company is able to meet the continuity of ownership and/or continuity of business tests under tax legislation.

The Consolidated Entity have elected to consolidate for taxation purposes and have entered into a tax sharing and funding agreement in respect of such arrangements.

Schedule 5 of Taxation Laws Amendment (2010 Measures No.1) Act 2010, which was passed on 3 June 2010, introduced a number of new amendments that may have an impact on the taxation treatment of tax consolidated groups. These amendments seek to clarify the operation of certain aspects of the consolidation regime, to improve interactions with other parts of the law and introduce substantive new modifications to the tax consolidation regime. The amendments have different application dates, with some applying retrospectively from 1 July 2002.

As this legislation was only passed on 3 June 2010, and due to the complexity of some of the amendments, at the date of signing this report, the entity had not yet had sufficient time to assess and quantify the impact of these amendments on the financial statements. Accordingly, there is certain level of uncertainty as to the accuracy of the following tax balances contained in these financial statements: income tax expense, income tax liabilities, deferred tax assets and deferred tax liabilities.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

### 5. KEY MANAGEMENT PERSONNEL DISCLOSURES

**(a) Key management personnel compensation**

| | 2010 $ | 2009 $ |
|---|---|---|
| **Directors** | | |
| Short-term employee benefits - cash fees and bonus | 392,877 | 340,000 |
| Post-employment benefits - superannuation | 35,359 | 30,600 |
| Equity based payments | 386,174 | 684,299 |
| | 814,410 | 1,054,899 |
| **Other key management personnel** | | |
| Short-term employee benefits - cash fees, bonus and allowance | 68,363 | 50,000 |
| Post-employment benefits - superannuation | 6,153 | 4,500 |
| Equity based payments | 428,703 | 58,892 |
| | 503,219 | 113,392 |

Detailed remuneration disclosures are provided in the Remuneration Report section of the Directors' Report.

**(b) Shareholdings of key management personnel**

| 2010 | Balance at start of the year | Balance at appointment/ cessation | Net Changes | Balance at end of the year |
|---|---|---|---|---|
| **Directors** | | | | |
| H. Shanker Madan | 278,375 | | - | 278,375 |
| Farooq Khan | 10,271,912 | | - | 10,271,912 |
| William Johnson (appointed - 26/10/09) | | 27,000 | - | 27,000 |
| John Stephenson (ceased -19/02/10) | 217,072 | 217,072 | - | |
| **Other key management personnel** | | | | |
| Victor Ho (Company Secretary) | 189,503 | | - | 189,503 |

| 2009 | Balance at start of the year | Balance at appointment/ cessation | Net Changes | Balance at end of the year |
|---|---|---|---|---|
| **Directors** | | | | |
| H. Shanker Madan | 278,375 | | - | 278,375 |
| Farooq Khan | 10,271,912 | | - | 10,271,912 |
| John Stephenson | 217,072 | | - | 217,072 |
| **Other key management personnel** | | | | |
| Victor Ho (Company Secretary) | 189,503 | | - | 189,503 |

**(c) Options, rights and equity instruments provided as remuneration**

Details of options provided as remuneration are disclosed in the Remuneration Report section of the Director's Report. There were no shares issued on the exercise of these options during the financial year.

**(d) Unlisted option holdings of key management personnel**

| 2010 | Balance at appointment/ start of the year | Granted as compensation | Net Changes | Balance at cessation/ end of the year | Vested & Exercisable |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| H. Shanker Madan | 8,200,000 | - | - | 8,200,000 | 8,200,000 |
| Farooq Khan | 8,200,000 | - | - | 8,200,000 | 8,200,000 |
| William Johnson (appointed - 26/10/09) | - | 3,000,000 | - | 3,000,000 | 3,000,000 |
| John Stephenson (ceased -19/02/10) | 900,000 | - | - | 900,000 | 900,000 |
| **Other key management personnel** | | | | | |
| Victor Ho (Company Secretary) | 700,000 | 2,650,000 | - | 3,350,000 | 3,350,000 |

* Net Change Other refers to net options that have been cancelled, forfeited or transferred during the year

Details of options provided as remuneration are disclosed in the Remuneration Report section of the Directors' Report.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

### 5. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

The disclosures of equity holdings in (b) and (d) above are in accordance with Accounting Standard AASB 124 (Related Party Disclosures) which requires a disclosure of direct, indirect and beneficial interests held by each key management person, a close member of the family of that person, or an entity over which either of these persons have, directly or indirectly, control, joint control or significant influence.

**(e) Loans to key management personnel**
There were no loans to key management personnel (or their personally related entities) during the financial year.

**(f) Other transactions with key management personnel**
There were no other transactions with key management personnel (or their personally related entities) during the financial year.

### 6. AUDITOR'S REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | 2010 | 2009 |
|---|---|---|
| **Grant Thornton Audit Pty Ltd -** Auditors of the Consolidated Entity | $ | $ |
| Audit and review of financial reports | 25,275 | 27,380 |
| **Grant Thornton Australia Limited -** related practice of Grant Thornton Audit Pty Ltd | | |
| Taxation services | 3,700 | 3,975 |
| **BDO Pazos, López de Romaña S.C. -** Auditors of Peruvian subsidiary | | |
| Audit and review of financial reports | 13,469 | 15,708 |
| | 42,444 | 47,063 |

### 7. LOSS PER SHARE

| | 2010 | 2009 |
|---|---|---|
| Basic loss per share (cents) | (2.24) | (11.01) |
| Diluted loss per share (cents) | (2.24) | (11.01) |
| Loss used to calculate earnings per share ($) | (1,804,278) | (8,864,354) |
| Weighted average number of ordinary shares during the period used in calculation of basic loss per share | 80,507,500 | 80,507,500 |

Under AASB 133 (Earnings per share), potential ordinary shares such as options will only be treated as dilutive when their conversion to ordinary shares would increase loss per share from continuing operations.

### 8. CASH AND CASH EQUIVALENTS

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Cash at bank | 741,906 | 924,074 |
| Term Deposits | 3,567,864 | 4,568,000 |
| | 4,309,770 | 5,492,074 |

**(a) Risk exposure**
The Consolidated Entity's exposure to interest rate risk is discussed in Note 20. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2010

**8. CASH AND CASH EQUIVALENTS (continued)**

| **(b) Reconciliation of Net Profit/(Loss) after Tax to Net Cash Flow from Operations** | **2010 $** | **2009 $** |
|---|---|---|
| Loss after income tax | (1,804,278) | (8,864,354) |
| Net gain/(loss) on financial assets held at fair value through profit or loss | (285,226) | 272,571 |
| Impairment of resource projects | 103,055 | 6,610,985 |
| Directors' and Employee options | 822,317 | 843,168 |
| Foreign exchange movement | 14,404 | 29,796 |
| Depreciation | 21,118 | 15,709 |
| (Increase)/Decrease in Assets: | | |
| Trade and other receivables | (6,951) | (48,082) |
| Resource projects | (103,055) | (725,457) |
| Other current assets | 16,691 | - |
| Increase/(Decrease) in Liabilities: | | |
| Trade and other payables | 376,835 | (273,656) |
| Provisions | (12,540) | (26,984) |
| Net cash outflow from operating activities | (857,630) | (2,166,304) |

**9. TRADE AND OTHER RECEIVABLES**

| | 2010 | 2009 |
|---|---|---|
| **Current** | | |
| Amounts receivable from | | |
| Sundry debtors | 98,847 | 93,531 |
| Goods and services tax recoverable | 12,004 | 11,466 |
| Other receivables | 34,275 | 33,178 |
| | 145,126 | 138,175 |

**(a) Risk exposure**

Information about the Consolidated Entity's exposure to credit risk, foreign exchange risk and interest rate risk is in Note 20.

**(b) Impaired receivables and receivables**

None of the above receivables are impaired or past due.

| **10. OTHER CURRENT ASSETS** | **2010 $** | **2009 $** |
|---|---|---|
| Prepayments | 1,891 | 18,582 |

**11. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS**

| | 2010 | 2009 |
|---|---|---|
| **Current** | | |
| Listed investments at fair value | 1,786,260 | 1,501,034 |
| Net gain/(loss) on financial assets held at fair value through profit or loss | 285,226 | (272,571) |

All financial assets held at fair value through profit or loss were designated as such upon initial recognition. Changes in fair value of financial assets at fair value through profit and loss are recorded as Income (Note 3(a)). The fair value of listed shares has been determined directly by reference to published price quotations in an active market.

**Risk exposure**

Information about the Consolidated Entity's exposure to price risk is in Note 20.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

| 12. PROPERTY, PLANT AND EQUIPMENT | Office Equipment $ | Plant and Equipment $ | Total $ |
|---|---|---|---|
| **At 30 June 2010** | | | |
| Cost or fair value | 3,008 | 76,496 | 79,504 |
| Accumulated depreciation | (569) | (38,651) | (39,220) |
| **Net carrying amount** | 2,439 | 37,845 | 40,284 |
| **At 1 July 2009** | | | |
| Cost or fair value | 973 | 64,872 | 65,845 |
| Accumulated depreciation | (398) | (17,704) | (18,102) |
| **Net carrying amount** | 575 | 47,168 | 47,743 |
| **2010** | | | |
| Carrying amount at beginning | 575 | 47,168 | 47,743 |
| Additions | 2,035 | 11,624 | 13,659 |
| Depreciation expense | (171) | (20,947) | (21,118) |
| Closing amount at balance date | 2,439 | 37,845 | 40,284 |
| **2009** | | | |
| Carrying amount at beginning | 780 | 41,310 | 42,090 |
| Additions | - | 21,362 | 21,362 |
| Depreciation expense | (205) | (15,504) | (15,709) |
| Closing amount at balance date | 575 | 47,168 | 47,743 |

| 13. RESOURCE PROJECTS | 2010 $ | 2009 $ |
|---|---|---|
| Opening balance | - | 5,885,528 |
| Exploration and evaluation expenditure | 103,055 | 981,855 |
| Exploration and evaluation expenditure impairment | (103,055) | (6,867,383) |
| Closing balance | - | - |

In accordance with AASB 136: Impairment of Assets, an impairment loss of $103,055 (2009: $6,610,985) has been recognised for the year in relation to the Consolidated Entity's capitalised exploration and evaluation expenditure.

The Consolidated Entity may be required to grant a security bond in relation to its Australian tenements. The Consolidated Entity has granted a security bond to the value of $14,000 (2009: $14,000), which has not been called up as at balance date.

| 14. TRADE AND OTHER PAYABLES | 2010 $ | 2009 $ |
|---|---|---|
| Trade payables | 450,316 | 32,415 |
| Other payables | 46,485 | 87,551 |
| | 496,801 | 119,966 |

**(a) Risk exposure**

Details of the Consolidated Entity's exposure to risks arising from current payables are set out in Note 20.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

### 15. PROVISIONS

| | 2010 $ | 2009 $ |
|---|---|---|
| **Current** | | |
| Employee benefits - annual leave | 56,034 | 46,287 |
| **Non Current** | | |
| Employee benefits - long service leave | 11,967 | 34,254 |
| | 68,001 | 80,541 |

**(a) Movement in provision for employee benefits - annual leave**

| | | |
|---|---|---|
| Opening balance | 46,287 | 52,854 |
| Additional/(Reversal) of provision | 9,747 | (6,567) |
| Closing balance | 56,034 | 46,287 |

**Amounts not expected to be settled within the next 12 months**

The entire annual leave obligation is presented as current, since the Consolidated Entity does not have an unconditional right to defer settlement. However based on past experience, the Consolidated Entity does not expect all employees to take the full amount of the accrued leave within the next 12 months. The non-current provision for long service leave is a provision towards the future entitlements of employees who have completed the required period of long service. The following amounts reflect a provision for leave that is not expected to be taken or paid within the next 12 months.

| (b) Movement in provision for employee benefits - long service leave | 2010 $ | 2009 $ |
|---|---|---|
| Opening balance | 34,254 | - |
| Additional/(Reversal) of provision | (22,287) | 34,254 |
| Closing balance | 11,967 | 34,254 |

The Consolidated Entity has provided for pro-rata long service leave notwithstanding no employee has an entitlement in this regard. Accordingly, the entire provision is presented as non-current as no payments are expected to be made within the next 12 months.

### 16. ISSUED CAPITAL

| | 2010 shares | 2009 shares | 2010 $ | 2009 $ |
|---|---|---|---|---|
| Fully paid ordinary shares | 80,507,500 | 80,507,500 | 14,754,059 | 14,754,059 |

| | Number of shares | Company $ |
|---|---|---|
| **2010** | | |
| At 1 July 2009 | 80,507,500 | 14,754,059 |
| At 30 June 2010 | 80,507,500 | 14,754,059 |
| **2009** | | |
| At 1 July 2008 | 80,507,500 | 14,754,059 |
| At 30 June 2009 | 80,507,500 | 14,754,059 |

Each fully paid ordinary share carries one vote per share and the right to participate in dividends. Ordinary shares have no par value and the Consolidated Entity does not have a limited amount of authorised capital.

**Capital risk management**

The Consolidated Entity's objective when managing its capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure balancing the interests of all shareholders. The Board will consider capital management initiatives as is appropriate and in the best interests of the Consolidated Entity and shareholders from time to time, including undertaking capital raisings to fund its commitments and working capital requirements, share buy backs, capital reductions and the payment of dividends. The Consolidated Entity has no borrowings. The Consolidated Entity's non-cash investments can be realised to meet accounts payable arising in the normal course of business.

The Directors contemplate that the Company will be undertaking a capital raising to:

(a) fund the Consolidated Entity’s commitments (being vendor payments and exploration and evaluation expenditure commitments) under the El Quillay Project and Daris Project joint ventures;

(b) fund commitments under new acquisitions undertaken by the Consolidated Entity (if any); and

(c) supplement existing cash reserves to meet the Consolidated Entity’s other working capital requirements.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

### 17. RESERVES

| | 2010 $ | 2009 $ |
|---|---|---|
| Foreign currency translation reserve | 12,516 | 309,127 |
| Options reserve | 1,510,655 | 4,747,991 |
| | 1,523,171 | 5,057,118 |

**Foreign currency translation reserve**

Exchange differences arising on translation of a foreign controlled entity are taken to the foreign currency translation reserve. The reserve is recognised when the investment is disposed of.

**Options Reserve**

The number of unlisted options outstanding over unissued ordinary shares at balance date is as follows

| | Grant date | Number of | 2010 $ | 2009 $ |
|---|---|---|---|---|
| **Directors' Options** | | | | |
| Unlisted options exercisable at $0.55; expiring 27 Jul 2012 | 27-Jul-07 | - | - | 3,261,090 |
| Unlisted options exercisable at $0.35; expiring 16 Sep 2013 | 17-Sep-08 | 17,300,000 | 600,310 | 568,151 |
| Unlisted options exercisable at $0.35; expiring 25 Oct 2014 | 30-Nov-09 | 2,000,000 | 247,317 | - |
| Unlisted options exercisable at $0.60; expiring 25 Oct 2014 | 30-Nov-09 | 1,000,000 | 106,698 | - |
| **Employees' Options** | | | | |
| Unlisted options exercisable at $0.55; expiring 27 Jul 2012 | 27-Jul-07 | 500,000 | 89,500 | 255,075 |
| Unlisted options exercisable at $0.35; expiring 16 Sep 2013 | 17-Sep-08 | 1,035,000 | 43,159 | 59,878 |
| Unlisted options exercisable at $0.35; expiring 25 Oct 2014 | 26-Oct-09 | 1,650,000 | 276,365 | - |
| Unlisted options exercisable at $0.60; expiring 25 Oct 2014 | 26-Oct-09 | 1,000,000 | 147,306 | - |
| | | 24,485,000 | 1,510,655 | 4,144,194 |

During the year, the following cancelled and lapsed options (with a carrying value of $4,059,652) were transferred from the Options Reserve to Accumulated Losses pursuant to IFRS 2 "Share based payments":

(i) cancelled unlisted Directors' and Employees' options exercisable at $0.55 and $0.35 respectively amounted to $3,426,665 and $29,190 respectively; and

(ii) lapsed listed (30 June 2009) options amounted to $603,797.

The Option Reserve records the consideration (net of expenses) received by the Company on the issue of listed options and the fair value of unlisted Directors' and Employees' options which were issued for nil consideration.

**Equity based remuneration (Refer to Note 18)**

On 26 October 2009, 1,000,000 $0.60 (24 October 2014) and 1,650,000 $0.35 (24 October 2014) Options were granted to an employee of the Company as part of a review of his remuneration package.

On 30 November 2009, 1,000,000 $0.60 (24 October 2014) and 2,000,000 $0.35 (24 October 2014) Options were granted to a Director upon receiving shareholder approval.

### 18. SHARE BASED PAYMENTS

A total of 3,000,000 Director's and 2,650,000 employee's options were issued during the year (Refer to Note 17).
Shareholder approval was obtained for the issue of options to the Director as required under the Corporations Act 2001 and under the ASX Listing Rules. The reasons for the grant of these options to a Director and an employee are as follows:

(i) The options issue was designed to act as an incentive for the recipient Director and employee to strive to achieve the Company's goals with the aim of enhancing shareholder value.

(ii) The options provide an equity holding opportunity for each recipient Director and employee which is linked to the Company's share price performance.

(iii) Based on the option exercise price and the rate at which the options vest, the exercise of the options by the Director and employee is potentially only likely to occur if there is sustained upward movement in the Company's share price.

(iv) The number of options issued to the Director and employee has been determined having regard to the level of the Director's and employee's salaries/fees being paid and is a cash free, effective and efficient way of providing an appropriate level of remuneration as well as providing ongoing equity based incentives for the Director and employee to remain with the Company with a view to improving the future growth of the Company.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

### 18. SHARE BASED PAYMENTS (continued)

(v) As a relatively junior exploration company with much of its available funds dedicated or committed to its resource projects (and also in seeking opportunities in relation to the same) and in financing its day to day working capital requirements, the Company is not always in a position to maintain competitive cash salary ranges for its Directors and employees within the industry in which it operates.

Options granted to Directors and employees carry no dividend or voting rights.

| | | | Movement during the year | | | | | As at 30 June 2010 | |
|---|---|---|---|---|---|---|---|---|---|
| Grant date | Expiry date | Exercise price | Opening balance | Granted | Exercised | Forfeited | Closing balance | Vested and exercisable | Fair value $ |
| 27-Jul-07 | 26-Jul-12 | 0.55 | 500,000 | - | - | - | 500,000 | 500,000 | 89,500 |
| 17-Sep-08 | 16-Sep-13 | 0.35 | 17,300,000 | - | - | - | 17,300,000 | 17,300,000 | 600,310 |
| 17-Sep-08 | 16-Sep-13 | 0.35 | 1,485,000 | - | - | (450,000) | 1,035,000 | 1,035,000 | 43,159 |
| 26-Oct-09 | 25-Oct-14 | 0.35 | - | 1,650,000 | - | - | 1,650,000 | 1,650,000 | 276,365 |
| 26-Oct-09 | 25-Oct-14 | 0.60 | - | 1,000,000 | - | - | 1,000,000 | 1,000,000 | 147,306 |
| 30-Nov-09 | 25-Oct-14 | 0.35 | - | 2,000,000 | - | - | 2,000,000 | 2,000,000 | 247,317 |
| 30-Nov-09 | 25-Oct-14 | 0.60 | - | 1,000,000 | - | - | 1,000,000 | 1,000,000 | 106,698 |
| | | | 19,285,000 | 5,650,000 | - | (450,000) | 24,485,000 | 24,485,000 | 1,510,655 |
| Weighted average exercise price | | | 0.36 | 0.44 | | 0.35 | 0.37 | 0.37 | |

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.7 years.

No options expired during the periods covered by the above tables. There were no shares issued as a result of the exercise of any Directors' or Employees options during the year (2009: nil).

The fair value of these options are expensed, from their date of grant, over their vesting period; fair values are determined as at date of grant using the binomial tree options valuation model that takes into account the exercise price, the term of the option, the underlying share price as at date of grant, the expected price volatility of the underlying shares and the risk-free interest rate for the term of the option. The Company is required to expense the fair value of options granted, on the basis that the fair value cost at date of grant is apportioned over the vesting period applicable to each option. The model inputs for assessing the fair value of options granted during the period are as follows:

(a) options are granted for no consideration and vest as detailed in the table below;
(b) exercise price is as detailed in the table above;
(c) grant date is as detailed in the table above;
(d) expiry date is as detailed in the table above;
(e) share price is based on the last bid price on ASX as at date of grant, as detailed in the table below;
(f) expected price volatility of the Company's shares is based on an independent assessment;
(g) expected dividend yield is nil;
(h) risk-free interest rate is based on the 5 year Commonwealth bond yield, as detailed in the table below.

| **Date of issue** | **Description of Unlisted Options** | **Vesting Criteria** | **Share Price at Grant Date** | **Risk free rate** | **Price volatility** |
|---|---|---|---|---|---|
| 27-Jul-07 | $0.55 (26 July 2012) Employee's Options | 1/3 on 26 January 2008, 1/3 on 26 July 2008 and 1/3 on 26 January 2009 | $0.27 | 6.29% | 95% |
| 17-Sep-08 | $0.35 (16 September 2013) Directors' Options | 75% on grant and 25% on 16 September 2009 | $0.07 | 5.46% | 95% |
| 17-Sep-08 | $0.35 (16 September 2013) Employees' Options | 50% on 16 March 2009, 25% on 16 September 2009 and 16 March 2010 | $0.07 | 5.46% | 95% |
| 26-Oct-09 | $0.60 (24 October 2014) Employee's Options | vested at the date of the issue of the options | $0.24 | 5.57% | 95% |
| 26-Oct-09 | $0.35 (24 October 2014) Employee's Options | vested at the date of the issue of the options | $0.24 | 5.57% | 95% |
| 30-Nov-09 | $0.60 (24 October 2014) Director's Options | vested at the date of the issue of the options | $0.19 | 4.95% | 95% |
| 30-Nov-09 | $0.35 (24 October 2014) Employees' Options | vested at the date of the issue of the options | $0.19 | 4.95% | 95% |

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2010

### 19. SEGMENT INFORMATION

The Consolidated Entity has applied AASB 8 "Operating Segments" from 1 July 2009 as described in Note 1. Management has considered the activities/operations and geographical perspective within the operating results and have determined that the Consolidated Entity operates in Australia and Peru within one major segment - the resource exploration and evaluation sector - during the financial year. Unallocated items comprise share investments, corporate assets, office expenses and income tax assets and liabilities. The current operating segments are the same as that reported in the financial statements as at 30 June 2009.

| | Resource | | | |
|---|---|---|---|---|
| **2010** | Australia | Peru | Unallocated | **Total** |
| | **$** | **$** | **$** | **$** |
| Total segment revenues | - | - | 493,552 | 493,552 |
| Total segment loss before tax | (2,228,478) | (72,388) | 493,552 | (1,807,314) |
| | | | | |
| Total segment assets | 4,293,396 | 203,675 | 1,786,260 | 6,283,331 |
| Total segment liabilities | (123,910) | (440,892) | - | (564,802) |
| | | | | |
| **2009** | | | | |
| Total segment revenues | - | - | 444,420 | 444,420 |
| Total segment loss before tax | (8,190,935) | (845,268) | 171,849 | (8,864,354) |
| | | | | |
| Total segment assets | 5,458,880 | 237,694 | 1,501,034 | 7,197,608 |
| Total segment liabilities | (185,307) | (15,200) | - | (200,507) |

### 20. FINANCIAL RISK MANAGEMENT

The Consolidated Entity's financial instruments mainly consist of deposits with banks, accounts receivable and payable, and investments in a listed security. The principal activity of the Consolidated Entity is resource exploration and evaluation. The main risks arising from the Consolidated Entity's financial instruments are price (which includes interest rate and market risk), credit, foreign currency and liquidity risks.

Risk management is carried out by the Board of Directors. The Board evaluates, monitors and manages the Consolidated Entity's financial risk in close co-operation with its operating units.

The financial receivables and payables of the Consolidated Entity in the table below are due or payable within 30 days. The financial investments are held for trading and are realised at the discretion of the Board.

| The Consolidated Entity holds the following financial instruments: | **2010** | **2009** |
|---|---|---|
| | **$** | **$** |
| **Financial assets** | | |
| Cash and cash equivalents | 4,309,770 | 5,492,074 |
| Trade and other receivables | 145,126 | 138,175 |
| Financial assets at fair value through profit or loss | 1,786,260 | 1,501,034 |
| | 6,241,156 | 7,131,283 |
| **Financial liabilities** | | |
| Trade and other payables | (496,801) | (119,966) |
| | (496,801) | (119,966) |
| | | |
| **Net Financial Assets** | 5,744,355 | 7,011,317 |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

**20. FINANCIAL RISK MANAGEMENT (continued)**

**(a) Market Risk**

**(i) Price risk**

The Consolidated Entity is exposed to equity securities price risk. This arises from investments held by the Consolidated Entity and classified in the balance sheet at fair value through profit or loss. The Consolidated Entity is not directly exposed to commodity price risk.

The value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market. The Consolidated Entity does not manage this risk through entering into derivative contracts, futures, options or swaps. Market risk is minimised through ensuring that investment activities are undertaken in accordance with Board established mandate limits and investment strategies.

The Consolidated Entity has performed a sensitivity analysis on its exposure to equity securities price risk which comprise shares in Strike Resources Limited (ASX code: SRK) at balance date. The analysis demonstrates the effect on the current year results and equity which could result from a change in these risks. The SRK shares was utilised as the benchmark for the portfolio at fair value through profit or loss.

| | 2010 | 2009 |
|---|---|---|
| Change in profit | $ | $ |
| Increase by 15% | 267,939 | 225,155 |
| Decrease by 15% | (267,939) | (225,155) |
| Change in equity | | |
| Increase by 15% | 267,939 | 225,155 |
| Decrease by 15% | (267,939) | (225,155) |

**(ii) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Consolidated Entity's exposure to market risk for changes in interest rates relate primarily to investments held in interest bearing instruments. The average interest rate applicable to funds held on deposit during the year was 5.79% (2009: 4.18%)

| | 2010 | 2009 |
|---|---|---|
| | $ | $ |
| Cash at bank | 741,906 | 924,074 |
| Term deposits | 3,567,864 | 4,568,000 |
| | 4,309,770 | 5,492,074 |

The Consolidated Entity has no borrowings and no liability exposure to interest rate risk. It has therefore not been included in the sensitivity analysis. However the revenue exposure to interest rate risk is material in terms of the possible impact on profit or loss or total equity. It has therefore been included in the sensitivity analysis below:

| | 2010 | 2009 |
|---|---|---|
| Change in profit | $ | $ |
| Increase by 3% | 129,293 | 164,762 |
| Decrease by 3% | (129,293) | (164,762) |
| Change in equity | | |
| Increase by 3% | 129,293 | 164,762 |
| Decrease by 3% | (129,293) | (164,762) |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

**20. FINANCIAL RISK MANAGEMENT (continued)**

**(iii) Foreign exchange risk**

The Consolidated Entity is exposed to foreign currency risk on cash held by a foreign controlled entity, foreign resource project investment commitments and exploration and evaluation expenditure on foreign resource projects. The primary currency giving rise to this risk is US dollars (USD). The Consolidated Entity has not entered into any forward exchange contracts as at balance date and is currently fully exposed to foreign exchange risk. The Consolidated Entity's exposure to foreign currency risk at reporting date was as follows:

| | 2010<br>USD | 2009<br>USD |
|---|---|---|
| Cash and cash equivalents | 450,378 | 128,839 |
| Trade and other receivables | 80,626 | 71,928 |
| Trade and other payables | (377,713) | (12,234) |
| | 153,291 | 188,533 |

The Consolidated Entity's exposure to foreign exchange risk is mitigated by having comparable asset and liability balances in US dollars. Therefore a sensitivity analysis has not been performed.

**(b) Credit risk**

Credit risk refers to the risk that a counterparty under a financial instrument will default (in whole or in part) on its contractual obligations resulting in financial loss to the Consolidated Entity. Concentrations of credit risk are minimised primarily by undertaking appropriate due diligence on potential investments, carrying out all market transactions through approved brokers, settling non-market transactions with the involvement of suitably qualified legal and accounting personnel (both internal and external), and obtaining sufficient collateral or other security (where appropriate) as a means of mitigating the risk of financial loss from defaults. This financial year there was no necessity to obtain collateral.

The credit quality of the financial assets are neither past due nor impaired and can be assessed by reference to external credit ratings (if available with Standard & Poor's) or to historical information about counterparty default rates. The maximum exposure to credit risk at reporting date is the carrying amount of the financial assets as summarised below:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Cash and cash equivalents** | | |
| AA | 2,704,405 | 1,633,177 |
| A | 512,094 | 2,702,251 |
| BBB | 1,086,570 | - |
| C+ | - | 1,000,000 |
| No external credit rating available | 6,701 | 156,646 |
| | 4,309,770 | 5,492,074 |
| **Trade and other receivables (due within 30 days)** | | |
| No external credit rating available | 145,126 | 138,175 |

The Consolidated Entity measures credit risk on a fair value basis. The carrying amount of financial assets recorded in the financial statements, net of any provision for losses, represents the Consolidated Entity’s maximum exposure to credit risk. All receivables noted above are due within 30 days. None of the above receivables are past due.

**(c) Liquidity risk**

Liquidity risk is the risk that the Consolidated Entity will encounter difficulty in meeting obligations associated with financial liabilities. The Consolidated Entity has no borrowings. There is sufficient cash and cash equivalents and the non-cash investments can be realised to meet accounts payable arising in the normal course of business. The financial liabilities maturity obligation is disclosed below:

| **Trade and other payables** | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Non-interest bearing | | |
| Less than 6 months | 55,908 | 32,415 |
| 6 - 12 months | 440,893 | 87,551 |
| | 496,801 | 119,966 |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

**20. FINANCIAL RISK MANAGEMENT (continued)**

**(f) Net Fair Value of Financial Assets and Liabilities**

The carrying amount of financial instruments recorded in the financial statements represent their fair value determined in accordance with the accounting policies disclosed in Note 1. The aggregate fair value and carrying amount of financial assets at balance date are set out in Note 9 and Note 11. The financial liabilities at balance date are set out in Note 14.

**(d) Fair value measurements**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As at 1 July 2009, the Consolidated Entity has adopted the amendment to *AASB 7 Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy :

(i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
(ii) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), and
(iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The following tables present the Consolidated Entity's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of AASB 7 *Financial Instruments: Disclosures* .

| 2010 | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|---|
| Financial assets held at fair value through profit or loss | | | | |
| - Listed investments at fair value | 1,786,260 | - | - | 1,786,260 |

**21. COMMITMENTS**

**(a) Mineral Tenement/Concession - Commitments for Expenditure**
**Australian tenements**

In order to maintain current rights of tenure to exploration tenements, the Consolidated Entity is required to outlay lease rentals and meet minimum expenditure commitments of approximately $234,215 over a 12 month period, based on Australian tenements which have been granted as at balance date. Financial commitments for subsequent periods are contingent upon future exploration and evaluation results and cannot be estimated. These obligations are subject to renegotiation upon expiry of the tenement lease or when application for a mining lease is made and have not been provided for in the accounts. The Bigrlyi South Uranium Project exploration licences (EL 24879, EL24928, EL24929 and application for EL 24927) and the granted Canning Well Project tenement (EL 46/629) have been farmed-out to ASX listed joint venture parties, who bears the obligation to maintain these tenements in good standing during the term of the joint venture.

**Peruvian concessions**

The Consolidated Entity is required to pay annual license fees by 30 June of each year, currently charged at the rate of US$3.00 per hectare per annum.

**(b) Australian Heritage Protection Agreements**

These agreements facilitate the preservation of aboriginal heritage through the protection of aboriginal sites and objects upon the grant of mining tenements in Western Australia. The Heritage Protection Agreements require the Consolidated Entity to conduct aboriginal heritage surveys prior to conducting exploration that is not low impact in nature and detail procedures to be followed if an aboriginal site is identified.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

**22. CONTINGENT ASSETS AND LIABILITIES**

Contingent assets and liabilities exist in relation to certain resource projects of the Consolidated Entity subject to the continued development and advancement of the same.

**(a)** **Royalty to Orion Equities Limited -** The Consolidated Entity is liable to pay a royalty of 2% of gross revenues (exclusive of GST) to Orion Equities Limited from any commercial exploitation of any minerals from various Australian tenements - EL 24879, 24928 and 24729 and ELA 24927 (the Bigrlyi South Project tenements in the Northern Territory), EL 09/1253 (a Mt James Project tenement in Western Australia) and EL 46/629 and a right to earn and acquire a 85% interest in ELA 46/585 (excluding all manganese mineral rights) (the Canning Well Project tenements in Western Australia).

**(b)** **Native Title** - The Consolidated Entity's tenements in Australia may be subject to native title applications in the future. At this stage it is not possible to quantify the impact (if any) that native title may have on the operations of the Consolidated Entity.

**(c)** **Government Royalties -** The Consolidated Entity is liable to pay royalties on production obtained from its mineral tenements/concessions. For example, the applicable Government royalties in Peru is between 1 to 3% based on the value of production. At this stage, it is not possible to quantify the potential financial obligation of the Consolidated Entity under Government royalties.

**(d)** **Directors' Deeds** - The Company has entered into deeds of indemnity with each of its Directors indemnifying them against liability incurred in discharging their duties as directors/officers of the Consolidated Entity. As at balance date, no claims have been made under any such indemnities and accordingly, it is not possible to quantify the potential financial obligation of the Consolidated Entity under these indemnities.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

**23. EVENTS AFTER BALANCE DATE**

**(a) Daris Copper Project (Oman) - Shareholders' Agreement**

On 28 August 2010, Alara Oman Operations Pty Limited, a wholly owned subsidiary of the Company, entered into a shareholders' agreement with Daris Copper Project concession holder, Al Tamman Trading Establishment LLC (**ATTE**) pursuant to which Alara will invest up to a total of US$7 million into a new joint venture company ("Daris Resources LLC" (**DarisCo**)) to gain up to a 70% shareholding. Alara will have 50% of DarisCo on incorporation (with the concession owner holding 50%) and will advance US$3 million as equity during a 3 year period. Thereafter, Alara will advance a further US$4 million to DarisCo as a loan (on commercial terms and repayable as a priority before distribution of dividends) - convertible into equity in DarisCo to take Alara's interest to 70%.

DarisCo will have exclusive rights under a management agreement with the concession owner to manage, operate and commercially exploit the concession.

The shareholders agreement is subject to conditions precedent to be satisfied or waived by Alara within 6 months, including the incorporation of DarisCo, the execution of the management agreement and ancillary loan agreement and the concession being renewed with mineral rights expanded from copper to include gold, silver and other base metals.

**(b) Other Oman Projects - Shareholders' Agreement**

On 8 August 2010, Alara Oman Operations Pty Limited entered into a shareholders' agreement with Sur United International Co. LLC (**SUR**) pursuant to which a new joint venture company ("Alara Resources LLC" (**AlaraCo**)) **will be established to** identify, secure and commercially exploit other resource projects in Oman. Alara will contribute 100% of the initial capital of 150,000 Omani Rials (RO) (equivalent to ~A$425,000) for a 70% shareholding interest in AlaraCo with SUR holding the balance of 30%. Thereafter, Alara will advance funds to AlaraCo as a loan (on commercial terms and repayable as a priority before distribution of dividends).

SUR is entitled to receive a priority payment out of net profits equivalent to 2% NSR (Net Smelter Return) – which amount is deducted from the dividend entitlement of SUR. There is a mechanism for the dilution of SUR's profit interest (ie. 30%) if SUR fails to meet capital calls after a 'Decison to Mine' has been made by Alara in respect of a proposed 'Mine' (supported by the results of any feasibility study confirming the commercial viability of the exploitation of a 'Mine'). If SUR's entitlement to dividends is diluted below 10% as above, SUR has an option to assign its dividend rights to Alara in return for a 2% NSR payment from AlaraCo, subject to AlaraCo making a net profit.

The shareholders agreement is subject to conditions precedent to be satisfied or waived by Alara within 6 months, including the incorporation of AlaraCo, the execution of an ancillary loan agreement and an exploration license being granted to AlaraCo – it is the intention of the parties for AlaraCo to lodge an application for an exploration licence over an open area prospective for base metals.

**(c) El Quillay Copper-Gold Project (Chile) Term Sheet**

On 22 August 2010, Alara Resources Limited entered into a term sheet (dated 17 August 2010) (the **Term Sheet**) with Chilean vendors of the El Quillay Copper-Gold Project in Chile, Inversiones EM DOS Limitada and Mr Miguel Nenadovich del Río (the **Vendors**) pursuant to which:

(i) The Vendors will establish a new joint venture entity (**JVCo**) in Chile to hold the concessions;

(ii) Upon completion of due diligence to the satisfaction of Alara (within 60 days) and the execution of a more definitive joint venture agreement (**JV Agreement**) between the parties, Alara will pay the Vendors US$500,000 and JVCo will permit Alara to register a lien over the concessions;

(iii) Alara will be granted an option to acquire 70% of JVCo in consideration of the following payments to the Vendors over a 3 year term (**Earn-In Period**):

  (a) US$1,000,000 due and payable on or before the first anniversary of the JV Agreement;

  (b) US$3,000,000 due and payable on or before the second anniversary of the JV Agreement;

  (c) US$5,500,000 due and payable on or before the third anniversary of the JV Agreement;

  (d) A 'Resource Bonus' due and payable on or before the earlier of commencement of production or the third anniversary of the JV Agreement;

(iv) The 'Resource Bonus' is calculated at the rate of US$0.0255 per pound of contained fine copper equivalent grading at or above 0.7% Cu defined as being economically mineable (within a JORC Proven and/or Probable Reserve and Measured and/or Indicated Resource) within the project area during the Earn-In Period, in excess of a threshold 250,000 tonnes of contained fine copper equivalent grading at or above 0.7% Cu (**Threshold Resource)**.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 30 June 2010

**23. EVENTS AFTER BALANCE DATE (continued)**

(v) During the Earn-In Period, Alara will manage and fund all exploration, evaluation and development costs in relation to the project, including a minimum 20,000 metre drilling programme to be completed over the first two years of the Earn-In Period (with a minimum of 10,000 metres to be completed during the first year);

(vi) After the completion of the Earn-In, Alara will continue to manage and fund all exploration, evaluation and development costs up to completion of a Definitive (Bankable) Feasibility Study (**DFS**) in respect of each copper prospect within the project area. Thereafter, the parties will contribute to all cash calls in proportion to their respective participating interests in JVCo or be diluted in accordance with an industry standard dilution formula;

(vii) Alara further commits to advancing loan funds of up to US$10 million to the Vendors (on commercial terms) to fund the Vendors' share of cash calls into JVCo (after the completion of a DFS) – this loan will be repaid to Alara out of the Vendors' share of profits from JVCo; and

(viii) After the Earn-In Period, a further 'Resource Bonus' is payable to the Vendors (calculated in the same manner as described above) in respect of additional contained fine copper defined within the project area (or processed by JVCo at average grades below 0.7% Cu equivalent) in excess of the Threshold Resource.

**(d) Issue of Employee Unlisted Options**

On 23 August 2010, the Company issued unlisted options to an employee as follows:

| No. of Options Issued | Date of Issue | Description of Unlisted Options | Exercise Price | Expiry Date | Vesting Criteria |
|---|---|---|---|---|---|
| 400,000 | 23 August 2010 | $0.35 (22 August 2015) Options | $0.35 | 22 August 2015 | 100% on date of issue |

**(e) Lapse of Former Director's Unlisted Options**

On 19 August 2010, former Director, Dr John Stephenson's unlisted options lapsed as follows (in accordance with their terms of issue):

| Lapsed Options | Date of Issue | Date of Lapse | Description of Unlisted Options | Exercise Price | Expiry Date | Vesting Criteria | Total Fair Value as at date of issue |
|---|---|---|---|---|---|---|---|
| 900,000 | 17 September 2008 | 19 August 2010 | $0.35 (16 September 2013) Options | $0.35 | 16 September 2013 | 75% on grant and 25% on 17 September 2009 | $31,230 or $0.035 each |

No other matter or circumstance has arisen since the end of the financial period that significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial periods.

# DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements, comprising the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows and accompanying notes as set out on pages 53 to 78, are in accordance with the *Corporations Act 2001* and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the Consolidated Entity's financial position as at 30 June 2010 and of their performance for the year ended on that date;

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

3. The remuneration disclosures set out in the Directors' Report on pages 45 to 50 (as the audited Remuneration Report) comply with section 300A of the *Corporations Act 2001*;

4. The Directors have been given the declarations by the Managing Director (the person who performs the chief executive function) and the Company Secretary (the person who performs the chief financial officer function) as required by section 295A of the *Corporations Act 2001*; and

5. The Consolidated Entity has included in the notes to the Financial Statements an explicit and unreserved statement of compliance with the International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Directors made pursuant to section 295(5) of the *Corporations Act 2001*.

**Shanker Madan**
**Managing Director**

**Farooq Khan**
**Director**

Perth, Western Australia

24 September 2010

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## Independent Auditor's Report
## To the Members of Alara Resources Limited

### Report on the financial report

We have audited the accompanying financial report of Alara Resources Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**Auditor's opinion**

In our opinion:

a the financial report of Alara Resources Limited is in accordance with the Corporations Act 2001, including:

- i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

## Report on the remuneration report

We have audited the remuneration report included in pages 45 to 50 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of Alara Resources Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

P W Warr
Director - Audit & Assurance

Perth, 24 September 2010

# CORPORATE GOVERNANCE

## Compliance with Corporate Governance Council's Principles

The extent to which the Company has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition, August 2007) is as follows:

| Principle | Compliance | CGS References / Comments |
|---|---|---|
| **PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**<br>Companies should establish and disclose the respective roles and responsibilities of board and management | | |
| 1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Yes | 2, 3.3, 4.1, 4.2 |
| 1.2 Companies should disclose the process for evaluating the performance of senior executives. | Yes | 3.11 |
| 1.3 Companies should provide the information indicated in the Guide to Reporting on Principle 1.<br><br>The following material should be included in the corporate governance section of the annual report:<br>• an explanation of any departure from Recommendations 1.1, 1.2 or 1.3; and<br>• whether a performance evaluation for senior executives has taken place in the reporting period and whether it was in accordance with the process disclosed.<br><br>A statement of matters reserved for the board or the board charter or the statement of areas of delegate authority to senior executives should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section. | Yes<br>(as applicable) | Annual Report<br>Website<br>CGS |
| **PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**<br>Companies should have a board of an effective composition size and commitment to adequately discharge its responsibilities and duties | | |
| 2.1 A majority of the board should be independent directors. | No | 3.5 |
| 2.2 The chair should be an independent director. | No | 3.2, 3.5 |
| 2.3 The roles of chair and chief executive officer should not be exercised by the same individual. | Not Applicable | 3.2. |
| | The Company has a Managing Director but not a Chief Executive Officer | |
| 2.4 The board should establish a nomination committee. | No | 4.2 |
| 2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | Yes | 3.11 |
| 2.6 Companies should provide the information indicated in the Guide to Reporting on Principle 2.<br><br>The following material should be included in the corporate governance statement in the annual report:<br>• the skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report;<br>• the names of the directors considered by the board to constitute independent directors and the company's materiality thresholds;<br>• the existence of any of the relationships listed in Box 2.1 and an explanation of why the board considers a director to be independent, notwithstanding the existence of these relationships;<br>• a statement as to whether there is a procedure agreed by the board for directors to take independent professional advice at the expense of the company;<br>• the period of office held by each director in office at the date of the annual report;<br>• the names of members of the nomination committee and their attendance at meetings of the committee, or where a company does not have a nomination committee, how the functions of a nomination committee are carried out;<br>• whether a performance evaluation for the board, its committees and directors has taken place in the reporting period and whether it was in accordance with the process disclosed; and<br>• an explanation of any departure from Recommendations 2.1, 2.2, 2.3, 2.4, 2.5 or 2.6. | Yes<br>(as applicable) | Annual Report<br>Website<br>CGS |

# CORPORATE GOVERNANCE

| Principle | Compliance | CGS References / Comments |
|---|---|---|
| The following material should be made publicly available, ideally by posting it to the company's website in a clearly-marked corporate governance section:<br>• a description of the procedure for the selection and appointment of new directors and the re-election of incumbent directors;<br>• the charter of the nomination committee or a summary of the role, rights, responsibilities and membership requirements for that committee; and<br>• the board's policy for the nomination and appointment of directors. | | |
| **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**<br>Companies should actively promote ethical and responsible decision-making | | |
| 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: | No | 6.<br>(The principal matters covered by a code of conduct are addressed by other policies.) |
| 3.1.1 the practices necessary to maintain confidence in the company's integrity; | | |
| 3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and | | |
| 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | | |
| 3.2 Companies should establish a policy concerning trading in company securities by directors, officers and employees and disclose the policy or a summary of that policy. | Yes | 3.8 |
| 3.3 Companies should provide the information indicated in the Guide to Reporting on Principle 3.<br>An explanation of any departures from Recommendations 3.1, 3.2 or 3.3 should be included in the corporate governance statement in the annual report.<br>The following material should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section:<br>• any applicable code of conduct or a summary; and<br>• the trading policy or a summary of its main provisions. | Yes | Annual Report<br>Website<br>CGS |
| **PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**<br>Companies should have a structure to independently verify and safeguard the integrity of their financial reporting | | |
| 4.1 The board should establish an audit committee. | No | 4.2 |
| 4.2 Structure the audit committee so that it:<br>• consists only of non-executive directors;<br>• consists of a majority of independent directors;<br>• is chaired by an independent chair, who is not chair of the board; and<br>• has at least three members. | Not applicable | See CGS 4.2 |
| 4.3 The audit committee should have a formal charter. | Not applicable | See CGS 4.2 |
| 4.4 Companies should provide the information indicated in the Guide to Reporting on Principle 4.<br>The following material should be included in the corporate governance statement in the annual report:<br>• details of the names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee or, where a company does not have an audit committee, how the functions of an audit committee are carried out;<br>• the number of meetings of the audit committee and the names of the attendees; and<br>• explanation of any departures from Recommendations 4.1, 4.2, 4.3 or 4.4.<br>The following material should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section:<br>• the audit committee charter; and<br>• information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners. | Yes<br>(as applicable) | Annual Report<br>Website<br>CGS |

# CORPORATE GOVERNANCE

| Principle | Compliance | CGS References / Comments |
|---|---|---|
| **PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**<br>Companies should promote timely and balanced disclosure of all material matters concerning the company | | |
| 5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | Yes | 7.1, 8.2 |
| 5.2 Companies should provide the information indicated in the Guide to Reporting on Principle 5.<br>An explanation of any departures from Recommendations 5.1 or 5.2 should be included in the corporate governance statement in the annual report.<br>The policies or a summary of those policies designed to guide compliance with Listing Rule disclosure requirements should be made publicly available, ideally by posting them to the company's website in a clearly marked corporate governance section. | Yes | Annual Report<br>Website<br>CGS |
| **PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**<br>Companies should respect the rights of shareholders and facilitate the effective exercise of those rights | | |
| 6.1 Companies should design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | Yes | 8.1 |
| 6.2 Companies should provide the information indicated in Guide to Reporting on Principle 6.<br>An explanation of any departures from best practice Recommendations 6.1 or 6.2 should be included in the corporate governance statement in the annual report.<br>The company should describe how it will communicate with its shareholders publicly, ideally by posting the information on the company's website in a clearly marked corporate governance section. | Yes | Annual Report<br>Website<br>CGS |
| **PRINCIPLE 7: RECOGNISE AND MANAGE RISK**<br>Companies should establish a sound system of risk oversight and management and internal control | | |
| 7.1 Companies should establish policies for oversight and management of material business risks and disclose a summary of those policies. | Yes | 7.1 |
| 7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | Yes | 7.1 |
| 7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Yes | 7.1 |
| 7.4 Companies should provide the information indicated in the Guide to Reporting on Principle 7.<br>The following material should be included in the corporate governance section of the annual report:<br>• an explanation of any departures from best practice recommendations 7.1, 7.2, 7.3 or 7.4;<br>• whether the board has received the report from management under Recommendation 7.2; and<br>• whether the board has received assurances from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) under Recommendation 7.3.<br>A summary of the company's policies on risk oversight and management of material business risks should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section. | Yes | Annual Report<br>Website<br>CGS |

# CORPORATE GOVERNANCE

| Principle | Compliance | CGS References / Comments |
|---|---|---|
| **PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**<br>Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear | | |
| 8.1 The board should establish a remuneration committee. | No | 4.2 |
| 8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | Yes | Remuneration Report in the Directors' Report |
| 8.3 Companies should provide the information indicated in the Guide to Reporting on Principle 8.<br><br>The following material or a clear cross-reference to the location of the material should be included in the corporate governance statement in the annual report:<br>• the names of the members of the remuneration committee and their attendance at meetings of the committee or, where a company does not have a remuneration committee, how the functions of a remuneration committee are carried out;<br>• the existence and terms of any schemes for retirement benefits, other than superannuation, for non-executive directors; and<br>• an explanation of any departure from Recommendations 8.1, 8.2 or 8.3.<br><br>The following material should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section:<br>• the charter of the remuneration committee or a summary of the role, rights, responsibilities and membership requirements for that committee; and<br>• a summary of the company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. | Yes<br>(as applicable) | Annual Report<br>Website<br>CGS |

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE STATEMENT (CGS)

**1. Framework and Approach to Corporate Governance and Responsibility**

The Board is committed to maintaining high standards of corporate governance. Good corporate governance is about having a set of core values and behaviours that underpin the Company's activities and ensure transparency, fair dealing and protection of the interests of stakeholders.

The Board of Directors supports the Corporate Governance Principles and Recommendations developed by the ASX Corporate Governance Council ("**Council**"). The Company's practices are largely consistent with the Council's guidelines - the Board considers that the implementation of some recommendations are not appropriate having regard to the nature and scale of the Company's activities and size of the Board. The Board uses its best endeavours to ensure exceptions to the Council's guidelines do not have a negative impact on the Company and the best interests of shareholders as a whole.

Details of the Council's recommendations can be found on the ASX website at:

asx.com.au/about/corporate_governance/revised_corporate_governance_principles_recommendations.htm

**2. Board of Directors - Role and Responsibilities**

In general the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. The Board is also responsible for the overall corporate governance of the Company, and recognises the need for the highest standards of behaviour and accountability in acting in the best interests of the Company as a whole. The Board also ensures that the Company complies with all of its contractual, statutory and any other legal or regulatory obligations. The Board has the final responsibility for the successful operations of the Company. Where the Board considers that particular expertise or information is required, which is not available from within their number, appropriate external advice may be taken and reviewed prior to a final decision being made by the Board.

Without intending to limit the general role of the Board, the principal functions and responsibilities of the Board include the matters set out below, subject to delegation as specified elsewhere in this Statement or as otherwise appropriate:

(1) formulation and approval of the strategic direction, objectives and goals of the Company;

(2) the prudential control of the Company's finances and operations and monitoring the financial performance of the Company;

(3) the resourcing, review and monitoring of executive management;

(4) ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;

(5) the identification of significant business risks and ensuring that such risks are adequately managed;

(6) the timeliness, accuracy and effectiveness of communications and reporting to shareholders and the market;

(7) the establishment and maintenance of appropriate ethical standards;

(8) responsibilities typically assumed by an audit committee including:

(a) reviewing and approving the audited annual and reviewed half-yearly financial reports; and

(b) reviewing the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal;

(9) responsibilities typically assumed by a remuneration committee including:

   (a) reviewing the remuneration and performance of Directors;

   (b) setting policies for Executives' remuneration, setting the terms and conditions of employment for Executives, undertaking reviews of Executives' performance, including setting goals and reviewing progress in achieving those goals; and

   (c) reviewing the Company's Executive and employee incentive schemes and making recommendations on any proposed changes; and

(10) responsibilities typically assumed by a nomination committee including:

   (a) devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors; and

   (b) oversight of Board and Executive succession plans.

**3. Board of Directors – Composition, Structure and Process**

The Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given the current size and the scale and nature of the Company's activities. The names of the Directors in office currently and during the 2009/2010 year and their qualifications and experience are stated in the Directors' Report for the year ended 30 June 2010.

**3.1. Skills, Knowledge and Experience**

Directors are appointed based on the specific corporate and governance skills and experience required by the Company. The Board recognises its need to contain Directors with a relevant blend of personal experience in accounting and finance, law, financial and investment markets, financial management and public company administration and Director-level business or corporate experience, having regard to the scale and nature of the Company's activities. A Director is initially appointed by

# CORPORATE GOVERNANCE

the Board and retires (and may stand for re-election) at the next Annual General Meeting after their appointment.

### 3.2. Chairman

The Chairman leads the Board and has responsibility for ensuring that the Board receives accurate, timely and clear information to enable Directors to perform their duties as a Board. Dr John Stephenson was Chairman of the Company until he ceased to be Director on 19 February 2010. The Chairmanship of the Company is filled by a Director nominated by the Board from time to time.

The Managing Director is responsible and accountable to the Board for the Company's management. The Managing Director of the Company is Mr H. Shanker Madan, whose qualifications and experience are stated in the Directors' Report for the year ended 30 June 2010.

Mr Farooq Khan and Mr William Johnson are Executive Directors of the Company, whose qualifications and experience are stated in the Directors' Report for the year ended 30 June 2010.

### 3.3. Non-Executive Directors

The Company does not currently have any Non-Executive Directors. Dr John Stephenson was Non-Executive Chairman until he ceased to be Director on 19 February 2010.

The Board considers that during the year ended 30 June 2010, the Company was not of a size, nor were its affairs of such complexity to justify the appointment and further expense of a majority of independent, Non-Executive Directors. The Board believed that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

Subsequent to the end of the year ended 30 June 2010, the Company's activities have increased in scope and complexity and the Board is currently reviewing the size, nature and scope of the Board to determine the optimum number of Directors required for the Board to properly perform its responsibilities and functions, including the appointment of one or more appropriately qualified and experienced Non-Executive Directors to complement the existing Board.

### 3.4. Company Secretary

The Company Secretary is appointed by the Board and is responsible for developing and maintaining the information systems and processes that are appropriate for the Board to fulfil its role and is responsible to the Board for ensuring compliance with Board procedures and governance matters. The Company Secretary is also responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. The Company Secretary is Mr Victor Ho, whose qualifications and experience are stated in the Directors' Report for the year ended 30 June 2010.

### 3.5. Independence

An independent Director, in the view of the Company, is a Non-Executive Director who:

(1) is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;

(2) within the last 3 years has not been employed in an Executive capacity by the Company or another group member;

(3) within the last 3 years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the provision of material professional or consulting services;

(4) is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;

(5) has no material contractual relationship with the Company other than as a Director of the Company; and

(6) is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Dr John Stephenson (who was Non-Executive Chairman until he ceased to be Director on 19 February 2010), was not regarded as an independent Director as he was Chairman of substantial shareholder, Strike Resources Limited (**SRK**). The current Board, comprising Executive Directors, are not considered independent within the definition outlined above. Messrs Madan, Khan and Johnson are also Non-Executive Directors of SRK. The Company notes that on 27 October 2010, SRK disposed of its entire shareholding in the Company to various institutional investors as part of the book build for a $10.58 million share placement completed by the Company.

### 3.6. Conflicts of Interest

To ensure that Directors are at all times acting in the interests of the Company, Directors must:

(1) disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director or his duties to any other parties and the interests of the Company in carrying out the activities of the Company; and

(2) if requested by the Board, within 7 days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself from the room when Board discussion and/or voting occurs on matters to which the conflict relates (save with the approval of the remaining Directors and subject to the Corporations Act).

# CORPORATE GOVERNANCE

### 3.7. Related-Party Transactions

Related party transactions include any financial transaction between a Director and the Company as defined in the Corporations Act or the ASX Listing Rules. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction. The Company also discloses related party transactions in its financial report as required under relevant Accounting Standards.

### 3.8. Share Dealings and Disclosures

The Company's policy regarding Directors, Executives and employees dealing in its securities is set by the Board. The Board prohibits (a) subscribing for, purchasing or selling Company securities or entering into an agreement to do any of those things and (b) advising or encouraging another person (including a family member, friend, associate, colleague, family company or family trust) to trade in Company securities whilst in possession of market-sensitive information , prior to disclosure of that information to the market and thereafter until adequate time has elapsed for this to be reflected in the security's price, in accordance with the Corporations Act..

Executives/employees and Directors are required to consult the Managing Director/Chairman (if applicable) and the Board respectively, prior to dealing in securities in the Company or other companies with which the Company has a relationship.

### 3.9. Board Nominations

The Board will consider nominations for appointment or election of Directors that may arise from time to time having regard to the corporate and governance skills required by the Company and procedures outlined in the Constitution and the Corporations Act.

### 3.10. Terms of Appointment as a Director

The current Directors of the Company have not been appointed for fixed terms. The constitution of the Company provides that a Director (other than any Managing Director) may not retain office for more than three calendar years or beyond the third Annual General Meeting following their election, whichever is longer, without submitting himself or herself for re-election. One third of the Directors (save for any Managing Director) must retire each year and are eligible for re-election. The Directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

The initial appointment and last re-election dates of each Director are listed below.

| Director | Appointed | AGM Last Re-elected |
|---|---|---|
| H. Shanker Madan | 18 May 2007 | N/A (being the Managing Director) |
| Farooq Khan | 18 May 2007 | 30 November 2007 (standing for re-election at the 2010 AGM) |
| William Johnson | 26 October 2009 | 30 November 2009 |

### 3.11. Performance Review and Evaluation

It is the policy of the Board to ensure that the Directors and Executives of the Company be equipped with the knowledge and information they need to discharge their responsibilities effectively and that individual and collective performance is regularly and fairly reviewed. Directors are encouraged to attend director training and professional development courses, as required, at the Company's expense. New Directors will have access to all employees to gain full background on the Company's operations.

Although the Company is not of a size to warrant the development of formal processes for evaluating the performance of its Board, individual Directors and Executives, there is on-going monitoring by the Managing Director/Chairman (if applicable) and the Board. The Board is responsible for reviewing the performance and remuneration of the Executive Directors. The Managing Director/Chairman (if applicable) also speaks to Directors individually regarding their role and performance as a Director.

### 3.12. Meetings of the Board

The Managing Director/Chairman (if applicable) and Company Secretary schedule formal Board meetings whenever necessary to deal with specific matters requiring attention. Circulatory Resolutions are also utilised where appropriate either in place of or in addition to formal Board meetings. Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company. It is recognised and accepted that Board members may also concurrently serve on other boards, either in an executive or non-executive capacity.

### 3.13. Independent Professional Advice

Subject to prior consultation with the Managing Director/Chairman (if applicable), each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

### 3.14. Company Information and Confidentiality

All Directors have the right of access to all relevant Company books and to Company Executives. In accordance with legal requirements and agreed ethical standards, Directors and Executives of the Company have agreed to keep confidential all information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

### 3.15. Directors' Deeds

The Company has also entered into a deed with each of the current Directors and the Company Secretary to regulate certain matters between the Company and each Director, both during the time the Director holds office and after the Director ceases to be an officer of the Company (or of any of its wholly-owned subsidiaries). A summary of the terms of such deeds is contained within the Remuneration Report in the Director's Report for the year ended 30 June 2010 and in the 2009 Notice of AGM dated 26 October 2009.

# CORPORATE GOVERNANCE

## 4. Management

### 4.1. Executives

The Company's executive team comprise the Managing Director, two Executive Directors and the Company Secretary. The Company does not presently have a Chief Financial Officer. The Board is of the opinion that all Directors exercise and bring to bear an unfettered and independent judgement towards their duties. The Board has determined that the Managing Director is the appropriate person to make the Chief Executive Officer equivalent declaration and the Company Secretary is the appropriate person to make the Chief Financial Officer equivalent declaration in respect of the year ended 30 June 2010, as required under section 295A of the Corporations Act and recommended by the Council.

### 4.2. Board and Management Committees

In view of the current composition of the Board (which comprises a Managing Director and two Executive Directors and the nature and scale of the Company's activities, the Board has considered that establishing formally-constituted committees for audit, board nominations and remuneration is not necessary or required. Accordingly audit matters, the nomination of new Directors and the setting, or review, of remuneration levels of Directors and Executives are reviewed by the Board as a whole and approved by resolution of the Board (with abstentions from relevant Directors where there is a conflict of interest). That is, matters typically dealt with by audit, nominations and remuneration committees are dealt with by the full Board.

## 5. Remuneration Policy

Please refer to the Remuneration Report in the Director's Report for the year ended 30 June 2010. The Company currently does not have any unvested options on issue to Directors. If any options are issued to Directors in future that do not vest immediately, the Company's policy is to require the Director option holders not to enter into transactions in associated products which limit the economic risk of holding unvested options.

## 6. Code of Conduct and Ethical Standards

The Company is currently developing a formal code of conduct. The Company's existing policies are focussed on ensuring that all Directors, Executives and employees act with the utmost integrity and objectivity in carrying out their duties and responsibilities, striving at all times to enhance the reputation and performance of the Company. Many of the items commonly found in a code of conduct are covered by the Company's existing policies designed to deal with compliance risk identified in section 7.1 of this Statement.

## 7. Internal Control, Risk Management and Audit

### 7.1. Internal Control and Risk Management

The Board of Directors is responsible for the overall internal control framework (which includes risk management) and oversight of the Company's policies on and management of risks that have the potential to impact significantly on operations, financial performance or reputation.

The Board recognises that no cost-effective internal control system will preclude all errors and irregularities. The system is based, in part, on the appointment of suitably- qualified and experienced service providers and suitably-qualified and experienced management personnel. The effectiveness of the system is continually reviewed by management and at least annually by the Board. On a day-to-day basis, managing the various risks inherent in the Company's operations is the responsibility of the Executive Directors and the Company Secretary. Risks facing the Company can be divided into the broad categories of health and safety, operations, compliance and market risks.

Health and safety risk is one of the most important risks faced by a resources company. Apart from the inherent unacceptability of threats to life or health, safety incidents have the potential to seriously damage the Company's reputation and ability to operate its business. The Company takes a "zero tolerance" approach to any situation that might compromise the health or safety of staff, contractors or members of the community. This risk is addressed by comprehensive safety policies and training and a requirement that any safety incident or "near miss" is reported to the Board.

Operations risk refers to risks arising from day to day operational activities which may result in direct or indirect loss from inadequate or failed internal processes, decision-making, exercise of judgment, people or systems or external events. The Executive Directors have delegated responsibility from the Board for identification of operations risks generally, for putting processes in place to mitigate them and monitoring compliance with those processes. The Company has clear accounting and internal control systems to manage risks to the accuracy of financial information and other financial risks.

Compliance risk is the risk of failure to comply with all applicable legal and regulatory requirements and industry standards and the corresponding impact on the Company's business, reputation and financial condition. The Company's compliance risk management strategy ensures compliance with key legislation affecting the Company's activities. A key principle of the Company's compliance risk management strategy is to foster an integrated approach where line managers are responsible and accountable for compliance, within their job descriptions and within overall guidance developed by the Company Secretary assisted by the General Counsel. The Company's compliance strategy is kept current with advice from senior external professionals and the ongoing training of Executives and other senior personnel involved in compliance management. The Company has policies on responsible business practices and ethical behaviour including conflict of interest and share trading policies to maintain confidence in the Company's integrity and ensure legal compliance.

Market risk encompasses risks to the Company's performance from changes in resource prices, currency exchange rates, capital markets and economic conditions generally. The Board regularly assesses the Company's exposure to these risks and sets the strategic direction for managing them.

# CORPORATE GOVERNANCE

The Company's approach to risk management is not stationary; it evolves constantly in response to developments in operations and changing market conditions. The Board has determined that the Managing Director is the appropriate person to make the Chief Executive Officer equivalent declaration and the Company Secretary is the appropriate person to make the Chief Financial Officer equivalent declaration in respect of the year ended 30 June 2010, on the risk management and internal compliance and control systems recommended by the Council. The Board has received assurances from the Managing Director and the Company Secretary that the declarations they provided in accordance with section 295A of the Corporations Act are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. Management has reported to the Board as to the effectiveness of the Company's management of its material business risks.

### 7.2. Audit

The Company's external auditor (**Auditor**) is selected for its professional competence, reputation and the provision of value for professional fees. Within the audit firm, the partner responsible for the conduct of the Company's audits is rotated every three years. The Auditor is invited to attend annual general meetings to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's report.

## 8. Communications

### 8.1. Market and Shareholder Communications

The Company is owned by shareholders. Increasing shareholder value is the Company's key mission. Shareholders require an understanding of the Company's operations and performance to enable them to see how that mission is being fulfilled. The Directors are the shareholders' representatives. In order to properly perform their role, the Directors need to be able to ascertain the shareholders' views on matters affecting the Company. The Board therefore considers it paramount to ensure that shareholders are informed of all major developments affecting the Company and have the opportunity to communicate their views on the Company to the Board. Information is communicated to shareholders and the market through various means including:

(1) the Annual Report which is distributed to shareholders if they have elected to receive a printed version and is otherwise available for viewing and downloading from the Company's website;

(2) the Annual General Meeting (**AGM**) and other general meetings called in accordance with the Corporations Act and to obtain shareholder approvals as appropriate. The Managing Director/Chairman (if applicable) gives an address at the AGM updating shareholders on the Company's activities;

(3) Half-Yearly Directors' and Financial Reports which are posted on the Company's website;

(4) Quarterly Activities and Cash Flow Reports which are posted on to the Company's website; and

(5) other announcements released to ASX as required under the continuous disclosure requirements of the ASX Listing Rules and other information that may be mailed to shareholders, which is also posted on the Company's website.

Shareholders communicate with Directors through various means including:

(1) having the opportunity to ask questions of Directors at all general meetings;

(2) the presence of the external auditor at Annual General Meetings to take shareholder questions on any issue relevant to their capacity as auditor;

(3) the Company's policy of expecting Directors to be available to meet shareholders at Annual General Meetings; and

(4) the Company making Directors and selected senior employees available to answer shareholder questions.

The Company actively promotes communication with shareholders through a variety of measures, including the use of the Company's website and email. The Company's reports and ASX announcements may be viewed and downloaded from its website: alararesources.com.au or the ASX website: asx.com.au under ASX code "AUQ". The Company also maintains an email list for the distribution of the Company's announcements via email in a timely manner.

### 8.2. Continuous Disclosure to ASX

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to ASX as well as communicating with ASX. In accordance with the Corporations Act and ASX Listing Rule 3.1 the Company immediately notifies ASX of information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities, subject to exceptions permitted by that rule. A reasonable person is taken to expect information to have a material effect on the price or value of the Company's securities if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

All staff are required to inform their reporting manager of any potentially price-sensitive information concerning the Company as soon as they become aware of it. Reporting managers are in turn required to inform the Executive Director to whom they report or, in their absence, another Executive Director of any potentially price-sensitive information. In general, the Company will not respond to market speculation or rumours unless ASX or an applicable law requires it to do so.

Only the Directors and employees who have been authorised by them may speak on the Company's behalf to the media, investors and analysts. The Company may request a trading halt from ASX to prevent trading in its securities if the market appears to be uninformed. The Executive Directors are authorised to determine whether to seek a trading halt.

28 October 2010

# MINERAL CONCESSIONS

## KHNAIGUIYAH ZINC COPPER PROJECT IN SAUDI ARABIA

In September 2010, Alara secured rights to acquire a 50% interest in the advanced Khnaiguiyah Zinc-Copper Project located in Saudi Arabia.

Refer to market announcements dated 5 October 2010 and entitled “Project Acquisition - Khnaiguiyah Zinc Copper Project in Saudi Arabia” (reproduced at pages 10 to 23 of this Annual Report) and dated 25 October 2010 and entitled “Execution of Joint Venture Agreement - Khnaiguiyah Zinc Copper Project in Saudi Arabia”

The Khnaiguiyah Zinc Copper Project is located adjacent to a bitumen road ~170km west of Riyadh, the capital of Saudi Arabia near the major Riyadh to Jeddah highway.

The project comprises 3 Exploration Licences and 5 Exploration Licence applications pending grant totalling ~380km$^2$. An application for a Mining Licence in respect of the main Khnaiguiyah Exploration Licence is pending grant.

Alara will have a 50% interest in the joint venture company currently being established to hold the mineral licences.

Also refer to pages 4 to 23 of this Annual Report for further information on the Khnaiguiyah Zinc-Copper Project and the joint venture terms.

## DARIS COPPER PROJECT IN OMAN

In August 2010, Alara secured rights to acquire up to a 70% interest in the Daris Copper Project located in Oman and formed a separate joint venture (Alara 70%) to identify, secure and commercially exploit other resource projects in Oman.

Refer to market announcements dated 30 August 2010 and entitled “Project Acquisition - Daris Copper Project in Oman”, dated 14 September 2010 and entitled “Daris Project Drilling Update” and dated 26 October 2010 and entitled “Further High Grade Copper-Gold Mineralisation - Daris Copper Project in Oman.”

The Daris Copper Project is located ~150km west of Muscat, the capital of Oman and comprise a mineral excavation licence of ~587km$^2$.

Alara will have an initial 50% interest (with a right to increase this to 70%) in the joint venture company currently being established to hold exclusive rights to manage, operate and commercially exploit the licence.

Alara has also formed a separate joint venture company (Alara 70%) in Oman to identify, secure and commercially exploit other resource projects in Oman.

Also refer to pages 28 to 32 and 37 to 38 of this Annual Report for further information on the Daris Copper Project and the Daris and AlaraCo joint venture terms.

## EL QUILLAY COPPER-GOLD PROJECT IN CHILE

In August 2010, Alara secured rights to acquire (subject to completion of due diligence) a 70% interest in the El Quillay Copper-Gold Project located in the north of Chile.

Refer to market announcement dated 25 August 2010 and entitled “Project Acquisition – El Quillay Copper Gold Project in Chile”.

The El Quillay Copper-Gold Project in Chile is located south of the town of El Quillay, ~350km north of Santiago, the capital of Chile.

The project comprises 68 mineral concessions totalling ~15km$^2$ across four sub-project areas (El Quillay (North, Central and South prospects), Lana-Corina, Vaca Muerta and La Florida) located within a radius of ~10km.

Also refer to pages 24 to 27 and 36 to 37 of this Annual Report for further information on the El Quillay Copper Gold Project and the joint venture terms.

# MINERAL CONCESSIONS

## AUSTRALIAN MINERAL TENEMENTS

| Project | Status | Tenement | Grant / Application Date | Expiry Date | Area (Blocks) | Area (km²) | Area (hectares) | Location / Property Name | State | Company's Interest |
|---|---|---|---|---|---|---|---|---|---|---|
| **Bigrlyi South** | Granted | EL 24879 | 15/08/06 | 14/08/12 | 82 | 260.5 | 26,050 | Mount Doreen | NT | 100% (75% held by Alara Operations Pty Ltd and 25% held by Hume Mining NL); Thundelarra Exploration Ltd has a right under a joint venture with Alara to earn a 70% interest |
| | Application | EL 24927 | 12/09/05 | N/A | 338 | 998.7 | 99,870 | Haasts Bluff | NT | |
| | Granted | EL 24928 | 24/08/06 | 23/08/12 | 15 | 34.95 | 3,495 | Mount Doreen | NT | |
| | Granted | EL 24929 | 24/08/06 | 23/08/12 | 26 | 56.8 | 5,680 | Mount Doreen | NT | |
| **Mt James** | Granted | E 09/1253 | 29/06/06 | 28/06/11 | 13 | 39 | 3,900 | Mt James | WA | 100% (75% held by Alara Operations Pty Ltd and 25% held by Hume Mining NL) |
| | Granted | E 09/1257 | 28/06/06 | 27/06/11 | 7 | 21 | 2,100 | Injinu Hills | WA | 100% held by Alara Operations Pty Ltd |
| | Granted | E 09/1258 | 29/09/06 | 28/09/11 | 13 | 39 | 3,900 | Mortimer Hills | WA | 100% held by Alara Operations Pty Ltd |
| **Canning Well** | Granted | E 46/629 | 02/08/05 | 01/08/10 | 19 | 57 | 5,700 | Canning Well | WA | 100% (75% held by Alara Operations Pty Ltd and 25% held by Hume Mining NL); subject to a farm-out agreement with Process Minerals International Pty Ltd, a subsidiary of ASX-listed Mineral Resources Limited |
| | Application | E 46/585 | 17/10/03 | N/A | 69 | 207 | 20,700 | Canning Well | WA | Right to earn 85% (excluding all manganese mineral rights) (63.75% held by Alara Operations Pty Ltd and 21.25% held by Hume Mining NL) |
| | Application | E46/801 | 01/10/2008 | N/A | 19 | 60 | 60,000 | Canning Well | WA | 100% (Alara Resources Limited) |

## PERUVIAN MINERAL CONCESSIONS

### Crucero Project:

| Concession | Code | Application/Grant Date | Area (Hectares) | National Map | LOCATION | | |
|---|---|---|---|---|---|---|---|
| | | | | | District | Province | Department |
| Lituania 1 | 01-02481-07 | 31 July 2007 | 600 | 29-X | Crucero | Carabaya | Puno |
| Lituania 2 | 01-02482-07 | 10 September 2007 | 1000 | 29-X | Crucero | Carabaya | Puno |
| Lituania 3 | 01-02483-07 | 25 September 2007 | 1000 | 29-X | Crucero | Carabaya | Puno |
| Lituania 8 | 10029708 | 27 June 2008 | 500 | 29-X | Putina | Sn.Antonio de Putina | Puno |

### Coasa Project:

| Concession | Code | Application/Grant Date | Area (Hectares) | National Map | LOCATION | | |
|---|---|---|---|---|---|---|---|
| | | | | | District | Province | Department |
| Cochacucho 1 | 01-02461-07 | 5 September 2007 | 800 | 28-V | Ituata/Coasa | Carabaya | Puno |
| Cochacucho 2 | 01-02463-07 | 31 July 2007 | 800 | 28-V | Coasa/Ituata | Carabaya | Puno |
| Cochacucho 3 | 01-02463-07 | 31 July 2007 | 800 | 28-V | Ituata/Coasa | Carabaya | Puno |
| Lituania 4 | 01-02484-07 | 5 September 2007 | 800 | 29-X | Coasa | Carabaya | Puno |

# ADDITIONAL ASX INFORMATION
## as at 25 October 2010

### ISSUED SECURITIES

| | Quoted on ASX | Unlisted | Total |
|---|---|---|---|
| Fully paid ordinary shares | 80,507,500 | - | 80,507,500 |
| $0.55 (26 July 2012) Unlisted Options[17] | - | 500,000 | 500,000 |
| $0.35 (16 September 2013) Unlisted Options[18] | - | 16,400,000 | 16,400,000 |
| $0.35 (16 September 2013) Unlisted Options[18] | - | 1,035,000 | 1,035,000 |
| $0.35 (25 October 2014) Unlisted Options[19] | - | 3,650,000 | 3,650,000 |
| $0.60 (25 October 2014) Unlisted Options[19] | - | 2,000,000 | 2,000,000 |
| $0.35 (22 August 2015) Unlisted Options[20] | - | 400,000 | 400,000 |
| **Total** | **80,507,500** | **23,985,000** | **104,492,500** |

### SUMMARY OF UNLISTED DIRECTORS' AND EMPLOYEE OPTIONS

| Date of Issue | Description of Unlisted Options | Exercise Price | Expiry Date | Vesting Criteria [21] | No. of Options |
|---|---|---|---|---|---|
| 27 July 2007 | $0.55 (26 July 2012) Options | $0.55 | 26 July 2012 | 1/3rd on 27 January 2008, 1/3rd on 27 July 2008 and 1/3rd on 27 January 2009 | 500,000 |
| 17 September 2008 | $0.35 (16 September 2013) Options | $0.35 | 16 September 2013 | 75% on grant and 25% on 17 September 2009 | 16,400,000 |
| 17 September 2008 | $0.35 (16 September 2013) Options | $0.35 | 16 September 2013 | 50% on 17 March 2009, 25% on 17 September 2009 and 25% on 17 March 2010 | 1,035,000 |
| 26 October 2009 | $0.60 (25 October 2014) Options | $0.60 | 25 October 2014 | 100% on date of issue | 1,000,000 |
| 30 November 2009 | | | | | 1,000,000 |
| 26 October 2009 | $0.35 (25 October 2014) Options | $0.35 | 25 October 2014 | 100% on date of issue | 1,650,000 |
| 30 November 2009 | | | | | 2,000,000 |
| 23 August 2010 | $0.35 (22 August 2015) Options | $0.35 | 22 August 2015 | 100% on date of issue | 400,000 |

### *VOTING RIGHTS*

Subject to any rights or restrictions for the time being attached to any class or classes of shares (at present there are none), at meetings of shareholders of the Company:

(1) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;

(2) on a show of hands, every person present who is a shareholder or a proxy, attorney or corporate representative of a shareholder has one vote; and

(3) on a poll, every person present who is a shareholder or a proxy, attorney or corporate representative of a shareholder shall, in respect of each fully paid share held by such person, or in respect of which such person is appointed a proxy, attorney or corporate representative, have one vote for that share.

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17 Terms and conditions of issue are set out in a Notice of Meeting and Explanatory Statement dated 21 June 2007 for a General Meeting held on 7 July 2007 and in an ASX Appendix 3B New Issue Announcement lodged on 3 August 2007.

18 Terms and conditions of issue are set out in a Notice of Meeting and Explanatory Statement dated 18 August 2008 for a General Meeting held on 17 September 2008 and in an ASX Appendix 3B New Issue Announcement lodged on 24 September 2008.

19 Terms and conditions of issue are set out in a Notice of Meeting and Explanatory Statement dated 26 October 2009 for an Annual General Meeting held on 30 November 2009 and in ASX Appendix 3B New Issue Announcements lodged on 26 October 2009 and 1 December 2009.

20 Terms and conditions of issue are set out in an ASX Appendix 3B New Issue Announcements lodged on 23 August 2010.

21 Options which have vested may be exercised at any time thereafter, up to their expiry date

# ADDITIONAL ASX INFORMATION

## as at 25 October 2010

### DISTRIBUTION OF LISTED ORDINARY FULLY PAID SHARES

| Spread | of | Holdings | Number of Holders | Number of Units | % of Total Issued Capital |
|---|---|---|---|---|---|
| 1 | - | 1,000 | 1,342 | 579,315 | 0.72 |
| 1,001 | - | 5,000 | 439 | 1,066,693 | 1.32 |
| 5,001 | - | 10,000 | 316 | 2,721,382 | 3.38 |
| 10,001 | - | 100,000 | 479 | 16,312,355 | 20.26 |
| 100,001 | - | and over | 99 | 59,827,755 | 74.31 |
| **Total** | | | **2,675** | **80,507,500** | **100.00%** |

### UNMARKETABLE PARCELS

| Spread of Holdings | Number of Holders | Number of Shares | % of Total Issued Capital |
|---|---|---|---|
| 1 - 1,886 | 1,544 | 885,791 | 1.10% |

An unmarketable parcel is considered, for the purposes of the above table, to be a shareholding of 1,886 or less, being a value of $500 or less in total, based upon the Company's closing share price on 25 October 2010 of $0.265 per share.

### TOP 20 LISTED ORDINARY FULLY PAID SHAREHOLDERS

| Rank | Shareholder | | Total Shares | % Issued Capital |
|---|---|---|---|---|
| 1 * | STRIKE RESOURCES LIMITED | | 12,750,000 | 15.837 |
| 2 * | ORION EQUITIES LIMITED | | 9,332,744 | 11.592 |
| 3 * | BRW CONSULTING SERVICES PTY LTD | 100,000 | | |
| | MRS LINDA SALA TENNA & MRS LISA SHALLARD | 2,824,144 | | |
| | KATANA ASSET MANAGEMENT LTD | 3,060,000 | | |
| | KB33 CAPITAL PTY LTD <CHARITY A/C> | 100,000 | | |
| | KATANA EQUITY PTY LTD <SALA TENNA FAMILY A/C> | 250,000 | | |
| | KATANA EQUITY PTY LTD <SALA TENNA FAMILY CHARITY A/C> | 430,000 | | |
| | | Sub-total | 6,764,144 | 8.402 |
| 4 | DATABASE SYSTEMS LIMITED | | 214,946 | 2.666 |
| 5 | TWINLAND HOLDINGS PTY LTD | | 203,000 | 2.522 |
| 6 | MR ROBERT GEMELLI | | 1,500,000 | 1.863 |
| 7 | MR SCOTT PAUL JONES & MR RODNEY MALCOLM JONES & MISS CAROL ROBIN JONES <SCOPA FAMILY A/C> | | 1,303,768 | 1.619 |
| 8 | MR ROBERT SPADANUDA <SUPER FUND A/C> | | 1,000,000 | 1.242 |
| 9 | CHARLES FOTI CORPORATION PTY LTD <CHARLES FOTI CORPORATION A/C> | | 1,000,000 | 1.242 |
| 10 | MS ROSANNA DE CAMPO | | 800,000 | 0.994 |
| 11 | BLUE CRYSTAL PTY LTD | | 800,000 | 0.994 |
| 12 | HANOBINE HOLDINGS PTY LTD | | 800,000 | 0.994 |
| 13 | JP MORGAN NOMINEES AUSTRALIA LIMITED | | 786,044 | 0.976 |
| 14 | MR AZHAR CHAUDRI | 1 | | |
| | RENMUIR HOLDINGS LIMITED | 668,402 | | |
| | | Sub-total | 688,403 | 0.830 |
| 15 | URBAN PAT PTY LTD <THE SUPERACE FUND A/C> | | 643,245 | 0.799 |
| 16 | FOTI HOLDING PTY LTD <CHARIOT SUPER FUND A/C> | | 600,000 | 0.745 |
| 17 | MRS KIERSTYN EDGAR | | 600,000 | 0.745 |
| 18 | MR JOHN WILLIAM LLOYD FORREST <FORREST FAMILY A/C> | | 541,000 | 0.672 |
| 19 | ZHIVAN PTY LTD <SUPER FUND A/C> | 340,703 | | |
| | ZHIVAN PTY LTD | 200,000 | | |
| | | Sub-total | 540,703 | 0.672 |
| 20 | MIDAS INVESTMENTS (WA) PTY LTD <MIDAS INVESTMENTS A/C> | | 520,794 | 0.647 |
| **Total** | | | **41,388,791** | **56.053%** |

*** Substantial shareholders**

ALARA RESOURCES LIMITED
ABN 27 122 892 719

ASX Code: AUQ

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