



## Quarterly Activity Report – 30 June 2011

### Production & Operations

	June 2011 Quarter	FY11
Total copper	5,933t	22,530t
Cash costs*	US\$1.79/lb	US\$1.75/lb
Total zinc	15,709t	40,125t
Cash costs	US\$0.74/lb	US\$0.80/lb
Total nickel	314t	1,322t

\* Cash costs for copper relate to copper metal production from the Mt Garnet copper plant. Copper produced from the Mt Garnet and Thalanga polymet plant is treated as a by-product credit for Zn production.

- **121% increase** in zinc production to **15,709t** (Q3: 7,119t) at a reduced cash cost of **US\$0.74/lb**.
- **Copper production** of **5,933t** (Q3: 6,767t) at a reduced cash cost of **US\$1.79/lb**.
- **Strong improvements in mining and processing** across all base metal production centres.
- **Strong cash operating margins** of **US\$2.07/lb** for copper and **US\$0.26/lb** for zinc.
- Total concentrate stockpiles at Quarter-end of **20,517t** (Q3: 16,329t), valued at ~\$21M.
- **KZL Business Improvement team** established.

### Project Development

- Preparations commenced to mine **Baal Gammon copper deposit**.
- Concept studies continued to develop a new **decline between Mungana and Griffiths Hill**.
- Approvals commenced to develop the **King Vol zinc deposit** at Chillagoe and **West 45 deposit** at Thalanga.

### Exploration

- **\$23M exploration budget** set for FY12 throughout Queensland aimed at establishing 8-12 year production outlook for zinc + copper in each operating region – four drilling rigs now operating.
- **3 of 4 holes completed to date at King Vol** intersect moderate-to-high grade zinc mineralisation plus copper.
- CY11 Exploration Target of **5Mt @ 10-15% Zn** established for **King Vol**.
- **New zone of Zn-Cu mineralisation** intersected over **1.1km strike at Red Cap/Morrison's**.
- Maiden Inferred Resource of **32,000t of copper** for **Griffiths Hill**.
- New copper **reserve completed** for **Balcooma**, replacing FY11 production depletion.
- Updated resource estimate completed for the **West 45 deposit at Thalanga**.
- **27.2m @ 7.3% Ni** returned from underground drilling at **Lounge Lizard**.

### Corporate

- Agreement with Monto Minerals to **mine and process the Baal Gammon copper deposit**.
- Conditional offer to acquire the **Einasleigh Copper Project** from Copper Strike.
- Rothschild engaged as **advisor for the Admiral Bay Zinc Project**.
- **Restructure of senior management team** commenced with establishment of Executive Committee (ExCo) and key appointments.

### Financial

- Consolidated **cash of \$56.5M** at the end of the Quarter, plus **receivables of \$24.3M**.

June 2011 Quarterly Report Presentation and Quarterly Update with Kagara's Managing Director Mr Geoff Day to be webcast at 11.00am (AEST) / 9.00am (WST) today (13 July 2011) with a simultaneous investor conference call (see details inside this Quarterly Report). The webcast is available through Boardroom Radio and on Kagara's website.

## Overview

The June 2011 Quarter marked a significant turning point in Kagara's recent history, with the commencement of a range of business improvement initiatives across the Company and the first concerted ramp-up in exploration activity since before the Global Financial Crisis.

The Quarter also saw a significant improvement in the mining and processing performance of all of the Company's base metal production hubs in North Queensland. This reflected a combination of operational enhancements, improved operating conditions following the wet season and a company-wide focus on improving productivity.

The key highlight of the Quarter was a **121% increase** in zinc metal production to **15,709t**, taking full-year production to **40,125t**. While below the previously announced target of 42kt for FY11, the Quarter saw sustained and progressive improvements in zinc production – which increased to an annualised run rate of approximately 62kt for the Quarter and reaching 120kt during June. This confirms the potential of the Company's assets to significantly ramp-up zinc production in the future.

Copper production was lower compared with last Quarter at **5,933t** based on forecast lower grades for the Quarter, although pleasingly cash operating costs were lower for both copper and zinc. Copper production for FY11 was **22,530t**, only slightly below the previously announced target of 23kt but in line with the original FY11 budget.

The most important developments for the Quarter were the commencement of initiatives to improve and optimise Kagara's operations into the future. These included the establishment of an internal Business Improvement team, which is being assisted by external consultants Partners in Performance to undertake a company-wide review of the Company's operations. This process is well underway and has already resulted in a number of significant improvements.

## Production Summary

PRODUCTION SUMMARY (metal in concentrate)		June 2011 Quarter	March 2011 Quarter	June 2010 Quarter
Total Production				
Copper (Cu)	t	5,933	6,767	6,465
Zinc (Zn)	t	15,709	7,119	10,669
Lead (Pb)	t	637	193	356
Nickel (Ni)	t	321	494	-
Mt Garnet Copper Plant Production				
Copper (Cu)	t	4,230	3,935	3,107
Copper Revenue	US\$/lb	3.86	4.09	3.04
Cu Cash Cost	US\$/lb	1.79	1.85	1.53
Mt Garnet & Thalanga Polymetallic Plant Production				
Zinc (Zn)	t	15,709	7,119	10,669
Copper (Cu)	t	1,703	2,842	760
Lead (Pb)	t	638	193	356
Zinc Revenue	US\$/lb	1.00	1.02	-
Zn Cash Cost	US\$/lb	0.74	0.81	-
Lounge Lizard Nickel Production				
Nickel (Ni)	t	314	494	-

Kagara is now investing heavily in its future, both through new project development opportunities such as Baal Gammon and Einasleigh, as outlined in this Quarterly Report, and through a major ramp-up in exploration. A budget of \$23M has been set for copper and zinc exploration in FY12, with the key objective of establishing an 8-12 year production outlook in each operating region.

## Safety

Kagara's North Queensland sites have continued to reduce both LTIFR's and TRIFR's across all sites. The Lost Time Injury Frequency Rate (LTIFR) for June 2011 now stands at 7.7, which is less than half the figure for June 2010 (15.1) and on track to achieve KZL's initial target of <6 during FY12. Similarly, the Total Recordable Injury Frequency Rate (TRIFR) for June 2011 is 78.3 compared to 110 for June 2010.

The Thalanga site achieved 365 days Lost Time Injury free in April 2011.

## **OPERATIONS**

### **NORTH QUEENSLAND MINING OPERATIONS**

During the Quarter, the Company achieved strong operational results across each of its major mining assets in North Queensland.

#### **Mungana**

A total of **55,243t** of high-grade polymetallic ore was mined from the Mungana underground operations for the Quarter. This was ~10% higher than the average of the previous three quarters, mainly due to increased availability of mining equipment. Within the Quarter, June saw one of the best monthly production performances with ore production ~19% higher than April and May.

Additional pumping capacity was installed during the Quarter, with an increased focus on enhanced pumping output. Increased de-watering rates will facilitate greater development opportunities during the current Quarter.

Ore haulage from Mungana to the Mt Garnet treatment plant re-commenced in late April following cessation of the prolonged wet season, with a total of 71,574t moved for the Quarter, which was ~16% above plan. Even with accelerated haulage rates, the continued high level of ore production has resulted in a significant ore stockpile remaining on site. As at 30 June 2011, total polymetallic ore stockpiles at Mungana were 94,899t.

#### **Balcooma**

Copper ore production was 11.5% higher for the Quarter compared with the average of the previous three Quarters, although at a slightly lower planned grade. Production of polymetallic ore commenced earlier than planned during the Quarter with stopes coming on line in the polymetallic Upper Lens. Ore haulage from Balcooma to the Mt Garnet and Thalanga treatment facilities exceeded plan by 13%.

#### **Vomacka (Thalanga)**

Ore production from the Vomacka open pit continued to ramp up, with a total of 159,000t of ore

produced, representing a 19% increase on the March Quarter (133,000t).

#### **Mt Garnet**

The performance of the Mt Garnet underground mine was in line with forecast, with ore production scaled back by approximately 25% in favour of processing higher grade stockpiled Mungana ore through the Mt Garnet polymetallic circuit.

### **NORTH QUEENSLAND PROCESSING OPERATIONS**

Both Kagara's treatment hubs – the Mt Garnet polymetallic and copper plants and the Thalanga polymetallic plant – performed strongly during the Quarter, resulting in significant increases in metal production.

#### **Mt Garnet**

Progressive improvements were achieved in both throughput rates and feed grades for the polymetallic circuit at Mt Garnet during the Quarter. Feed grade improvements reflected the availability of higher-grade stockpiled Mungana ore for processing.

As a result, zinc metal production from the polymetallic circuit increased by over 133% for the Quarter compared with the previous quarter, while zinc metal production for the month of June was ~34% higher compared with April and May.

Overall throughput rates for the copper circuit were ~15% above budget for the Quarter to offset the effect of planned lower copper feed grades and a temporary plant shutdown resulting from a mill motor failure. Copper metal production was 11.5% higher for the Quarter compared with the previous three Quarters and ~16% higher in June than April and May.

As a result of strong milling performance, concentrate stockpiles at Mt Garnet remained at high levels at Quarter-end despite concentrate haulage being 23% above plan for the Quarter. Attempts to source additional concentrate haulage capacity have not been successful as a result of the state-wide shortage of suitable trucks in Queensland.

## Thalanga

The ore feed rate to the Thalanga polymetallic concentrator increased by over 30% for the Quarter, while metal recoveries for both zinc and copper increased strongly compared with previous quarters.

The zinc feed grade also improved strongly as a result of higher grade material coming from the Vomacka mine as the open pit deepened and some polymetallic material being trucked from Balcooma. Overall, zinc metal production increased by 94%.

Copper metal production was marginally lower as improvements in the feed rate and higher recoveries partially offset the planned reduction in grade.

Lead production remained below budget throughout the Quarter although a significant improvement in recovery was achieved by the end of June as the quantity of primary ore mined from the pit increased with depth, resulting in improved plant performance.

## WEST AUSTRALIAN MINING OPERATIONS

### Lounge Lizard

During the Quarter, 13,331t of ore grading 4.1% Ni was mined from Lounge Lizard. The ore was a combination of stope and development ore.

A total of 9,792t of ore grading 3.5% Ni was processed through the Western Areas Cosmic Boy treatment facility at a recovery of 91.1% resulting in the production of approximately 314t of nickel-in-concentrate.

Stockpiles of nickel ore at the end of the year stood at 6,568t @ 4.81% Ni containing approximately 316t of nickel.

## PROJECT DEVELOPMENT

### NORTH QUEENSLAND COPPER

#### Baal Gammon

During the Quarter, Kagara reached agreement with Monto Minerals (ASX: MOO) to mine and process the Baal Gammon copper deposit, located near Mt Garnet.

The Baal Gammon deposit contains an Indicated and Inferred Resource of 5.5Mt grading 0.8% Cu, 29g/t Ag, 29g/t In and 0.2% Sn containing 41,600t of copper metal<sup>1</sup>.

The deposit has the potential to provide approximately two years of feed to the Mt Garnet copper plant, supplementing higher grade feed from Balcooma and strengthening Kagara's targeted copper production profile over the next five years.

Kagara intends to commence mine development as soon as it secures relevant regulatory approvals.

<sup>1</sup> Monto Minerals Quarterly Report 31 March 2011

#### Mungana (Red Dome Mine Corridor)

Concept studies and scheduling continued to examine options to develop a new decline between the Mungana underground mine and the Griffiths Hill Copper Zone (GHCZ), for which a maiden resource estimate of 32,000t of copper metal was completed during the Quarter.

This decline would provide exploration access for several other priority copper targets within the Red Dome Mine Corridor as well as future production access for the GHCZ.

#### Einasleigh Project

Subsequent to the end of the Quarter, Kagara submitted a proposal to Copper Strike Limited (ASX: CSE) to acquire CSE's Einasleigh Copper Project, located immediately to the south-west of the Mt Garnet copper and polymetallic processing facilities.

The Einasleigh Project, which comprises a tenement package covering a total area of approximately 450km<sup>2</sup>, includes a Measured, Indicated and Inferred Resource of 15Mt @ 0.84% copper at Kaiser Bill and 1.1Mt at 2.9% copper at Einasleigh<sup>2</sup>. The proposed acquisition of the Einasleigh Project is consistent with Kagara's objective of strengthening its resource and reserve positions at each of its operating centres to establish an 8-12 year production outlook for both copper and zinc.

<sup>2</sup> Mining One Report (table 1) contained in the Independent Expert Report of CSE's target statement

## **NORTH QUEENSLAND ZINC**

### **King Vol**

The Company has commenced the approvals process and preliminary geotechnical work for development of the King Vol deposit at Chillagoe. It is proposed that development of King Vol will commence during Q2FY12.

### **West 45 (Thalanga)**

Following completion of the upgraded resource estimate for the West 45 deposit (*see Exploration below*), located immediately adjacent to the Thalanga processing facility, work has commenced on the process of obtaining environmental approvals ahead of a decision to commence mining. Kagara proposes to commence mine development at West 45 during Q1FY12 following receipt of the necessary statutory licences and permission to develop.

## **EXPLORATION**

The June Quarter saw a major ramp-up in exploration activities in North Queensland as part of the Company's strategic push to establish an 8-12 year mine life at all of its operating centres. A budget of approximately \$23M has been established for copper and zinc exploration in North Queensland for FY12.

At the time of writing this report, Kagara has four surface drill rigs operating in North Queensland. The main areas of focus will be at Chillagoe, where two rigs will operate for the remainder of the year and Balcooma, where one surface and one underground diamond drill rig will operate for most of the rest of the year. The fourth surface rig will focus on regional targets at Mt Garnet, Maitland and Thalanga.

## **COPPER EXPLORATION**

### **Mungana (North Queensland)**

During the Quarter, a maiden Inferred Resource of 1.05Mt @ 3.1% Cu and 64 g/t Ag containing 32,000t of copper was announced for the Griffiths Hill Copper Zone (GHCZ).

The resource was estimated before the drilling program was completed and holes testing the

eastern reaches of the deposit intersected high grade zinc mineralisation. The mineralisation appears to be closed at depth and along strike to the east but further drilling is required to test for extensions. A new resource incorporating all drilling will be completed during Q1FY12.

A detailed gravity survey is currently being undertaken over the Red Dome mine corridor which is being jointly funded by Mungana Goldmines and Kagara.

### **Balcooma (North Queensland)**

During the Quarter, Kagara completed a new resource and reserve estimate for both the copper and the polymetallic mineralisation at Balcooma. A summary is set out below and outlined in detail at the end of this report:

#### **Resources (exclusive of reserves)**

Deposit	Tonnage
Main Copper	770,000t @ 3.4% Cu & 15g/t Ag
Polymetallic Upper Lens	774,000t @ 6.8% Zn, 2.2% Pb, 1.3% Cu, 27 g/t Ag & 0.3 g/t Au
Polymetallic Lens 2	503,000t @ 4.8% Zn, 2.0% Pb, 1.5% Cu, 35g/t Ag & 0.41g/t Au

#### **Reserves**

Deposit	Tonnage
Main Copper	448,000t @ 2.7% Cu, 13 g/t Ag

The effective replacement of copper reserves depletion during the past year attests to the prospectivity of the Balcooma Copper Project. During FY12, a budget of more than \$6M has been established for both underground and regional drilling with the aim of significantly extending the current mine life.

As outlined in the March 2011 Quarterly Report, copper mineralisation has been intersected at the northern end of the historic Balcooma pit.

Drilling has so far outlined mineralisation over a strike length of 150m and up to 100m down-dip. The mineralisation remains open to the north and a resource will be estimated once drilling is complete. It is expected that this will result in a modest increase in the overall resource at Balcooma.



Several high potential regional drill targets at Balcooma will be tested during Q1FY12 once the drill-out of the Balcooma North area is complete.

## ZINC/POLYMETALLIC EXPLORATION

### King Vol

Diamond drilling commenced during the Quarter designed to increase the size and upgrade the integrity of the large King Vol polymetallic deposit. King Vol contains a probable Ore Reserve of 1.3Mt @ 11.2% Zn, 0.7% Cu for 145,000t of contained zinc and 9,100t of contained copper, plus an additional Inferred Resource of 2.0Mt @ 14% Zn, 0.8% Cu for 280,000t of contained zinc and 16,000t of contained copper.

The King Vol reserve, which lies above the resource, is scheduled for detailed drilling during the current Quarter. The aim is to outline 5Mt of resource at King Vol by year end CY11.

Drilling is proceeding well with visual estimates indicating that 3 of the 4 holes drilled so far have intersected moderate to high grade zinc and accessory copper mineralisation. Analytical results are available for only one hole and visual estimates are detailed below (see *Figure 1 attached*):

KVD064W	<ul style="list-style-type: none"> <li>1.1m @ 14.9% Zn from 435.8m</li> </ul>
	<ul style="list-style-type: none"> <li>0.7m @ 17.4% Zn, 1.15% Cu, 21g/t Ag from 660.4m</li> </ul>
	<ul style="list-style-type: none"> <li>1.4m @ 5.6% Zn, 1.41% Cu, 41g/t Ag from 684m</li> </ul>
KVD072	No Significant Assay
KVD072W1	<ul style="list-style-type: none"> <li>2.7m of moderate to high-grade zinc mineralisation from 730.7m</li> </ul>
KVD072W2	<ul style="list-style-type: none"> <li>3.8m of moderate to high-grade zinc mineralisation from 653.3m</li> </ul>

### Red Cap/Victoria

Significant exploration success has been achieved at the Red Cap area, which is located some 5km from the Mungana underground mine.

Seven holes have been drilled to date into the Red Cap thrust, all of which have intersected zinc mineralisation visually estimated to range from moderate to very high-grade with significant accessory copper (see *Figure 2 attached*):

Hole	From	Visual Estimate	Horizon
1086	304.15m	3.1m of low-grade Zn-Cu	Red Cap/Morrison
1087	185.20m	2.0m of moderate grade Zn-Cu	Queenslander
	236.50m	18.9m of moderate grade Zn-Cu	Red Cap/Morrison
1088	209.70m	9.7m of high-grade Zn-Cu	Red Cap/Morrison
1089	240.00m	2.2m of low-grade Zn-Cu	Tarantula
	250.00	1.1m of moderate grade Zn-Cu	Red Cap/Morrison
	288.10	15m of low-grade Cu	Red Cap/Morrison
1090	278.10	7.1m of low-grade Zn-Cu	Red Cap/Morrison
1091	280.90	17.7m of moderate grade Zn-Cu	Red Cap/Morrison
1099	294.85	8.1m of high to very high grade Zn-Cu	Red Cap/Morrison

The holes, which span a strike length of over 1.1km, are not evenly distributed and have intersected several different mineralised horizons. However, the drilling does indicate the discovery of a potentially significant area of zinc-copper mineralisation.

The Red Cap thrust lies approximately 500m across strike from the Victoria deposit, which has an Inferred Resource of 3.4Mt @ 5.1% Zn and 1% Cu.

The Red Cap mineralisation is believed to have a similar geological setting and a similar tonnage potential to the Victoria deposit.

Regional soil sampling completed recently in this area has outlined a very strong zinc anomaly with values up to 1,000ppm zinc in soils that extends for up to 1km along strike grid east of Victoria. A Fixed Loop Electromagnetic (FLEM) survey of the area has also outlined anomalies to the west and east of the Victoria deposit.

While still at an early stage, exploration at the Red Cap and Victoria prospects looks very encouraging.

### Mt Garnet

The last of the analytical results from the drill program completed in March 2011 were received during the Quarter.

This drilling has confirmed that mineralisation extends down plunge for over 200m beyond the previously defined limits, but ore grade mineralisation is sporadic and generally below ore width. Further underground drilling is planned for later in the year.

The Company also plans to drill the Bald Hill and Jessies' Dream prospects, which are respectively located 7km and 2km from the Mt Garnet mine site. The Bald Hill project has outcropping zinc mineralisation in a similar geological setting to Mt Garnet.

### **Thalanga**

During the Quarter, new block models were developed and JORC compliant resources calculated for the West 45 and Orient deposits at Thalanga.

The new West 45 resource estimate is **591,000t @ 8.3% Zn, 3.5% Pb, 0.6% Cu, 69g/t Ag and 0.3g/t Au**, with 99% of the resource now in the Indicated category and 1% remaining in the Inferred category. Australian Mine Design and Development (AMDAD) has completed a mine design and mining schedule. The new resource estimate for the Orient deposit is **540,000t @ 7.9% Zn, 1.8% Pb, 0.9% Cu, 44g/t Ag and 0.19g/t Au** with approximately 90% Indicated and the remainder Inferred, see Tables attached.

Drilling has recently commenced to test a geophysical anomaly within the prospective horizon about 500m west and along strike from West 45. The first of five holes designed to test this target was in progress at the end of the Quarter.

### **NICKEL EXPLORATION**

#### **Forrestania Project (Western Australia)**

Assay results from the last of the underground drill holes completed in Q3FY11 have been received. As outlined in the March Quarterly Report, hole KUG086 returned a spectacular intersection averaging **7.3% Ni over 27.17m**, which is interpreted as the southern extension to Western Areas' high-grade Clinton Pegmatite Lode. True widths are estimated at approximately 70% of drilled widths.

A full list of assay results from the underground drilling is provided below (see Figure 3 attached):

Hole ID	Intersection length (m)	Grade of intersection (% Ni)
KUG084	10.52	5.97
KUG085	0.5	4.52
KUG086	27.17	7.32
KUG087	8.99	7.25
KUG088	6.98	8.08
KUG089	6.85	6.00
KUG098	10.31	8.13

A drill program design has been finalised which is due to commence during Q1FY12 pending arrival of the drill rig on site. Five holes are planned to drill down-dip at Lounge Lizard to test the T7 target. A further two holes, drilled to approximately 1,000m each, will test for nickel sulphides in the Western Ultramafic Belt about 2km south of Spotted Quoll.

A 1,650 line-kilometre helicopter-mounted VTEM (versatile time domain electromagnetic) survey commenced in late June and will provide coverage over a substantial part of Kagara's tenement holding in the Forrestania district.

The survey will be completed by mid-July and interpretation of results will be completed around the end of July. This is expected to aid targeting of planned regional drill holes as well as testing the prospectivity of several untested ultramafic horizons.

## **CORPORATE**

### **Management Team Development**

During the Quarter, Kagara initiated a process of developing its management team to support its new corporate direction and ensure that it has the technical skills and leadership abilities to achieve its longer-term strategic goals. Key initiatives during the Quarter included the establishment of an Executive Committee (ExCo) structure and the recruitment of key individuals to build functional capability within the organisation.

These included Peter Gough who has been appointed as Executive General Manager – Organisational Development and Sustainability, Cameron McLean as General Manager – Commercial, and Tanya Pavez, who has been appointed as Group Manager – Human Resources. Further announcements are planned during Q1FY12.

## Copper Strike – Einasleigh Project

As outlined above, during the Quarter Kagara made a conditional offer to Copper Strike Limited (ASX: CSE) to enter into a definitive agreement by 1 August 2011 to purchase CSE's Einasleigh Project for total consideration comprising \$16M in cash and the cancellation of Kagara's 17.5% shareholding in CSE. If an agreement is finalised, the Board of CSE will recommend the sale of the Project to Kagara to its shareholders without qualification in the absence of a superior proposal.

## Admiral Bay, WA

Kagara has appointed Rothschild as its financial advisor to assist with the introduction a new equity partner into Admiral Bay and funding of the Admiral Bay Bankable Feasibility Study. Indicative proposals will be solicited in the coming months, with final binding agreements expected to be executed during H1FY12

## **FINANCIAL**

### Cash Flows

Consolidated cash on hand as at 30 June 2011 was A\$56.5M. Of the consolidated cash, KZL's contribution is A\$25.3M with MUX at A\$31.2M. Receivables at 30 June 2011 were A\$24.3M.

As at 30 June 2011, the Company had 20,517t of concentrate stockpiles on hand (31 March 2011: 16,329t) and yet to be invoiced. These concentrate stockpiles comprised 10,272t of copper concentrate, 8,709t of zinc concentrate and 1,536t of lead concentrate which have a sales value of approximately A\$21M based on the closing base metal prices as at 30 June 2011. The average US\$ exchange rate realised during the Quarter was A\$1.06.

### Investments

#### *Mungana Goldmines Ltd*

Kagara holds a 62.1% interest in Mungana Goldmines Ltd (ASX: MUX), following the IPO in June 2010, which is consolidated into the group financial accounts.

#### *Copper Strike Limited*

Kagara holds a 17.5% interest in Copper Strike Limited (ASX: CSE).

### Hedging

#### *Forward Sales Contracts*

As at 30 June 2011, the Company had sold forward 10,750t of copper at an average weighted forward price of US\$9,152/t (US\$4.17/lb) for delivery from July 2011 to September 2011, 100t of nickel at an average weighted forward price of US\$22,678/t (US\$10.28/lb) for delivery from August 2011 to September 2011. As at 30 June 2011, the Company has sold US\$ currency forwards of US\$10.3M at an average weighted forward exchange rate of \$1.01 for delivery from August 2011 to November 2011.

### Finance

The Company's corporate banking facilities with ANZ include a leasing facility of A\$12.9M and a guarantee facility of A\$27M with A\$22M of performance bonds under the guarantee facility and A\$12.9M under the leasing facility being drawn down as at 30 June 2011.

Guangdong Guangxin Holdings Group Ltd (GGHG), has advanced Kagara A\$25M for the development of the Vomacka polymetallic deposit at Thalanga. A loan repayment of A\$5M was made during the quarter reducing the balance outstanding to A\$19M.

### Full Year Financial Results

Kagara's FY11 Financial Year Results will be released on 23 August 2011.

### Quarterly Investor Webcast and Teleconference

A teleconference will be held today (Wednesday, 13 July 2011) for investors and analysts **commencing at 11.00am (AEST) / 9.00am (WST)**. Investors, brokers and analysts can join the teleconference by dialling the following numbers:

<b>Within Australia:</b>	<b>1800 153 721</b>
<b>International:</b>	<b>+61-2 8212 8333</b>
<b>Audio Access Code:</b>	<b>962455#</b>



The Quarterly Report and an accompanying slide presentation will be available via the ASX Company Announcements Platform (Code: KZL), as well as at Kagara's website at [www.kagara.com.au](http://www.kagara.com.au).

In addition, a **live webcast of the teleconference and slide presentation** will also be available via the Boardroom Radio service Boardroom Radio.com and on the Company's website at [www.kagara.com.au](http://www.kagara.com.au).

A recording of the webcast and teleconference will also be available at Kagara's website at as well as at Boardroom Radio.



Geoff Day  
Managing Director and Chief Executive Officer  
13 July 2011

This information is available on our website at [www.kagara.com.au](http://www.kagara.com.au)

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## **Appendix 1 – Corporate Information**

### **Board Members**

Kim Robinson	Chairman
Geoff Day	Managing Director and CEO
Joe Treacy	Executive Director
Flavio Garofalo	Finance Director
Shad Linley	Non-Executive Director
Ross Hutton	Non-Executive Director
Mark Ashley	Non-Executive Director
Mark McConnell	Non-Executive Director
David Peterson	Company Secretary

### **Registered & Principal Office**

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### **Forward Shareholder**

#### **Enquiries to**

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Website: [www.securitytransfer.com.au](http://www.securitytransfer.com.au)

### **Substantial Shareholder(s) at 7 June 2011 ('000)**

GFTG Shengtou Metals Pty Ltd	133,777
JP Morgan Asset Management	39,898
Perennial Value Management	38,813
De Bortoli Family	36,527
Strategic Investment Advisors Group	30,792
Korea Zinc Co Ltd	29,529
AusBil Dexia	27,499
Mr Kim Robinson	23,111
Dimensional Fund Advisors	20,477
Transaminvest	19,105

### **Issued Share Capital**

At 30 June 2011 issued capital was 708.58M ordinary shares.

### **Stock Exchange Listings**

Australian Stock Exchange (KZL)

### **Quarterly Share Price Activity**

	High	Low	Last
	\$	\$	\$
Apr-Jun2011	0.67	0.51	0.57

### **Corporate ASX Releases During the Quarter**

11.4.11	Quarterly Activity Report – March 2011	30.6.11	Diversity Policy adopted by Board 28 June 2011
11.4.11	Investor Power Point Presentation		
11.4.11	Boardroom Radio Presentation – Geoff Day		
12.5.11	Kagara to Mine Baal Gammon Cu Deposit under Strategic Alliance with Monto Minerals		
17.5.11	Maiden 32,000 Cu Resource for Griffiths Hill		
18.5.11	Appendix 3B – ESOP options cancelled		
26.5.11	Form 603 Becoming Substantial S/H – De Bortoli		
20.6.11	Letter to CSE Shareholders		

## **Appendix 2 – Competent Person’s Statement and Important Information**

### **COMPETENT PERSON’S STATEMENT:**

#### **Compliance with JORC Code assessment criteria**

*The Mineral Resource Statements have been compiled in accordance with the guidelines defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code, 2004 Edition).*

*All information in this Statement which relates to Mineral Resources is based on, and accurately reflects reports prepared by the persons named below. All of the persons listed are Members of the Australasian Institute of Mining and Metallurgy or the Australian Institute of Geoscientists and have the necessary experience relevant to the style of mineralisation, the type of deposit and the activity undertaken to qualify as a ‘Competent Person’ under the JORC Code, 2004.*

<b>Area of Responsibility</b>	<b>Competent Person</b>
West 45 resource estimate	Mr Andrew Beaton
Orient resource estimate	Senior Geologist, Kagara Ltd
Balcooma resource and reserve estimate	Ian Hodgkinson, Chief Mine Geologist, Kagara Ltd
Reporting of exploration results	Mr Joe Treacy Executive Director, Kagara Ltd
Griffiths Hill Copper Zone resource estimate	Ian Hodgkinson, Chief Mine Geologist, Kagara Ltd

### **FORWARD-LOOKING STATEMENT:**

*This release contains certain forward-looking statements. Examples of forward-looking statements used in this release include:*

*“This confirms the potential of the Company’s assets to significantly ramp-up zinc production in the future.”*

*These forward-looking statements are subject to a variety of risks and uncertainties beyond the Company’s ability to control or predict which could cause actual events or results to differ materially from those anticipated in such forward-looking statements.*

*This report does not include reference to all available information on the Company or its projects and should not be used in isolation as a basis to invest in Kagara Ltd. Any potential investors should refer to Kagara Ltd’s other public releases and statutory reports and consult their professional advisers before considering investing in the Company.*

### **JORC – EXPLORATION TARGETS**

*It is common practice for a company to comment on and discuss its exploration in terms of target size and type. The information in this Quarterly Report relating to exploration targets should not be misunderstood or misconstrued as an estimate of Mineral Resources or Ore Reserves. Hence the terms Resource(s) or Reserve(s) have not been used in this context. The potential quantity and grade is conceptual in nature, since there has been insufficient work completed to define them beyond exploration targets and that it is uncertain if further exploration will result in the determination of a Mineral Resource.*

**Appendix 3 – Quarterly Mining and Production Tables**
**Mining Production – all operations**

		June 2011 Quarter	12 months to June 2011
<b>Thalanga (Vomacka open pit)</b>			
Polymetallic ore	t	139,659	348,127
Copper (Cu)	%	1.7	2.0
Zinc (Zn)	%	3.5	3.2
Lead (Pb)	%	2.0	1.6
<b>Balcooma</b>			
Copper ore	t	128,197	461,007
Copper (Cu)	%	3.3	3.8
Polymetallic ore	t	32,918	52,988
Copper (Cu)	%	0.8	0.7
Zinc (Zn)	%	6.2	6.2
Lead (Pb)	%	3.1	3.0
<b>Mt Garnet</b>			
Polymetallic ore	t	55,125	250,075
Copper (Cu)	%	0.3	0.4
Zinc (Zn)	%	7.8	9.0
Lead (Pb)	%	0.1	0.1
<b>Mungana</b>			
Polymetallic ore	t	61,242	227,365
Copper (Cu)	%	1.5	1.8
Zinc (Zn)	%	8.9	9.6
Lead (Pb)	%	0.7	0.7
<b>Lounge Lizard</b>			
Nickel ore	t	13,331	48,628
Nickel (Ni)	%	4.10	3.6

**Mt Garnet Polymetallic Plant Production**

PRODUCTION RESULTS	June 2011 Quarter	12 months to June 2011
<b>Ore Treated</b>		
Ore treated (t)	<b>116,722</b>	452,644
Zinc grade (%)	<b>10.46</b>	8.1
Lead grade (%)	<b>0.6</b>	0.4
Copper grade (%)	<b>1.3</b>	1.1
Gold grade (g/t)	<b>0.5</b>	0.4
Silver grade (g/t)	<b>54.9</b>	41
<b>Zinc Concentrate</b>		
Production (t)	<b>22,764</b>	67,864
Grade (% Zn)	<b>50.0</b>	49.4
Contained zinc (t)	<b>11,372</b>	33,552
Zinc Recovery (%)	<b>93.2</b>	90.3
<b>Lead Concentrate</b>		
Production (t)	<b>473</b>	1,480
Grade (% Pb)	<b>52.1</b>	44.0
Contained lead (t)	<b>248</b>	650
Contained silver (t)	<b>0.8</b>	2.0
Contained gold (kg)	<b>1.0</b>	5.9
Lead Recovery (%)	<b>36.9</b>	33.1
<b>Copper Concentrate</b>		
Production (t)	<b>4,880</b>	16,346
Grade (% Cu)	<b>23.2</b>	23.3
Contained copper (t)	<b>1,133</b>	3,813
Contained silver (t)	<b>4.6</b>	10.9
Contained gold (kg)	<b>17.7</b>	52.2
Copper recovery (%)	<b>75.6</b>	78.0

**Mt Garnet Copper Plant Production**

PRODUCTION RESULTS	June 2011 Quarter	12 months to June 2011
<b>Ore Treated</b>		
Ore treated (t)	<b>126,801</b>	493,828
Copper grade (%)	<b>3.4</b>	3.3
Gold grade (g/t)	<b>13.0</b>	13.2
Silver grade (g/t)	<b>0.2</b>	0.2
<b>Copper Concentrate</b>		
Production (t)	<b>16,856</b>	62,896
Grade (% Cu)	<b>25.1</b>	25.1
Contained copper (t)	<b>4,230</b>	15,790
Contained silver (t)	<b>1.5</b>	5.2
Contained gold (kg)	<b>11.6</b>	43.7
Copper recovery (%)	<b>97.4</b>	96.1

**Thalanga Polymetallic Plant Production**

PRODUCTION RESULTS	June 2011 Quarter	12 months to June 2011
<b>Ore Treated</b>		
Ore treated (t)	<b>121,227</b>	242,888
Zinc grade (%)	<b>6.6</b>	4.3
Lead grade (%)	<b>2.0</b>	1.6
Copper grade (%)	<b>1.9</b>	2.3
Gold grade (g/t)	<b>55.0</b>	49.0
Silver grade (g/t)	<b>0.3</b>	0.5
<b>Zinc Concentrate</b>		
Production (t)	<b>8,718</b>	13,040
Grade (% Zn)	<b>49.8</b>	50.4
Contained zinc (t)	<b>4,336</b>	6,573
Zinc recovery (%)	<b>91.7</b>	73.3
<b>Lead Concentrate</b>		
Production (t)	<b>995</b>	995
Grade (% Pb)	<b>39.2</b>	39.2
Contained lead (t)	<b>390</b>	390
Contained silver (t)	<b>0.5</b>	0.5
Contained gold (kg)	<b>2.0</b>	2.0
Lead recovery (%)	<b>84.2</b>	84.2
<b>Copper Concentrate</b>		
Production (t)	<b>2,822</b>	13,938
Grade (% Cu)	<b>20.2</b>	21.0
Contained copper (t)	<b>570</b>	2,927
Contained silver (t)	<b>0.2</b>	4.3
Contained gold (kg)	<b>2.0</b>	49.1
Copper recovery (%)	<b>77.6</b>	53.6



### Appendix 3 – Diagrams

Figure 1 – King Vol Vertical Longitudinal Projection

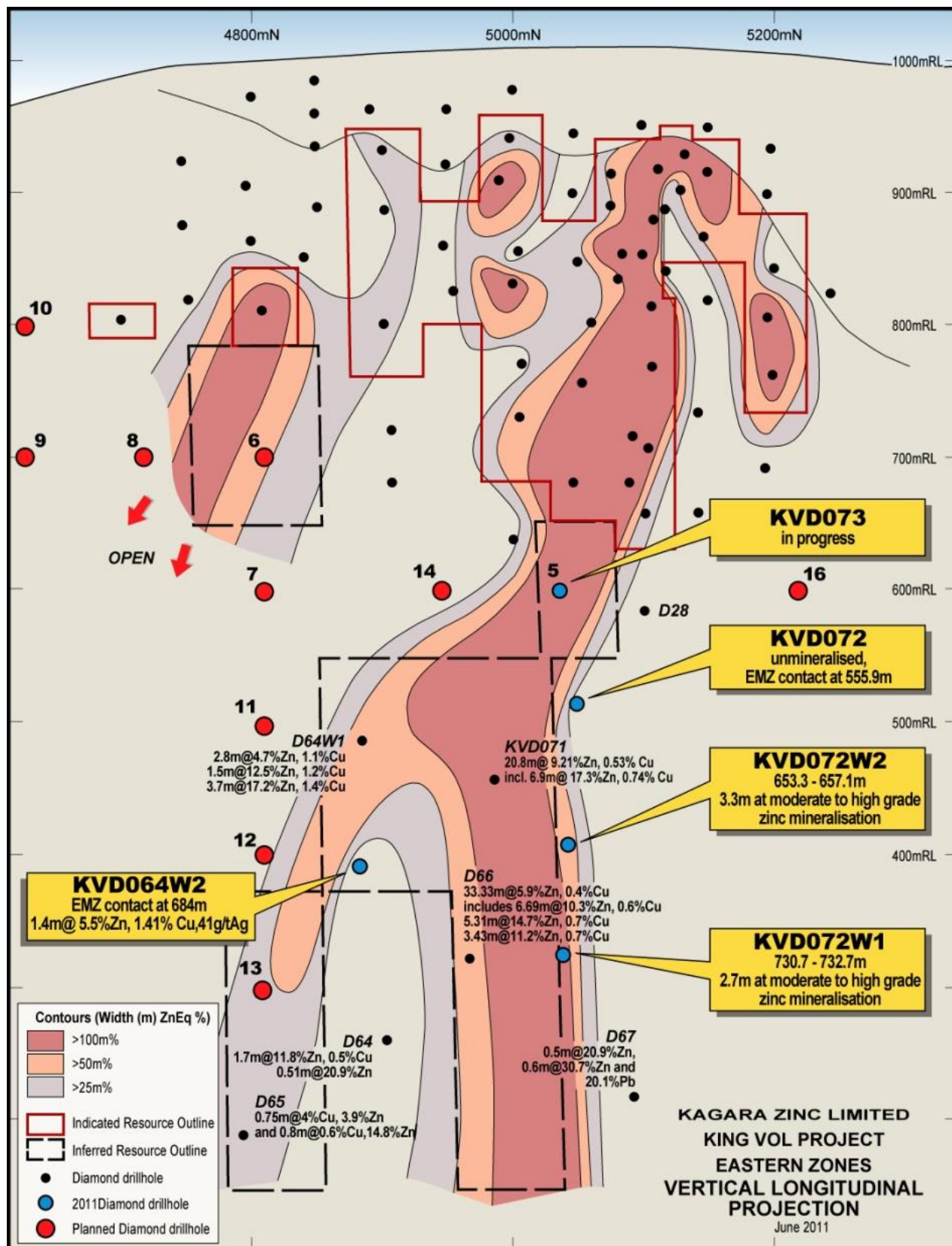
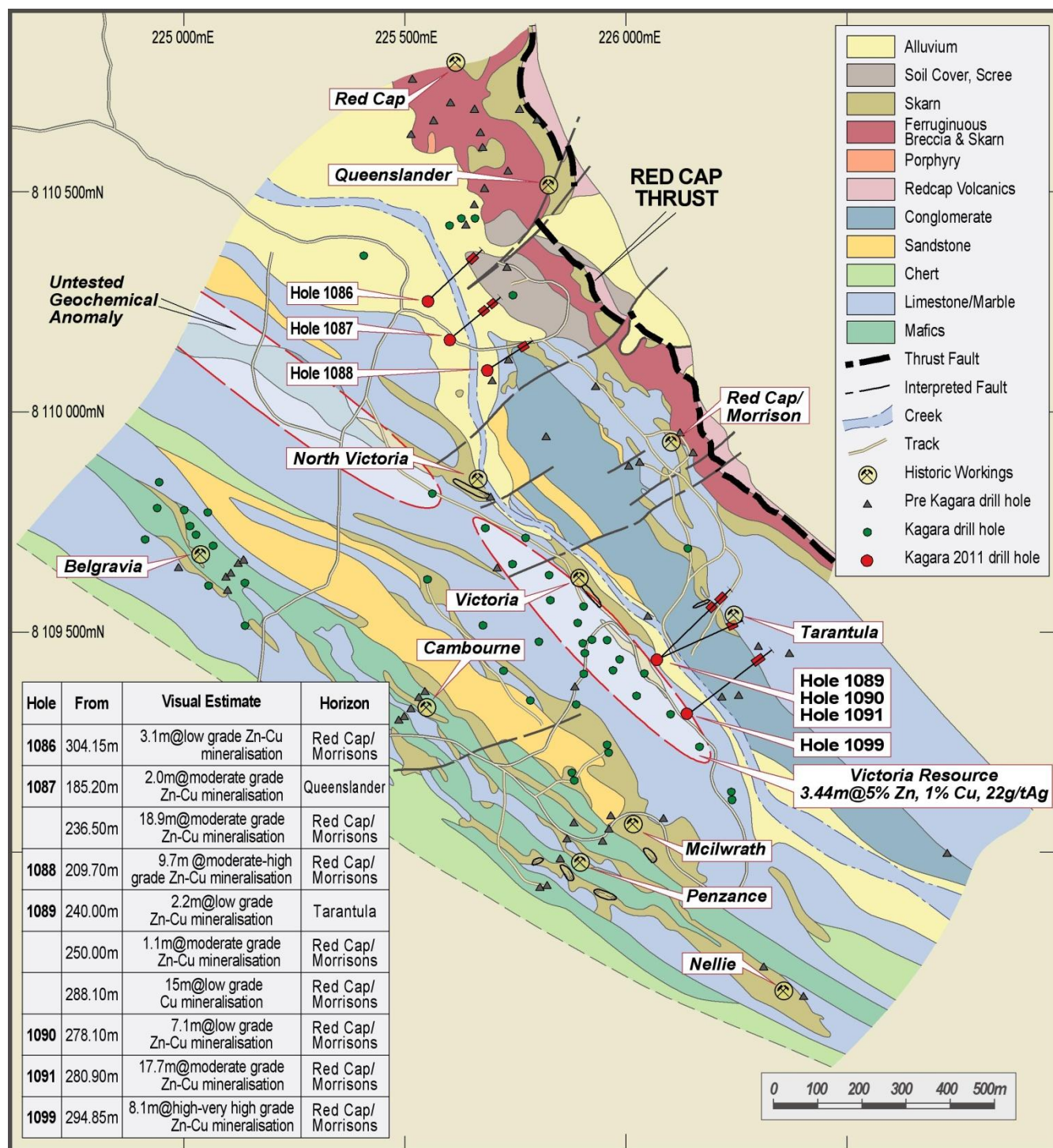


Figure 2 – Red Cap regional geology







## Appendix 4 – Supporting JORC Resource and Reserve Tables

### Balcooma Reserves & Resources

<b>Balcooma Main Copper Resource above 1.3% Cu</b>						
Resource Category	Tonnes	Cu %	Pb %	Zn z%	Ag (ppm)	Au (ppm)
Measured	607,797	3.48	0.1	0.23	14	0.02
Indicated	144,833	2.95	0.2	0.48	17	0.02
Inferred	16,553	2.10	0.1	0.14	13	0.02
<b>TOTAL RESOURCE</b>	<b>769,000</b>	<b>3.40</b>	<b>0.1</b>	<b>0.3</b>	<b>15</b>	<b>0.02</b>

<b>Mineral Resource – Balcooma Upper Lens</b>						
Resource Category	Tonnes	Cu %	Pb %	Zn z%	Ag (ppm)	Au (ppm)
Indicated	699,622	1.29	2.4	7.20	27	0.30
Inferred	74,257	1.56	1.1	3.03	26	0.33
<b>TOTAL CLASSIFIED RESOURCE</b>	<b>774,000</b>	<b>1.30</b>	<b>2.2</b>	<b>6.80</b>	<b>27</b>	<b>0.30</b>

<b>Mineral Resource – Balcooma Zinc (Lens 2)</b>						
Resource Category	Tonnes	Cu %	Pb %	Zn z%	Ag (ppm)	Au (ppm)
Inferred Poly Lens (above 275rl)	277,700	0.93	2.9	6.79	41	0.41
Inferred Copper Lens (below 275rl)	225,527	2.13	1.0	2.24	27	0.42
<b>TOTAL CLASSIFIED RESOURCE</b>	<b>503,000</b>	<b>1.50</b>	<b>2.0</b>	<b>4.8</b>	<b>35</b>	<b>0.41</b>

<b>Balcooma Copper Reserves</b>						
Reserve Category	Tonnes	Cu %	Pb %	Zn z%	Ag (ppm)	Au (ppm)
Balcooma Main Copper – Proved	237,000	3.29			13	0.06
Development Main Copper – Proved	51,000	2.12			8	0.03
Main Copper Additional Tonnage – Probable	160,400	2.13			~15	0.02
<b>TOTAL</b>	<b>448,000</b>	<b>2.70</b>			<b>13</b>	<b>0.05</b>

### Thalanga Resources

<b>ORIENT RESOURCE</b>						
<b>Massive Sulphide</b>						
Resource Category	Tonnes	Cu %	Pb %	Zn z%	Ag (ppm)	Au (ppm)
Indicated	267,000	1.00	3.0	12.9	59	0.18
Inferred	25,000	1.00	2.6	17.1	52	0.19
<b>TOTAL</b>	<b>292,000</b>	<b>1.00</b>	<b>2.9</b>	<b>13.3</b>	<b>58</b>	<b>0.18</b>
<b>Footwall Stringer</b>						
Indicated	228,000	0.80	0.4	1.6	27	0.20
Inferred	19,000	0.50	0.7	2.7	37	0.25
<b>Total</b>	<b>248,000</b>	<b>0.70</b>	<b>0.4</b>	<b>1.7</b>	<b>28</b>	<b>0.20</b>
<b>GRAND TOTAL</b>	<b>540,000</b>	<b>0.90</b>	<b>1.8</b>	<b>7.9</b>	<b>44</b>	<b>0.19</b>

<b>WEST 45 RESOURCE</b>						
Resource Category	Tonnes	Cu %	Pb %	Zn z%	Ag (ppm)	Au (ppm)
Indicated	585,000	0.60	3.6	8.3	70	0.30
Inferred	6,000	0.90	0.8	3.7	15	0.10
<b>TOTAL</b>	<b>591,000</b>	<b>0.60</b>	<b>3.5</b>	<b>8.3</b>	<b>69</b>	<b>0.30</b>