Alara Resources

Half Year Financial Report

31 December 2013

CONTENTS

CORPORATE DIRECTORY

Directors	Ian Williams Non-Executive Chairman Philip Hopkins Managing Director John Hopkins Non-Executive Director HRH Prince Abdullah bin Mosaad bin Abdulaziz Al Saud Non-Executive Director James Phipps Alternate Director HRH Prince Abdullah
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DIRECTORS' REPORT

The Directors present their report on Alara Resources Limited (**Company** or **Alara**) and the entities it controlled (**Consolidated Entity**) at the end of, or during the half-year ended 31 December 2013.

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

DIRECTORS

The following persons were Directors of Alara during the half-year to 31 December 2013 and up to the date of this report:

Ian Williams
Philip Hopkins

John Hopkins was appointed as a Director on the 16 October 2013 and continues in office at the date of this report.

His Royal Highness Prince Abdullah bin Mosaad bin Abdulaziz Al Saud was appointed a Director on the 29 October 2013 and continues in office at the date of this report.

James Phipps was appointed as an alternate Director for His Royal Highness Prince Abdullah bin Mosaad bin Abdulaziz Al Saud on the 29 October 2013 and continues in office at the date of this report.

William Johnson was a Director from the beginning of the financial year until his retirement on 31 October 2013.

Douglas Stewart was a Director from the beginning of the financial year until his retirement on Director 31 August 2013.

H. Shanker Madan was a Director from the beginning of the financial year until his retirement on Director 25 July 2013.

REVIEW OF OPERATIONS

To follow is a review of operations for the Company and its Consolidated Entities for the half-year ended 31 December 2013.

CORPORATE

COMPANY REFOCUS

In the first half of the year the Company has defined its strategy to move from a resource developer to a mine operator. The two main components of this 'shift' is the establishment of the Board of Directors and Management Team to enable this transition and to define the Projects that will be the core focus for the Company in the short to mid-term.

The restructure of the Board of Directors and Management Team are outlined in detail below.

The Project focus overview is summarised in the following summary of the Project activity in each of the Company's operating jurisdictions namely the Kingdom of Saudi Arabia and Oman.

In April 2013 the results of the successfully completed and robust Khnaiguiyah Project Definitive Feasibility Study (**DFS**) were announced. Given the advanced nature of the Khnaiguiyah Project and the attraction of constructing a zinc mine, given the current metal price forecasts, the Khnaiguiyah Project is the core focus for the front end of the Company's transition into mine construction and operations. As such much of the half year's activity is based directly on the Khnaiguiyah Project and the Joint Venture arrangement and relationship.

Equally attractive to the Company but at an earlier stage of evaluation and development is the Daris/Washihi Project in Oman. The Daris/Washihi Project houses the largest JORC compliant Mineral Resource in Oman[1] and had a successful Scoping Study completed on it prior to the start of the financial year. Given the nature of the work done to date on the Daris/Washihi Project and its high level of optionality and opportunity the focus on the Daris/Washihi Project in the first half of the year was based on getting the data set and Project summaries up to speed and then determining the best and most efficient way forward for this set of assets.

BOARD OF DIRECTORS RESTRUCTURE

In July 2013 the restructure of the Alara Board commenced with the appointment of Philip Hopkins as Managing Director. During the half year, the Board was further enhanced as John Hopkins (no relation to the Managing Director) was appointed as a Director in October 2013 and His Royal Highness Prince Abdullah bin Mosaad bin Abdulaziz Al Saud was appointed as a Director in November 2013. In synchronization with the appointment of John Hopkins and HRH Prince Abdullah, William Johnson and Douglas Stewart resigned as Directors of the Company. The Company and its officers would like to take this opportunity to greatly thank both William and Doug for their dedication and endless support to Alara during their tenure on the Board of Directors. In July 2013 the prior Managing Director Shankar Madan left the Company.

John Hopkins has almost 30 years' experience as a Director of publicly listed companies. A lawyer by profession, his experience includes senior management positions with two of Australia's largest financial institutions and active leadership of Australian based mining companies as well as roles in the not-for-profit arena. John's unique combination of technical and professional experience coupled with his hands-on mining background are a great addition to the Alara Board as the Company moves toward construction in the Middle East.

His Royal Highness Prince Abdullah bin Mosaad bin Abdulaziz Al Saud is a self-made international business person with companies operating in the paper manufacturing and converting sector and in the recycling sector. HRH Prince Abdullah holds bachelors and masters degrees in industrial engineering and has a keen interest in the environmentally responsible growth of the industrial sector in the Kingdom and the mining industry in particular. He has joined the Alara Board with a view to help ensure the Company is successful in the region and that the Saudi Arabian mining industry continues to grow.

The Board of Director restructure is complete for the time being and has been structured in direct alignment with the strategy and objectives of Alara as it moves from being a resource developer into a mining company in the Middle Eastern region.

MANAGEMENT TEAM RESTRUCTURE

In alignment with the restructuring of the Board of Directors (above) and in line with the Company strategy the management team was restructured the first half of the year. The management team restructure process was a combination of a definition of role and a new appointment as follows (in order).

Expanded role – Country Manager, Saudi and Oman

During December 2013 the Company announced the appointment of Mr Justin Richard as Country Manager for Oman. Mr Richard has been the Company's General Counsel since 2011. Early last year he took up residence in Riyadh as Alara's Country Manager for Saudi Arabia. The Company has now expanded his role to include Oman.

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1 Refer to JORC Statement and JORC Competent Persons Statement on pages 31 - 32.

Appointment of Corporate Affairs Manager

Also during December 2013 Elle Macdonald took up the inaugural role of Alara's Corporate Affairs Manager. Elle is uniquely skilled to take on the joint responsibilities of this role namely; corporate administration management, investor relations and human resources.

The Company and Board are very pleased to have been able to bring this highly skilled and dedicated team together in preparation for its move into the area of mine construction and operations. Notwithstanding the planned addition of a Project Director for the Khnaiguiyah Project at a later date as and when suitable, the management team is now complete and set in preparedness to move the Company to its next phase.

STRATEGY FOCUS - ISSUANCE OF OPTIONS

Mr Philip Hopkins (Managing Director) was issued 10 million options on 22 November 2013, pursuant to the terms of his employment contract and following shareholder approval at the Company's Annual General Meeting on 22 November 2013. The options represent a Long Term Incentive (LTI) and vest over the period to 31 December 2015 in three equal tranches and are based on milestone events aligned to the Company's strategy and key milestones.

His Royal Highness Prince Abdullah bin Mosaad bin Abdulaziz Al Saud was issued 20 million options on 16 January 2014, following shareholder approval of the same at the Company's General Meeting on 16 January 2014. The options represent an incentive or recognition of HRH's active support in the operations of the Company in the Kingdom of Saudi Arabia and the Middle East Region and vest over the period 31 December 2014 in two equal tranches and are based on milestone events aligned with those of the Managing Director.

The first two tranches of the Managing Directors' options and HRH Prince Abdullah's options are fully aligned and as such are based on the same milestone events namely:

- Tranche 1 – Securing the Project Mining Licenses on or before 31 March 2014; and
- Tranche 2 – Commence Project construction on or before 31 December 2014.

Of note was the positive response from shareholders at both the 2013 Annual General Meeting (22 November 2013) and General Meeting (16 January 2014) with the successful resolutions being passed by a strong majority of shareholders with 99.91%, and on a show of hands (but with proxy votes indicating 79.3% support) respectively.

SAUDI ARABIA

KHNAIGUIYAH ZINC-COPPER PROJECT AND JOINT VENTURE

The Khnaiguiyah Zinc-Copper Project (**Khnaiguiyah Project**) is contained in the Khnaiguiyah Mining Company LLC (**KMC**) Joint Venture (**JV**) and is owned 50:50 between Alara Saudi Operations Pty Limited and United Arabian Mining Company LLC (**Manajem**), a privately owned Saudi Arabian mining company. At the start of the year the Company was in a negotiation with the JV partners as a result of various claims and other operational matters. Although the successful DFS was announced in April 2013 the Project could not move forward (Project finance, construction and operation) until these matters were resolved and the Mining Licence, which remained in Manajem, was transferred into KMC as per the JV shareholders' agreement (**SHA**).

Due to the partnership situation at the start of the year the focus was to correct/improve the JV relationship to an effective or operational level, resolve any legacy or outstanding JV issues and structure a modified project equity arrangement that would allow Alara to progress the Khnaiguiyah Project. This work was the key focus for the Company during this half year with the approach and progress noted below.

For context, the Khnaiguiyah Project is located approximately 170km south-west of the capital city Riyadh and currently has JORC Reserves (Proved and Probable) of 26.08Mt at 3.3% Zn and 0.24%

Cu[2]. In April 2013 the results of a successful DFS (2Mtpa plant throughput) was announced and defined a Project with a required US$257 million Capex, 2.8 year pay-back, A$2,074 million Life of Mine (LOM) revenues and A$873 million LOM EBITDA (at base case Zn/Cu prices).

JV DISCUSSION PROGRESS

Starting early in the year both Alara and Manajem engaged in open and broad ranging discussions about how to resolve the legacy issues and set up the JV and Project to progress. Given the history between the parties and the issues at hand there was a significant amount of base line relationship work and detailed technical discussions required prior to the parties being able to fully engage in the substantive issues.

As a result of the efforts, hard work, long hours and persistence of both parties over this period the discussions and draft arrangements advanced significantly and consistently, albeit slowly at certain times. Both parties have significant business acumen and experience and as such were able to align on key parameters for the Khnaiguiyah Project's ultimate success.

Although these discussions were not concluded by end December 2013 (as hoped), they did surpass their original scope and as such have successfully dealt with many of the detailed issues that would be required under the potential new arrangement. Should these discussions be concluded at some point in the near future, this additional detailed work will have already been put in place thus speeding up the close out of the documentation a new agreement.

The Alara and Manajem management teams have continued to work toward closure in this matter. Toward the end of the period HRH Prince Abdullah became engaged with both groups to help assure the Khnaiguiyah Project's development progresses for the benefit of all stakeholders and for the country of Saudi Arabia.

At the end of the period the parties had established an agreed base line for the discussions and possible future agreement and the Company was progressing outstanding (non-aligned) items.

OTHER PROJECT PROGRESS AREAS

In addition to the key discussions between the parties early in the period several of the Khnaiguiyah Project's next steps were advanced as far as they could reasonably be prior to the formal alignment of an amended agreement between the parties. This other project activity included but was not limited to:

- Pre-preparation of the Saudi Industrial Development Fund (**SIDF**) application for Project finance support by the Saudi Arabian government;
- Preliminary discussions with KPMG in Saudi Arabia in support of both the SIDF funding application and the overall in-country financial market situation;
- Discussion with the financial markets regarding the "gap" or equity finance required for the non-SIDF finance needs;
- Discussions with financial advisors in relation to the overall JV and Khnaiguiyah Project finance needs;
- Discussions and indicative terms with concentrate off-take companies;
- Review and initial tender/bid work with EPC contractors in relation to the ultimate Khnaiguiyah Project construction phase;
- Risks & Opportunity review of the DFS;
- Preparation for a final peer review of the DFS (inclusive of the noted Risks & Opportunities);
- Preliminary Community Relation Plan discussions and drafting;
- Review of required licences and permits with planning to progress them when possible; and
- Project financial model review and refinement.

2 Refer to JORC Statement and JORC Competent Persons Statement on pages 31 - 32

PROJECT'S NEXT STEPS

When an agreement is reached between the parties, Alara can then initiate the following Khnaiguiyah Project 'next steps' in sequence:

- Arrange Manajem payments under the terms and agreements of the amended JV plan;
- Finalise and implement the Khnaiguiyah Project finance plan;
- Progress the required licences and permits;
- Project Finance of US$257 million;
- Final Tender for an EPC contract to build the mine;
- Owner's Team Selection for the mine construction period (when appropriate);
- Finalise and initiate the community relations plan;
- Draft and initiate the government relations plan; and
- Finalise/qualify the DFS risks and opportunities and embed them in the DFS and EPC work.

OMAN

DARIS/WASHIHI PROJECT OVERVIEW

By way of context the Daris and Washihi Copper/Gold deposits (approximately 185km apart) together form the basis for what is referred to here as the Daris/Washihi Project. The evaluation work to date has a processing plant located at the Washihi site (due to its long life resource base) while the Daris deposit is a smaller tonnage but high grade Copper/Gold feed source to a potential Washihi plant. Each deposit is under a separate Joint Venture (JV) agreement defined as follows:

- Daris – Alara holds 50% (option to increase to 70%) of JV Company Daris Resources LLC
- Washihi – Alara holds 70% of JV Company Al Hadeetha Resources LLC

At the start of the year there was a successful/economic 0.5Mtpa throughput scoping study completed on the Daris/Washihi Project. Following this study an updated Washihi JORC compliant resource was defined and a set of metallurgical test programs was completed on composite deposit samples. Following the resource work the Washihi deposit has received a material upgrade and had become the largest copper resource in Oman.

Initially it was felt that the Project would have to be partially or fully divested to supply working capital for the Company and to ensure the focus was maintained on the Saudi Arabian issues at hand. By the end of the period, and due to two separate injections of capital (Research and Development Rebates – refer page 10) as well as progress in Saudi Arabia. The options for the Daris/Washihi Project were expanded to include partial or full retention of the Daris/Washihi Project.

On top of the resource and metallurgical work done during the first half of the financial year, early in 2014 a potential technology breakthrough was tested for the Washihi deposit (see below) as well as the definition of further Daris/Washihi Project development options. These further developments added to the potential to view the Daris/Washihi Project in a new light going forward.

SCOPING STUDY UPDATE

Although the Daris/Washihi Project had completed a successful scoping study for a 0.5Mtpa (plant throughput) conventional flotation Copper/Gold operation, the positive outcomes from both the Washihi resource upgrade and detailed metallurgical test work prompted the commencement of an upgrade to this study that would evaluate an increased production rate of 1.0Mtpa. This updated scoping study was ~70% complete when it was put on hold in November 2013 due to a potential technology breakthrough associated with the Washihi deposit, namely the possible application of heavy media separation (HMS) to the Daris/Washihi Project's flow sheet. Early in the third quarter this test work was completed and confirmed the potential to essentially double the effective grade of the Washihi deposit from 0.8-0.9% Cu to 1.6-1.8% Cu. As a result of the success of the HMS test work this circuit has been added to the scoping study upgrade with the expanded study to be completed by the end of March 2014.

OPTIONS ANALYSIS STUDY

In addition to the scoping study work (above) and in parallel to this study upgrade, various new and alternative Daris/Washihi Project development options came to light for the project. To assess these in a relative or apples-to-apples basis an Options Analysis Study was initiated. This new overview study contains the following scenarios:

1. 1Mtpa conventional floatation option;
2. HMS plant followed by a 1Mtpa conventional floatation circuit;
3. HMS plant followed by a 0.5Mtpa conventional floatation circuit;
4. Off-site toll treatment option;
5. On-site heap conventional leach option; and
6. On-site contained/vat leach option.

Each option outlined above will be evaluated in the following areas:

- Risk Profile;
- Timing to execute the option to cash flow stage;
- Value (NPV, IRR, EBITA, Payback Period etc.);
- “Do-ability” or probability of success;
- Capex and/or up-front funding;
- Option fit for Alara (cost, timing, complexity etc.); and
- Outline of the next steps for each option in order to take it forward.

The Options Analysis will be completed by the end of February 2014.

PROJECT WAY FORWARD

Early in the period the Company announced its intention to progress a divestment of all or part of its Oman assets in order to ensure sufficient working capital for the Company and to ensure the Company remained focused on the advanced Khnaiguiyah Zinc-Copper Project in Saudi Arabia. Internal cost management efforts, further funds injection(s) into the Company and JV advancements in Saudi Arabia have reduced the requirement to divest of this Project at this time. This fact coupled with the HMS technology breakthrough and the determination of additional Daris/Washihi Project development options has provided the Company with the opportunity to progress the current full/partial divestment strategy in parallel with a possible project retention strategy. The retention strategy includes options for funding and managing the work programs under a pre-feasibility study as the next stage.

With regard to progress of divestment work, since April 2013, there has been strong interest expressed in the Daris/Washihi Project with over twenty interested parties under a confidentiality agreement in order to review the asset and project data. This investment interest has come from both local and international groups. By mid-year two firm commercial offers had been received.

There has been strong and material interest for the Oman assets from very capable groups that could materially advance this Daris/Washihi Project and as such the consideration of divestment options will continue unimpeded. The Company considers this divestment work in conjunction with the review of potential retention opportunities will benefit both Alara’s JV partners in Oman and the Alara shareholders. Regardless of the final way forward for the Company there is a strong commitment to ensure the maximum value is achieved for both project JV partners.

UPDATE ON EXPLORATION AND MINING LICENCES

Further strengthening the overall Daris/Washihi Project attractiveness the Department of Minerals – Ministry of Commerce and Industry (MOCI) of Oman has accepted Mining Applications for both the Daris and Washihi projects. Oman’s mining regulations extend the period of exploration until a decision is made on these mining applications.

The Ministry has further advised that new exploration licences will be issued once further exploration work is ready to commence.

FINANCIAL

R&D TAX INCENTIVE CLAIM

During September 2013 the Company received its first refund under the Government's R&D Tax Incentive Scheme with a return of $2.75m (net of associated fees). More recently (January 2014) Alara received its 2nd year refund under the Government's R&D Tax Incentive Scheme with a return of $1.64 million.

CASH POSITION

Alara's cash position as at 31 December 2013 was $4.473 million (30 June 2013: $4.45 million).

Alara's current cash position is ~$5.5 million (as at 31 January 2014) due to cash inflows of $1.64 million from the R&D claim on 28 January 2014 (see above).

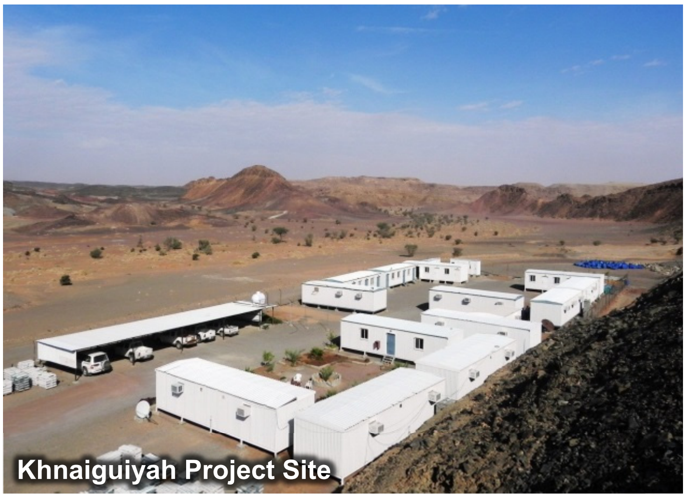
EXPENDITURE

Alara's consolidated profit and loss shows the following material items for the half year ended 31 December 2013.

- $3.11 million other income from the R&D claim refund received September 2013;
- $150k personnel costs; and
- $80k corporate expenses.

KEY FUTURE MILESTONES – SECOND HALF YEAR 2014

- Conclusion of the JV discussions on the KMC Project – if positive then:
  - Completion of the SIDF funding application;
  - Conclusion of the DFS risks & opportunity review;
  - Project EPC bid/tender award; and
  - Discussions with Manajem in regard to Owner's Team approach;
- Completion of the Option Analysis on the Oman Daris/Washihi Project; and
- Completion of the upgraded Scoping Study.


Khnaiguiyah Project Site

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 12.

This report is made in accordance with a resolution of Directors.

Philip Hopkins

Managing Director

Perth, Western Australia

4 March 2014

Grant Thornton

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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 review of Alara Resources Limited for the half-year ended 31 December 2013, 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 review; and

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

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M J Hillgrove
Partner - Audit & Assurance

Perth, 4 March 2014

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Half Year Ended 31 December 2013	Note	31 Dec 2013 $	31 Dec 2012 $
Revenue	3 (a)	3,182,028	160,304
Net gain/(loss) on financial assets held at fair value through profit or loss	3 (b)	25,018	178,694
Costs relating to resource projects	3 (b)	-	(2,689,769)
Personnel		(1,098,189)	(1,115,287)
- Options remuneration (non-cash)		-	-
Occupancy costs		(149,767)	(215,475)
Foreign exchange movement		-	(83,047)
Finance expenses		(11,699)	(10,294)
Borrowing costs		(223)	(1,476)
Corporate expenses		(80,135)	(95,128)
Administration expenses		(1,324,039)	(504,788)
Profit/(Loss) before income tax		542,994	(4,376,266)
Income tax benefit		-	-
Profit/(Loss) for the half year		542,994	(4,376,266)
Other comprehensive income:			
Exchange differences on translation of foreign operations		249,083	(116,673)
Income tax relating to components of other comprehensive income		-	-
Total other comprehensive income		249,083	(116,673)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE HALF YEAR		792,077	(4,492,939)
Income/(Loss) attributable to:			
Owners of Alara Resources Limited		685,666	(4,168,165)
Non-controlling interest		(142,672)	(208,101)
		542,994	(4,376,266)
Total comprehensive income/(loss) for the half year attributable to:			
Owners of Alara Resources Limited		934,749	(4,284,838)
Non-controlling interest		(142,672)	(208,101)
		792,077	(4,492,939)
Basic earnings/(loss) per share (cents)	4	0.28	(1.89)
Diluted earnings/(loss) per share (cents)	4	0.28	(1.89)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2013	Note	31 Dec 2013 $	30 Jun 2013 $
ASSETS			
Current assets			
Cash and cash equivalents	5	4,482,194	4,459,176
Trade and other receivables		740,197	1,213,762
Other current assets		44,231	121,379
Total current assets		5,266,622	5,794,317
Non-current assets			
Financial assets held at fair value through profit or loss	6	167,973	142,956
Property, plant and equipment		196,900	242,998
Resource projects – exploration and evaluation phase	7	30,104,112	29,306,309
Other non-current assets	8	5,569,533	5,559,508
Total non-current assets		36,038,518	35,251,771
Total assets		41,305,140	41,046,088
LIABILITIES			
Current liabilities			
Trade and other payables		1,052,611	1,575,422
Provisions		19,739	209,161
Total current liabilities		1,072,350	1,784,583
Non-current liabilities			
Financial liability		1,810,072	1,810,072
Total non-current liabilities		1,810,072	1,810,072
Total liabilities		2,882,422	3,594,655
Net assets		38,422,718	37,451,433
EQUITY			
Issued capital	9	60,958,659	60,958,659
Reserves	10	1,040,686	1,510,810
Accumulated losses		(23,194,798)	(24,777,812)
Parent interest		38,804,547	37,691,658
Non-controlling interest		(381,829)	(240,225)
Total equity		38,422,718	37,451,433

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Half Year Ended 31 December 2013	Note	Issued Capital	Options Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Non-Controlling Interest	Total
		$	$	$	$	$	$
Balance as at 1 Jul 2012		53,477,409	1,827,993	31,702	(18,061,494)	245,845	37,521,455
Foreign currency translation reserve		-	-	(116,673)	-	-	(116,673)
Net income and expense recognised directly in equity		-	-	(116,673)	-	-	(116,673)
Loss for the half year		-	-	-	(4,168,165)	(208,101)	(4,376,266)
Total comprehensive income/(loss) for the half year		-	-	(116,673)	(4,168,165)	(208,101)	(4,492,939)
Transactions with owners in their capacity as owners:							
Share placement		7,875,000	-	-	-	-	7,875,000
Share placement costs		(393,750)	-	-	-	-	(393,750)
Options lapsed during the half year		-	(224,339)	-	224,339	-	-
Options issued during the half year		-		-	-	-	-
Non-controlling interests of the new subsidiary		-	-	-	-	(121,161)	(121,161)
Balance as at 31 Dec 2012		60,958,659	1,603,654	(84,971)	(22,005,320)	(83,417)	40,388,605
Balance as at 1 Jul 2013		60,958,659	1,603,655	(92,845)	(24,777,812)	(240,225)	37,451,433
Foreign currency translation reserve				249,083			249,083
Net income and expense recognised directly in equity				249,083			249,083
Profit/(Loss) for the half year					685,666	(142,672)	542,994
Total comprehensive income/(loss) for the half year				249,083	685,666	(142,672)	792,077
Transactions with owners in their capacity as owners:							
Share placement		-	-	-	-	-	-
Share placement costs		-	-	-	-	-	-
Options lapsed during the half year	10		(719,207)		719,207	-	-
Options issued during the half year		-	-	-	-	-	-
Non-controlling interests of the new subsidiary					178,141	1,068	179,209
Balance as at 31 Dec 2013		60,958,659	884,448	156,238	(23,194,798)	(381,829)	38,422,718

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Half Year Ended 31 December 2013	Note	31 Dec 2013	31 Dec 2012
		$	$
Cash flows from operating activities			
Payments to suppliers and employees		(2,592,947)	(1,937,380)
Interest received		49,379	134,200
Other Income		3,110,870	-
Net cash provided by/(used in) operating activities		567,302	(1,803,180)
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		(806,759)	(7,884,057)
Payments for plant and equipment		7,454	(7,746)
Net cash (used in) investing activities		(799,305)	(7,891,803)
Cash flows from financing activities			
Proceeds from share placements		-	7,875,000
Payments for share placement costs		-	(393,750)
Net cash provided by financing activities		-	7,481,250
Net (decrease) in cash and cash equivalents held		(232,003)	(2,213,733)
Cash and cash equivalents at beginning of the financial year		4,459,176	10,950,432
Effect of exchange rate changes on cash		255,021	(198,643)
Cash and cash equivalents at the end of the financial half year	5	4,482,194	8,538,056

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. Significant Accounting Policies

Statement of compliance

The half-year financial statements are a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. These half-year financial statements do not include notes of the type normally included in the annual financial statements and shall be read in conjunction with the most recent annual financial statements and the Company's ASX announcements released from 1 July 2013 to the date of this report.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Going Concern Assumption

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. The going concern of the Consolidated Entity is dependent upon it maintaining sufficient funds for its operations and commitments. The Directors continue to be focused on meeting the Consolidated Entity's business objectives and is mindful of the funding requirements to meet these objectives. The Directors consider the basis of going concern to be appropriate for the following reasons:

- Subsequent to the reporting date the Company has received a refund of $1.64 million under the Federal Government's Research and Development (R&D) Tax Incentive Scheme.
- The current cash and liquid investments of the Consolidated Entity relative to its fixed and discretionary commitments;
- The contingent nature of certain of the Consolidated Entity's project expenditure commitments;
- The ability of the Consolidated Entity to terminate certain of its agreements without any further on-going obligation beyond what has accrued up to the date of termination;
- The underlying prospects for the Company to raise funds from the capital markets; and
- The fact that future exploration and evaluation expenditure are generally discretionary in nature (ie. at the discretion of the Directors having regard to an assessment of the progress of works undertaken to date and the prospects for the same) pursuant to relevant joint venture agreements and may be slowed or suspended as part of the management of the Consolidated Entity's working capital and other forecasted commitments.

The Directors are confident that the Consolidated Entity can continue as a going concern and as such are of the opinion that the financial report has been appropriately prepared on a going concern basis.

The accounting policies adopted are consistent with those of the previous financial year and prior corresponding interim reporting period, except as set out below.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments applicable for the first time for the December 2013 half-year report:

- AASB 10 Consolidated Financial Statements and AASB 11 Joint Arrangements;
- Accounting for employee benefits – revised AASB 119 Employee Benefits
- AASB 13 Fair Value Measurement

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 127 Separate Financial Statements

AASB 10 was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements. Under the new principles, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group has reviewed its investments in other entities to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No material differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

Under the AASB 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. There is no change to the Group's accounting as a result of the adoption of AASB 11.

AASB 119 Employee Benefits

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all measurements of defined liabilities/assets immediately in other comprehensive income (removal of the so called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in statement of profit or loss and other comprehensive income. The standard also introduces a number of additional disclosures for defined benefit liabilities/asset and could affect the timing of the recognition of termination benefits. The amendments are implemented retrospectively and have an immaterial impact.

AASB 13 Fair Value Measurement

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. This standard has introduced new disclosures but does not affect the Group's accounting policy.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2013.

2. SEGMENT INFORMATION

Management has considered the activities/operations and geographical perspective within the operating results and have determined that the Consolidated Entity operates in Australia, Oman, Saudi Arabia, Chile and Peru within one major segment - the resource exploration, evaluation and development sector. Unallocated items comprise share investments, corporate assets, office expenses and income tax assets and liabilities.

	Resource Projects					
	Australia $	Oman $	Saudi Arabia $	Peru $	Chile $	Total $
6 months to 31 Dec 2013						
Total segment loss before tax	(15,535)	(401,903)	(410,128)	1,371,986	(1,426)	542,994
Total segment assets	39,939,681	704,988	598,072	56,387	6,012	41,305,140
Total segment liabilities	1,545,266	(2,539,041)	(1,888,647)	-	-	(2,882,422)
6 months to 31 Dec 2012						
Total segment revenues	160,304	-	-	-	-	160,304
Total segment loss before tax	(1,427,601)	(380,667)	(268,716)	-	(2,299,282)	(4,376,266)
Total segment assets	13,608,070	4,716,775	24,623,869	69,749	101,768	43,120,231
Total segment liabilities	(274,220)	(162,628)	(2,275,098)	(19,682)	-	(2,731,626)
12 months to 30 June 2013						
Total segment revenues	-	-	-	-	-	-
Total segment loss before tax	(5,898,065)	(542,601)	(554,953)	(8,973)	101,344	(6,903.248)
Total segment assets	25,244,950	5,907,784	9,686,129	56,831	7,438	40,903,132
Total segment liabilities	(1,261,140)	(448,845)	(1,884,670)	-	-	(3,594,655)

3. PROFIT FOR THE HALF YEAR

	31 Dec 2013 $	31 Dec 2012 $
(a) Revenue		
Interest	65,220	159,530
Other income – R&D claim refund	3,116,809	774
	3,182,028	160,304
(b) Expenses		
Net gain/(loss) on financial assets held at fair value through profit or loss	25,018	178,694
Impairment of exploration expenditure	-	(2,689,769)
Personnel		
- cash remuneration	(1,101,287)	(1,180,259)
- options remuneration (non-cash)	-	-
- employee benefits	3,098	64,972
Occupancy expenses	(149,767)	(215,475)
Foreign exchange movement	-	(83,047)
Finance expenses	(11,699)	(10,294)
Borrowing cost - interest paid	(223)	(1,476)
Corporate expenses	(80,135)	(95,128)
Administration expenses		
- Communications	(55,831)	(27,929)
- Consultancy fees	(521,300)	(79,106)
- Travel, accommodation and incidentals	(157,710)	(151,184)
- Professional fees	(95,384)	(187,683)
- Insurance	(31,687)	(13,445)
- Depreciation	(38,641)	(43,304)
- Fixed assets written down	-	(2,137)
- Net loss on disposal of fixed assets	(31,102)	-
- Loans written off	(236,983)	-
- Other administration expenses	(155,401)	-
	(2,639,034)	(4,536,570)

4. EARNINGS PER SHARE

	31 Dec 2013 $	31 Dec 2012 $
Basic profit/(loss) per share (cents)	0.28	(1.89)
Diluted profit/(loss) per share (cents)	0.28	(1.89)
Profit/(Loss) used to calculate earnings per share ($)	685,666	(4,168,165)
Weighted average number of ordinary shares during the period used in calculation of basic earnings/(loss) per share	242,007,500	221,007,500

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.

5. CASH AND CASH EQUIVALENTS

	31 Dec 2013 $	30 Jun 2013 $
Cash in hand	11,586	67,742
Cash at bank	770,712	1,730,935
Term deposits	3,699,894	2,660,499
	4,482,194	4,459,176

Cash at bank includes USD$149,634 (AUD$148,282) held in at call accounts.

The Consolidated Entity has granted a term deposit security bond to the value of $184,894 (2013: $130,600) which has not been called up as at the reporting date. A total of $32,000 of the security bond is in relation to its Australian tenements.

The effective interest rate on short-term bank deposits was 3.51% (2013: 4.15%) with an average maturity of 182 days.

6. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec 2013 $	30 Jun 2013 $
Listed investments at fair value	167,973	142,956

Net gains in the fair value of "financial assets at held fair value through profit and loss" are recorded as Income (Note 3(a) where applicable) and net loss on the "fair value of financial assets held at fair value through profit and loss" are recorded as an Expense (Note 3(b) where applicable). The fair value of listed shares has been determined directly by reference to published price quotations in an active market.

7. RESOURCE PROJECTS

	31 Dec 2013 $	30 Jun 2013 $
Opening balance	29,306,309	25,666,040
- Exploration and evaluation expenditure	797,803	6,704,806
- Impairment of exploration and evaluation expenditure	-	(3,064,537)
Closing balance	30,104,112	29,306,309

The capitalised exploration and evaluation in relation to the Khnaiguiyah Project remains capitalised as the project continues to meet the requirements under AASB 6. The Khnaiguiyah Project has a completed definitive feasibility study that was announced in April 2013 and which demonstrates commercial viability with a capital expenditure of US$260m and a NPV of US$170m.

Negotiations were ongoing with Manajem to transfer the mining licence into the joint venture entity (KMC) and establish an equity position that enables the project to develop smoothly. Project financing and a decision to mine are subject to these matters being resolved, there are no facts or circumstances that warrant impairment.

8. OTHER NON-CURRENT ASSETS

	31 Dec 2013 $	30 Jun 2013 $
Excess of consideration for resource projects acquired	341,112	341,112
Costs incurred in relation to resource projects	5,228,421	5,218,396
	5,569,533	5,559,508

The excess of consideration for resource projects acquired relates to the Consolidated Entity's investment in jointly controlled joint venture entity, Daris Resources LLC (Oman) (50%) and controlled joint venture entity, Alara Resources LLC (Oman) (70%) whereby the Consolidated Entity contributed 100% of the initial share capital on incorporation. The excess value comprises 50% and 30% of the value of the initial share capital invested in Daris Resources LLC and Alara Resources LLC respectively. The amounts incurred in relation to resource projects have been classified as Other Non-Current Assets and not as Non-Current Assets (Resource Projects) as, at balance date, the conditions precedent under the shareholder's agreements for the above entities were still outstanding. Refer note 7 for further details on capitalised exploration and evaluation.

9. ISSUED CAPITAL

	31 Dec 2013 №	30 Jun 2013 №	31 Dec 2013 $	30 Jun 2013 $
Fully paid ordinary shares	242,007,500	242,007,500	60,958,659	60,958,659

30 Jun 2013	**№**	**$**
Balance as at 1 July 2012	210,507,500	53,477,409
- Share movement during the 2013 financial year	31,500,000	7,481,250
Balance as at 30 June 2013	242,007,500	60,958,659
31 Dec 2013	**№**	**$**
Balance as at 1 July 2013	242,007,500	60,958,659
Balance as at 31 December 2013	242,007,500	60,958,659

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 Company does not have a limit on the amount of its capital.

9. ISSUED CAPITAL (CONTINUED)

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. The Consolidated Entity has no external 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 Consolidated Entity may undertake a capital raising within the next 12 months to fund the Consolidated Entity's share of equity/project financing obligations in relation to its resource projects and for general working capital purposes.

10. RESERVES

	31 Dec 2013 $	30 Jun 2013 $
Foreign currency translation reserve	156,238	(92,845)
Options reserve	884,448	1,603,655
	1,040,686	1,510,810

Foreign Currency Translation Reserve

Exchange differences arising on translation of a foreign controlled entity's financial results and position 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 options	Consolidated Entity 31 Dec 2013 $	Consolidated Entity 30 Jun 2013 $
Directors' Options				
Unlisted options exercisable at $0.35; expiring 16 Sep 2013	17-Sep-08	-	-	569,080
Unlisted options exercisable at $0.35; expiring 25 Oct 2014	30-Nov-09	2,000,000	247,317	247,317
Unlisted options exercisable at $0.60; expiring 25 Oct 2014	30-Nov-09	1,000,000	106,698	106,698
Unlisted options exercisable at $0.60; expiring 25 May 2014	26-May-11	250,000	37,301	74,601
Employees' Options				
Unlisted options exercisable at $0.35; expiring 16 Sep 2013	17-Sep-08	-	-	43,159
Unlisted options exercisable at $0.35; expiring 25 Oct 2014	26-Oct-09	1,650,000	276,366	276,366
Unlisted options exercisable at $0.60; expiring 25 Oct 2014	26-Oct-09	1,000,000	147,306	147,306
Unlisted options exercisable at $0.35; expiring 22 Aug 2015	23-Aug-10	400,000	21,913	21,913
Unlisted options exercisable at $0.50; expiring 25 May 2014	02-Sep-11	-	-	33,072
Unlisted options exercisable at $0.60; expiring 25 May 2014	02-Sep-11	-	-	19,001
Unlisted options exercisable at $0.70; expiring 25 May 2014	02-Sep-11	-	-	17,594
Unlisted options exercisable at $0.50; expiring 25 May 2014	23-Dec-11	200,000	22,887	22,887
Unlisted options exercisable at $0.60; expiring 25 May 2014	23-Dec-11	125,000	12,908	12,908
Unlisted options exercisable at $0.70; expiring 25 May 2014	23-Dec-11	125,000	11,753	11,753
		6,750,000	884,448	1,603,655

During the half year, the following cancelled and lapsed options were transferred from the Options Reserve to Accumulated Losses pursuant to AASB 2 'Share based payments':

(i) 16,400,000 lapsed unlisted $0.35 (16 Sep 2013) Options amounted to $569,080.
(ii) 250,000 lapsed unlisted $0.60 (26 May 2014) Options amounted to $37,301.
(iii) 1,000,000 lapsed unlisted $0.35 (16 Sep 2013) Options amounted to $43,159.
(iv) 200,000 lapsed unlisted $0.50 (25 May 2014) Options amounted to $33,072.
(v) 125,000 lapsed unlisted $0.60 (25 May 2014) Options amounted to $19,001.
(vi) 125,000 lapsed unlisted $0.70 (25 May 2014) Options amounted to $17,594.

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 that were issued for nil consideration.

11. SHARE BASED PAYMENTS

Grant date	Expiry date	Exercise price	Movement during the year					As at 31 Dec 2013	
			Opening balance	Granted	Exercised	Lapsed	Closing balance	Vested and exercisable	Fair value $
Directors									
17-Sep-08	16-Sep-13	$0.35	16,400,000	-	-	(16,400,000)	-	-	-
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
26-May-11	26-May-14	$0.60	500,000	-	-	(250,000)	250,000	250,000	37,601
22-Nov-13	21-Nov-16	$0.15	-	6,666,667	-	-	6,666,667	-	-
22-Nov-13	21-Nov-16	$0.20	-	3,333,333	-	-	3,333,333	-	-
Employees									
17-Sep-08	16-Sep-13	$0.35	1,000,000	-	-	(1,000,000)	-	-	-
26-Oct-09	25-Oct-14	$0.35	1,650,000	-	-	-	1,650,000	1,650,000	276,366
26-Oct-09	25-Oct-14	$0.60	1,000,000	-	-	-	1,000,000	1,000,000	147,306
23-Aug-10	22-Aug-15	$0.35	400,000	-	-	-	400,000	400,000	21,913
02-Sep-11	25-May-14	$0.50	200,000	-	-	(200,000)	-	-	-
02-Sep-11	25-May-14	$0.60	125,000	-	-	(125,000)	-	-	-
02-Sep-11	25-May-14	$0.70	125,000	-	-	(125,000)	-	-	-
23-Dec-11	25-May-14	$0.50	200,000	-	-	-	200,000	200,000	22,887
23-Dec-11	25-May-14	$0.60	125,000	-	-	-	125,000	125,000	12,908
23-Dec-11	25-May-14	$0.70	125,000	-	-	-	125,000	125,000	11,753
Weighted average exercise price			24,850,000	10,000,000	-	(18,100,000)	16,750,000	6,750,000	884,448
Weighted average exercise price			0.45	-	-	0.32	0.28	0.28	-

During the half year, the following options were issued to employees and/or Directors:

(i) Directors' Options – Philip Hopkins:

a) 6,666,667 unlisted options exercisable at $0.15, expiring 21 November 2016; and
b) 3,333,333 unlisted options exercisable at $0.20, expiring 21 November 2016.

Tranche 1 Options - 3,333,334 options each with an exercise price of $0.15 which will vest upon the attainment of Milestone 1 on or before 31 March 2014.

Tranche 2 Options - 3,333,333 options each with an exercise price of $0.15 which will vest upon the attainment of Milestone 2 on or before 31 December 2014.

Tranche 2 Options - 3,333,333 options each with an exercise price of $0.20 which will vest upon the attainment of Milestone 3 on or before 31 December 2015.

Milestone 1 means the securing of licences in respect of the Khnaiguiyah Project.

Milestone 2 means the 'Commencement of Construction' in respect of the Khnaiguiyah Project on or before 1 June 2014.

Milestone 3 means the securing of a new mineral resources project for the Company advanced to preliminary feasibility study level, or as determined by the board's discretion.

12. COMMITMENTS

(a) On 15 July 2013, the Company entered into a non-cancellable operating lease commitment in respect of its office in West Perth, Western Australia. The commitment totals approximately $115,572 in the first 12 months (including outgoings and exclusive of GST). The lease is for a 5 year term expiring on 14 July 2018 and contains a fixed 4% rent review increase each year.

(b) A condition of the Mining Licence pertaining to the Khnaiguiyah Zinc-Copper Project in Saudi Arabia issued by the Ministry of Petroleum and Mineral Resources in January 2011 is the implementation of training programmes for Saudi nationals at a minimum cost of 20 million Saudi Riyals (SAR) (approximately A$6 million based on an exchange rate of A$1.00/3.32 SAR as at balance date) over the 30 year term of the licence. KMC has not yet submitted a training programme and plan to the Ministry for approval and it is not possible to establish a time frame around this commitment as at the date of this report. The Mining Licence is also pending transfer from United Arabian Mining Company LLC (Manajem) to the joint venture company, Khnaiguiyah Mining Company LLC (KMC) (Alara: 50% and Manajem: 50%).

(c) A condition of the Khnaiguiyah Mining Licence is the payment of a nominal annual surface rental based on the area of the mining licence.

13. 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, as described below.

(a) **Shareholders' Agreement - Khnaiguiyah Mining Company LLC - Khnaiguiyah Zinc-Copper Project (Saudi Arabia)** - On 21 October 2010, Alara Saudi Operations Pty Limited, a wholly owned subsidiary of the Company, entered into a shareholders' agreement with mineral licences holder, United Arabian Mining ("Manajem" in Arabic) Company LLC (Manajem) pursuant to which Alara will pay a total of US$7.5 million to Manajem in stages subject to completion of project milestones and the parties forming a new joint venture company, KMC, which will hold the Khnaiguiyah Zinc-Copper Project mineral licences. KMC was incorporated in Saudi Arabia on 10 January 2010. Alara has paid Manajem a total of US$3.654 million (including advance payments of US$2.22 million in respect of the tranches payable under the Shareholders Agreement with US$3.846 million payable (US$1.836 million payable in cash and US$2.01 million 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$0.289 per share based on a A$1.00/US$1.038 exchange rate as at balance date) upon KMC receiving the grant of an Environmental Permit for the commencement of mining under the Khnaiguiyah Mining Licence (subject to completion of the transfer of the Mining Licence from Manajem to KMC).

A 'Resource Bonus' is also payable to Manajem (based on Manajem's shareholding interest in KMC at the relevant time) calculated at the rate of US 0.5 cent per pound of contained zinc equivalent (within a JORC Indicated Resource at a minimum average grade of 7% zinc) discovered within the Project, in excess of a threshold Indicated Resource of 11 million tons (at the same minimum average 7% zinc grade).

Alara is entitled to fund (as loan capital to KMC) all exploration, evaluation and development costs in relation to the Project up to completion of a bankable feasibility study (BFS). Upon Alara having made a "decision to mine" following completion of a BFS, KMC will seek project financing to fund development of the Project. The difference between the amount of project financing raised and the capital costs of the Project (shortfall) shall be met by the parties as follows; Alara is entitled firstly to 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 project capital costs. That is, if the Project is financed as to 50% debt from external financiers with a 50% shortfall to be met by KMC shareholders, Alara is entitled to contribute its half share of the shortfall (being 25% of the project capital costs) and will also fund a maximum of US$15 million of Manajem's contribution towards the shortfall. The balance of the shortfall (and subsequent funding calls by KMC) shall be satisfied by each shareholder (pro-rata to their respective shareholding interests) providing additional capital contributions in return for new shares issued in KMC. The new shares issued shall be issued at a price equal to the sum of the capital cost of the Project as defined in the BFS, plus cumulative capital contributions made by the shareholders, divided by the number of shares on issue in KMC at that time. 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.

Any loan funds advanced by Alara to KMC, together with an existing (deemed) loan of US$3 million from Manajem, shall be repayable from KMC's net profits. KMC is currently managed by a Board of Directors with 2 nominees from each of Alara and Manajem.

(b) **Introduction Fee - Net Profit Royalty Obligation - Khnaiguiyah Zinc-Copper Project (Saudi Arabia)** - A 0.5% net profit royalty is due and payable to the individual who introduced the Khnaiguiyah Zinc Copper Project (Saudi Arabia) to Alara, based on Alara's share of net profits from KMC.

(c) **Shareholders' Agreement - Daris Resources LLC - Daris Copper-Gold Project (Oman)** - 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. DarisCo was incorporated in Oman on 1 December 2010 (Alara: 50% and ATTE: 50%). Alara is entitled to advance US$3 million as equity during a 3 year period. Thereafter, Alara is entitled to 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 has exclusive rights under a management agreement with ATTE to manage, operate and commercially exploit the concession.

DarisCo is governed by a 6 member Board of Directors with 3 nominees from Alara and 3 nominees from ATTE. Alara's Managing Director is currently the Chairman of DarisCo.

13. CONTINGENT ASSETS AND LIABILITIES (continued)

(d) **Shareholders' Agreement - Alara Resources LLC (Oman)** – On 8 August 2010, Alara Oman Operations Pty Limited, a wholly owned subsidiary of the Company, 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 introduced to AlaraCo by SUR. AlaraCo was incorporated in Oman in 2 October 2010. Alara contributed 100% of the initial capital of 150,000 Omani Rials (RO) (equivalent to ~A$425,000 at that time) for its 70% shareholding interest in AlaraCo with SUR holding the balance of 30%.

Alara is entitled to 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 (i.e. 30%) if SUR fails to meet capital calls after a 'Decision 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 including, amongst other matters, the execution of an ancillary loan agreement (which is currently pending execution by the parties) and an exploration licence being granted to AlaraCo – AlaraCo has lodged several applications for exploration licences over open areas prospective for base and precious metals introduced by SUR (which are currently pending grant by the Oman Government).

AlaraCo is governed by a 5 member Board of Directors with 3 nominees from Alara and 2 nominee from SUR. Alara's Managing Director is currently the Chairman of AlaraCo.

(e) **Introduction Fees - Net Smelter Return Royalty and Bonus Obligation – Oman Projects** - A 0.5% Net Smelter Return (NSR) royalty is due and payable to the individual who introduced the prospects the subject of exploration licence applications by Alara Resources LLC (Oman). A US$25,000 cash bonus is also due and payable to the same individual upon commencement of production from the Daris Copper-Gold Project (Oman).

(f) **Shareholders Agreement - Washihi-Mullaq-Al Ajal Copper-Gold Project (Oman)** – On 23 November 2011, Alara Oman Operations Pty Limited (a wholly owned subsidiary of the Company) entered into a shareholders agreement with the concession holder, Al Hadeetha Resources LLC (Al Hadeetha) and the existing shareholders of Al Hadeetha.

On 3 August 2013, the shareholders' agreement was amended such that Al Hadeetha Resources LLC is now owned 70% by Alara Oman Operations Pty Limited and 30% by Al Hadeetha Investment Services LLC ('AHIS')

Post completion of a definitive feasibility study, the Al Hadeetha Board may issue shareholders with payment notices requiring them to contribute equity funding in proportion to their shareholding. If AHIS decline to make the required capital contribution to develop the Project's first mine, then Alara may elect to pay Al Hadeetha the amount which AHIS were required to contribute under their payment notice and Alara shall increase its economic interest in Al Hadeetha to 75%. This payment shall be treated as a loan and Alara shall be entitled to 60% of all dividends in favour of the AHIS until such time that 25% of the total amount required under the payment notices is repaid to Alara. If any Al Hadeetha shareholders' interest falls below 10%, that party shall assign its dividend and voting rights to the other shareholder(s) in exchange for a 2% net smelter return on production payable by Al Hadeetha.

Al Hadeetha is currently governed by a 3 member Board of Directors with 2 nominees appointed by Alara and 1 nominee appointed by the AHIS. Alara's Managing Director is the Chairman and Managing Director of Al Hadeetha.

14. SUBSEQUENT EVENTS

On 21 January 2014 the Company issued options to a Director pursuant to shareholder approval at a General Meeting held on 16 January 2014 (refer Notice of General Meeting and Explanatory Statement dated 18 November 2013 and released on ASX on 12 December 2013).

Director options issued to His Royal Highness Prince Abdullah bin Mosaad bin Abdulaziz Al Saud, a Non-Executive Director of the Company, a total of 20,000,000 options, as follows:

I. 10,000,000 options at an exercise price equal to $0.10, expiry date 15 January 2016 and upon the attainment of 'Milestone 1' on or before 31 March 2014; and

II. 10,000,000 options at an exercise price equal to $0.15, expiry date 15 January 2016 and upon the attainment of 'Milestone 2' on or before 31 December 2014.

On the 28 January the Company received $1.64 million cash due to refund of the Research and Development Tax Incentive Scheme 2013 as returned by the Australian Tax Office.

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.

DIRECTOR'S DECLARATION

In the Directors' opinion:

(a) The financial statements and notes set out on pages 13-25 are in accordance with the *Corporations Act 2001*, including:

 (i) Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

 (ii) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Philip Hopkins

Managing Director

Perth, Western Australia

4 March 2014

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

We have reviewed the accompanying half-year financial report of Alara Resources Limited ("Company"), which comprises the consolidated financial statements being the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of Alara Resources Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Alara Resources Limited consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

As the auditor of Alara Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Alara Resources Limited is not in accordance with the Corporations Act 2001, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M J Hillgrove
Partner - Audit & Assurance

Perth, 4 March 2014

INTERESTS IN MINING AND EXPLORATION LICENCES

KHNAIGUIYAH ZINC-COPPER PROJECT (SAUDI ARABIA)

The Khnaiguiyah Zinc-Copper Project (Khnaiguiyah Project) is located approximately 170km south-west of the capital city Riyadh and 35km north-west of Al-Quwayiyah, which is a regional centre located around the Riyadh to Jeddah Expressway.

The Khnaiguiyah Project comprises one mining licence (issued in December 2010 with exclusive 30 year term and no mineral royalties), 2 exploration licences and 5 exploration licence applications, totalling approximately 380km^2 currently held by Manajem pending completion of transfer to KMC.

Alara Saudi Operations Pty Limited has a 50% interest in the joint venture company, Khnaiguiyah Mining Company LLC (KMC) (Saudi Arabia) (incorporated on 10 January 2011). The Khnaiguiyah Project mineral licences are currently held by KMC joint venture partner, United Arabian Mining Company.

Project	Status	Tenement	Grant / Application Date	Expiry Date	Area (km^2)	Location/ Property Name	State/ Country	Company's Interest
Khnaiguiyah Zinc-Copper Project	Granted	Mining Lease No 2. Qaaf	Dec 2010 dated 6/1/1432H	30 years	5.462km^2	~170km west of Riyadh	Saudi Arabia	50% KMC with 50% transfer of rights from Manajem
Khnaiguiyah Zinc-Copper Project	Two (2) Granted/ pending renewal	Exploration Licence "Qaf"/101 Exploration Licence "Qaf"/99	Oct 2007 dated 17/10/1428H	Expired (pending renewal/ reissue)	84 + 66 km^2	~170km west of Riyadh	Saudi Arabia	50% KMC with 50% transfer of rights from Manajem
Khnaiguiyah Zinc-Copper Project	Five (5) Applications	N/A	N/A	N/A	24.99 + 66.71 + 65.52 + 34.65 + 30.08km^2	~170km west of Riyadh	Saudi Arabia	50% KMC with 50% transfer of rights from Manajem

WASHIHI-MULLAQ-AL AJAL COPPER-GOLD PROJECT (OMAN)

The Washihi-Mullaq-Al Ajal Copper-Gold Project is located approximately 80-160km east of Alara's Daris Project.

Alara holds 70% of the shares in the joint venture company, Al Hadeetha Resources LLC (Al Hadeetha). Al Hadeetha holds exploration licences over the Washihi area of 39km^2, the Mullaq area of 41km^2, and the Al Ajal area of 25km^2.

Two of the exploration licences Washihi and Mullaq are located approximately 100km south-southeast of the Daris Project (Block 7 licence). One exploration licence, Al Ajal, is located approximately 40km east of the Daris Project (Block 7 licence).

The joint venture entity has made applications for mining licences over Washihi area of 3km^2, Mullaq area of 1km^2 and Al Ajal area of 1.5km^2.

Current status of all licenses/applications for this project is presented in the table following.

Block / Licence Name	License owner	Alara JV interests	Exploration License					Mining License within EL		
			Area	Date of Grant	Date of Expiry	Application for renewal	Status	Area	Date of Application	Status
Washihi	Al Hadeetha Resources LLC Oman	70%	39km^2	Jan 2008	Jan 2013	Dec 2013	Deemed granted as per law	3km^2	Dec 2012	Accepted in April 2013; in progress
Mullaq	Al Hadeetha Resources LLC Oman	70%	41km^2	Oct 2009	Oct 2012	Sep 2012	In progress	1km^2	Jan 2013	In progress
Al Ajal	Al Hadeetha Resources LLC Oman	70%	25km^2	Jan 2008	Jan 20013	Dec 2013	In progress	1.5km^2	Jan 2013	In progress

Also refer to Alara market announcement dated 8 December 2011 and entitled "Project Acquisition - Al Ajal-Washihi-Mullaq Copper-Gold Project in Oman" for further background information.

Daris Copper-Gold Project (Oman)

The Daris Copper-Gold Project is located approximately 150km west of Muscat, the capital of Oman and comprises a mineral excavation licence of ~587km^2. The joint venture entity Daris Resources LLC has made applications for two mining licence applications covering 3.2km^2 and 1.3km^2 have been filed over the Daris East and Daris 3A-5 prospects.

Alara Oman Operations Pty Limited has a 50% interest (with a right to increase this to 70%+) in the joint venture company, Daris Resources LLC (Oman) (incorporated on 1 December 2010), which holds the exclusive right to manage, operate and commercially exploit the exploration licence.

Current status of all licenses/applications for this project is presented in the table below.

Also refer to Alara market announcements dated 30 August 2010 and entitled "Project Acquisition - Daris Copper Project in Oman" for further background information.

Block Name	License owner	License owner	Exploration License					Mining Licenses within EL		
			Area	Date of Grant	Date of Expiry	Application for renewal	Status	Area	Date of Application	Status
Block 7	Al Tamman Trading and Est. LLC, Oman	50-70%	587km^2	Nov 2009	Nov 2012	Oct 2012	Deemed renewed as per law	Daris East 3.2km^2	Dec 2012	Accepted in April 2013; in progress
								Daris 3A5 1.3km^2	Dec 2012	Accepted in April 2013; in progress

JORC Statement

Khnaiguiyah Zinc-Copper Project (Saudi Arabia)

Khnaiguiyah JORC Ore Reserves[3]

Mineralised Zone	Proved			Probable			Proved + Probable		
	Mt	Zn%	Cu%	Mt	Zn%	Cu%	Mt	Zn%	Cu%
1	0.78	4.2	0.23	1.07	4.3	0.25	1.85	4.3	0.24
2	8.75	2.6	0.32	1.2	3.8	0.44	9.95	2.7	0.34
3	8.21	4.1	0.27	6.08	2.7	0.05	14.28	3.5	0.17
Total (All Pits)	**17.73**	**3.4**	**0.29**	**8.35**	**3.1**	**0.13**	**26.08**	**3.3**	**0.24**

Khnaiguiyah JORC Measured and Indicated Resource - Zinc (Domain 1) and Zinc/Copper (Domain 2)4

JORC Resource	Domain	Mineralised Zone	Tonnes (Mt)	Zinc %	Copper %	Zn Cut-off (%)
Measured	**1 and 2**	1, 2	9.65	3.37	0.16	1.5
		3	6.37	5.28	0.25	1.5
Indicated		1, 2	3.12	4.45	0.3	1.5
		3	6.18	3.55	0.05	1.5
Measured and Indicated		**1, 2 and 3**	**25.32**	**4.03**	**0.17**	**1.5**

Khnaiguiyah JORC Measured and Indicated Resource - Copper (Domain 3)

JORC Resource	Domain	Mineralised Zone	Tonnes (Mt)	Copper %	Cu Cut-off (%)
Measured	**3**	1, 2	4.7	0.72	0
		3	1.07	0.63	0
Indicated		1, 2	1.59	0.54	0
		3	1.16	0.43	0
Measured and Indicated		**1, 2 and 3**	**8.53**	**0.64**	**0**

Khnaiguiyah JORC Inferred Resource - Zinc (Domain 1) and Zinc/Copper (Domain 2)

JORC Resource	Domain	Mineralised Zone	Tonnes (Mt)	Zinc %	Copper %	Zn Cut-off (%)
Inferred	1 and 2	4	4.32	2.9	0.03	1.5

The information in these JORC Reserve and Resource tables was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

3 Refer Alara's ASX market announcement dated 18 April 2013: Maiden JORC Ore Reserves – Khnaiguiyah Zinc-Copper Project

4 Refer ASX market announcements dated 21 February 2012: Maiden JORC Resource – Khnaiguiyah Zinc-Copper Project, dated 12 October 2012: JORC Resource Upgrade for Khnaiguiyah Zinc-Copper Project and dated 30 October 2012: JORC Resource Upgrade and Update for Khnaiguiyah Zinc-Copper Project

WASHIHI-MULLAQ-AL AJAL COPPER-GOLD PROJECT (OMAN)

Washihi JORC Mineral Resources[5]

Cu % Cut off	Indicated Resource			Inferred Resource		
	Tonnes (Million)	Copper (Cu) %	Gold (Au) g/t	Tonnes (Million)	Copper (Cu) %	Gold (Au) g/t
0	7.16	0.87	0.17	7.77	0.67	0.2
0.25	6.84	0.9	0.17	7.27	0.71	0.2
0.5	5.66	1.01	0.18	5	0..85	0.21
0.75	4.04	1.17	0.18	2.57	1.07	0.23
1	2.39	1.37	0.2	1.24	1.31	0.27

DARIS COPPER-GOLD PROJECT (OMAN)

Daris-East JORC Mineral Resources

Ore type	Cut-off grade Cu%	Measured		Indicated		Measured and Indicated		Inferred	
		Tonnes	Cu%	Tonnes	Cu%	Tonnes	Cu%	Tonnes	Cu%
Sulphides	0.5	129,155	2.48	110,870	2.24	240,024	2.37	30,566	2.25
Oxides	0.5	96,526	0.77	86,839	0.66	183,365	0.72	1,712	0.61

The information in these JORC Reserve and Resource tables was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

JORC COMPETENT PERSONS STATEMENT

KHNAIGUIYAH ZINC-COPPER PROJECT – SAUDI ARABIA

The information in this report that relates to Ore Reserves in relation to the Khnaiguiyah Zinc-Copper Project (Saudi Arabia) was compiled by Mr Geoff Davidson, who is a Fellow of the Australian Institute of Mining and Metallurgy and a consultant to Khnaiguiyah Mining Company LLC (KMC). Mr Davidson 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 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code, 2004 edition). In assessing the appropriateness of the Ore Reserve estimate, Mr Davidson has relied on various reports, from both internal and external sources, in either draft or final version, which form part of or contribute to the Khnaiguiyah Project Detailed Feasibility Study. These reports are understood to be compiled by persons considered by KMC to be competent in the field on which they have reported. Mr Davidson has given his consent to the inclusion in the report of the matters based on his information in the form and context in which it appears. Refer also to Table 5 in Alara Resources Limited's ASX market announcement dated 18 April 2013: Maiden JORC Ore Reserves – Khnaiguiyah Zinc-Copper Project for further information in relation to the Ore Reserve estimate for the Khnaiguiyah Project.

The information in this report that relates to Zinc and Copper Mineral Resources within Mineralised Zone 3 in relation to the Khnaiguiyah Zinc-Copper Project (Saudi Arabia) is based on information compiled by Mr Daniel Guibal, an employee of SRK Consulting (Australasia) Pty Ltd, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Guibal has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking to qualify as a Competent Person as defined in the JORC Code, 2004 edition. Mr Guibal consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

WASHIHI COPPER-GOLD PROJECT AND DARIS COPPER-GOLD PROJECT – OMAN

The information in this report that relates to Zinc and Copper Mineral Resources within Mineralised Zones 1, 2 and 4 in relation to the Khnaiguiyah Zinc-Copper Project (Saudi Arabia), Mineral Resources in relation to the Washihi Copper-Gold Project (Oman) and the Daris Copper-Gold Project (Oman) and other Exploration Results is based on information compiled by Mr Ravindra Sharma, who is a Chartered Professional Member of The Australasian Institute of Mining and Metallurgy and Registered Member of The Society for Mining, Metallurgy and Exploration. Mr Sharma was a principal consultant to Alara Resources Limited. Mr Sharma has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking to qualify as a Competent Person as defined in the JORC Code, 2004 edition. Mr Sharma consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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5 Refer Alara's ASX market announcement dated 16 July 2013: Upgrade to JORC Resource at Washihi Copper-Gold Project in Oman Providing Strategic Options for the Asset