

**KAGARA LTD**  
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ASX/ Media Release

18 August 2011

## **STRATEGIC REVIEW UPDATE – INDEPENDENT REVIEW OF NICKEL POTENTIAL OF THE FORRESTANIA PROJECT, WA**

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Kagara Limited (ASX: KZL – “Kagara” or “the Company”) is pleased to provide an update on the results of an ongoing review of its 100%-owned **Forrestania Nickel Project** in Western Australia, including the Lounge Lizard nickel deposit.

The Company initiated an independent review of the nickel potential of the Forrestania Project in April as part of a comprehensive strategic review of all of its operations and assets which was announced to the market on 11 April 2011.

### **Key Nickel Potential Review Outcomes**

The key areas which the review focused on were the Lounge Lizard deposit and its immediate surrounds, as well as the larger regional tenement package at Forrestania, covering some 300 square kilometres. Key outcomes include:

- The Lounge Lizard deposit remains open along strike and at depth:
  - *the Lounge Lizard tenement has multiple nickel sulphide intersections close to the surface that are yet to be followed up;*
  - *1.15km of strike immediately south of Lounge Lizard remains unexplored; and*
  - *a high priority target associated with anomalous nickel and copper geochemistry and a coincident airborne electromagnetic (VTEM) anomaly has been identified underneath McMahons open pit, up dip from the Lounge Lizard deposit.*
- Highly prospective areas containing numerous exploration targets have been identified in the immediate vicinity of Lounge Lizard.
- Further review of the other Forrestania Nickel tenements has identified a wide range of areas with strong exploration potential:
  - *it is expected that further nickel sulphide drill targets will be identified as the various geophysical, geochemical and geological datasets for the tenements are synthesised.*

More detailed review outcomes are shown on the pages below.

## Review Methodology Detail

The review was led by independent geological consultant Steve Vallance, who was previously Chief Exploration Geologist at Australian nickel sulphide producer Jubilee Mines NL. Mr Vallance – who has significant experience in the exploration and development of nickel deposits – worked closely with Kagara staff during the review in interpreting the geological environment of the Lounge Lizard deposit.

The review has focused on two main areas: the Lounge Lizard deposit and its immediate environs; and the larger regional tenement package at Forrestania, which covers a total area of some 300 square kilometres (see Figure 1).

This review, which is ongoing, includes data from a recently completed helicopter-borne electromagnetic survey as well as different databases, reflecting the work of previous exploration over a period of 40 years.

This historic data has now been combined and validated for the first time, enabling Kagara to develop a detailed and comprehensive understanding of the broader geological potential of their Forrestania nickel tenements. It is expected that further nickel sulphide drill targets will be identified as the various geophysical, geochemical and geological datasets are synthesised.

## Initial Review Findings

### Lounge Lizard

- The current interpretation of the boundaries of Lounge Lizard deposit is still evolving and the deposit is not closed off, either along strike or at depth (see Figure 2 over the page).
- There has been no effective deep drilling south of 27650mN and, consequently, 1.15 kilometres of strike immediately south of the Lounge Lizard/Flying Fox deposits remains unexplored.
- The Lounge Lizard tenement has multiple historical nickel sulphide intersections close to surface that have not been followed up, e.g. 1.1m @ 8.8% Ni from 169m in FFD074 (see Figure 2), 16m @ 0.7% Ni including 1m @ 2% Ni from 220.8m in FFD034 (see Table 1 attached for full details of these historic drilling results).
- Near-surface nickel exploration immediately south of the tenement boundary has been neglected in the past as a result of the exploration effort at the time focusing on the high-grade gold mineralisation which was partially mined from the Flying Fox, McMahons and Lounge Lizard open pits.
- A high priority anomaly has been identified from an airborne EM survey recently completed by Kagara's geophysical consultants. This anomaly is situated beneath the McMahons open pit and is associated with anomalous nickel and copper geochemistry and coincident ground EM anomalies (see Figure 2 over the page).
- Three high priority down-hole EM anomalies – two of which, T2 and T7, are described as strong targets – remain to be tested at Lounge Lizard (see Figure 3 over the page).

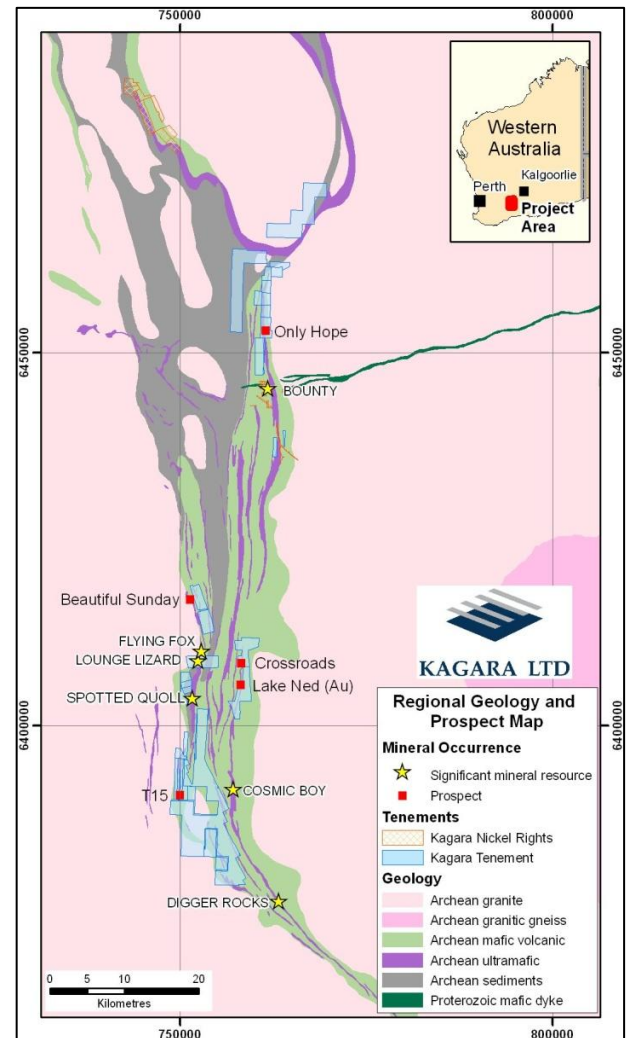


Figure 1 – Forresteria Nickel Project, tenements and prospects

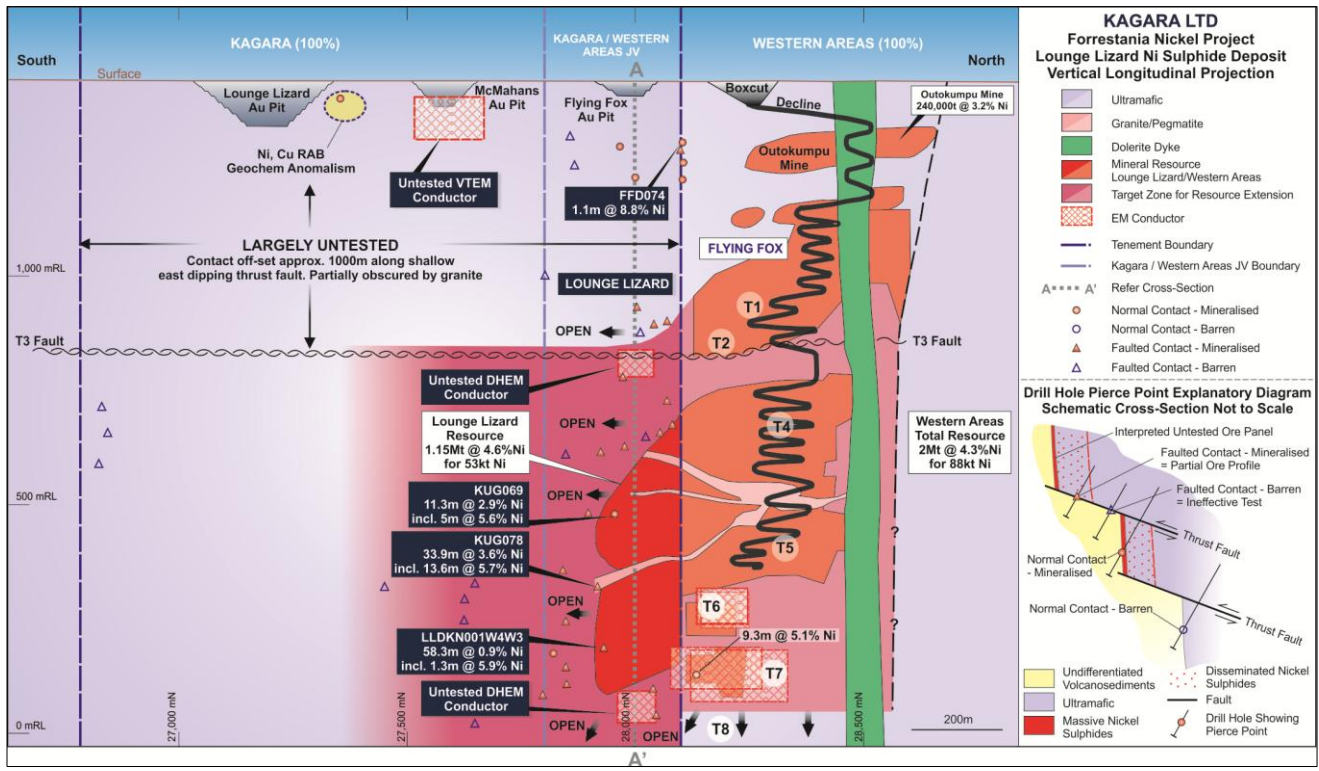


Figure 2 – Lounge Lizard nickel deposit, vertical longitudinal projection

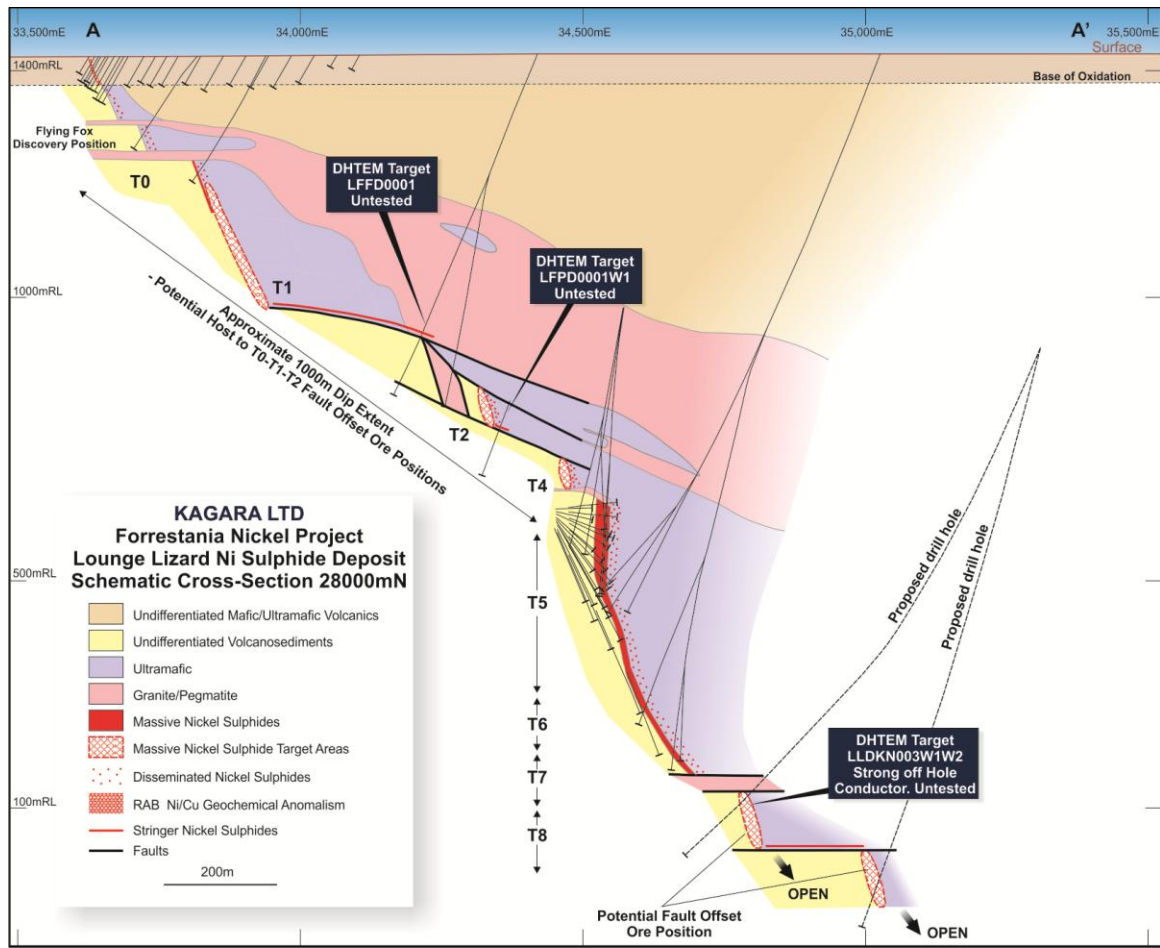


Figure 3 – Lounge Lizard nickel deposit, schematic cross-section

## **Regional Tenements – Exploration Potential**

- At Marmalade Skies, the T15 Prospect has a strong VTEM (Versatile Time Domain Electro-magnetic) conductor coincident with an ultramafic unit with highly elevated nickel-copper geochemistry. Contacts on this ultramafic unit have not been tested.
- At the Only Hope prospect, drilling beneath highly anomalous nickel-copper RAB geochemistry has identified both basal and hangingwall nickel sulphide mineralisation. Basal nickel sulphide mineralisation (7m @ 0.7% Ni from 73m including 1m @ 1.2% Ni from NEP038) has been inadequately tested at depth and along strike/down-plunge and hangingwall mineralisation (25m @ 0.6% Ni and 163 ppm Cu from 20m including 4m @ 1.2% Ni from 32m from NEP880) has never been followed up (*see Table 1 attached for full details of these historic drilling results*). The 2011 VTEM survey identified a conductor coincident with an aeromagnetic embayment 1km to the north of Only Hope which requires follow up.
- Additional drilling is required to follow up the highly prospective Western Ultramafic Belt (WUB) basal contact and associated hangingwall sulphide mineralisation down-dip from WSA's Beautiful Sunday deposit. An untested FLTEM (Fixed Loop Transient Electro-magnetic) anomaly on the contact also requires follow up.
- At the Crossroads Prospect, additional exploration of the basal contact of the Eastern Ultramafic Belt is required to follow up stringer nickel sulphide mineralisation intersected by historical drilling (0.25m @ 2.8% Ni from 65.4m in WCD05 – *see Table 1 attached for full details*). A ground EM anomaly over the Mid-Eastern Ultramafic Belt (MEUB) also requires follow up.
- Completion of a systematic review and interpretation of past exploration data and systematic completion of regional geophysical and stratigraphic drilling programs is warranted to advance exploration away from historical prospects. There is a significant opportunity to discover additional nickel sulphide resources through follow-up of other identified nickel prospects comprising known sulphide mineralisation and associated EM conductors, as well as through systematic data compilation and regional exploration
- The Forrestania Project also includes the Flying Fox, McMahons and Lounge Lizard gold deposits on tenement M77/545. This mineralisation is currently under review by Kagara. The Project also includes the small Lake Ned gold deposit on the Crossroads South tenement.
- The conclusion that the Lounge Lizard deposit remains open to the south along strike and at depth is amply illustrated on the Figures 4 and 5 below:
  - *Figure 4 shows a composite geological interpretation of the original drilling on section 27975mN. Eight diamond drill holes were interpreted to define a fault-bounded zone of disseminated nickel mineralisation, with hole LFPD025 returning the only massive nickel sulphides, some 40m above the basal contact and originally dismissed as insignificant.*
  - *Figure 5 shows the same section after thirteen underground drill holes were completed and reflects the enhanced geological understanding of the geological and structural environment of the Lounge Lizard deposit. Section 27975mN now emerges as a well developed extensive nickel sulphide deposit comprising a thick profile of disseminated nickel sulphides underlain by significant high grade basal contact massive nickel sulphides.*
- All holes which currently constrain the Lounge Lizard deposit are now interpreted to have intersected faulted contacts and as a consequence provide an ineffective test of the target horizon. The deposit remains open to the south on all levels and at depth.

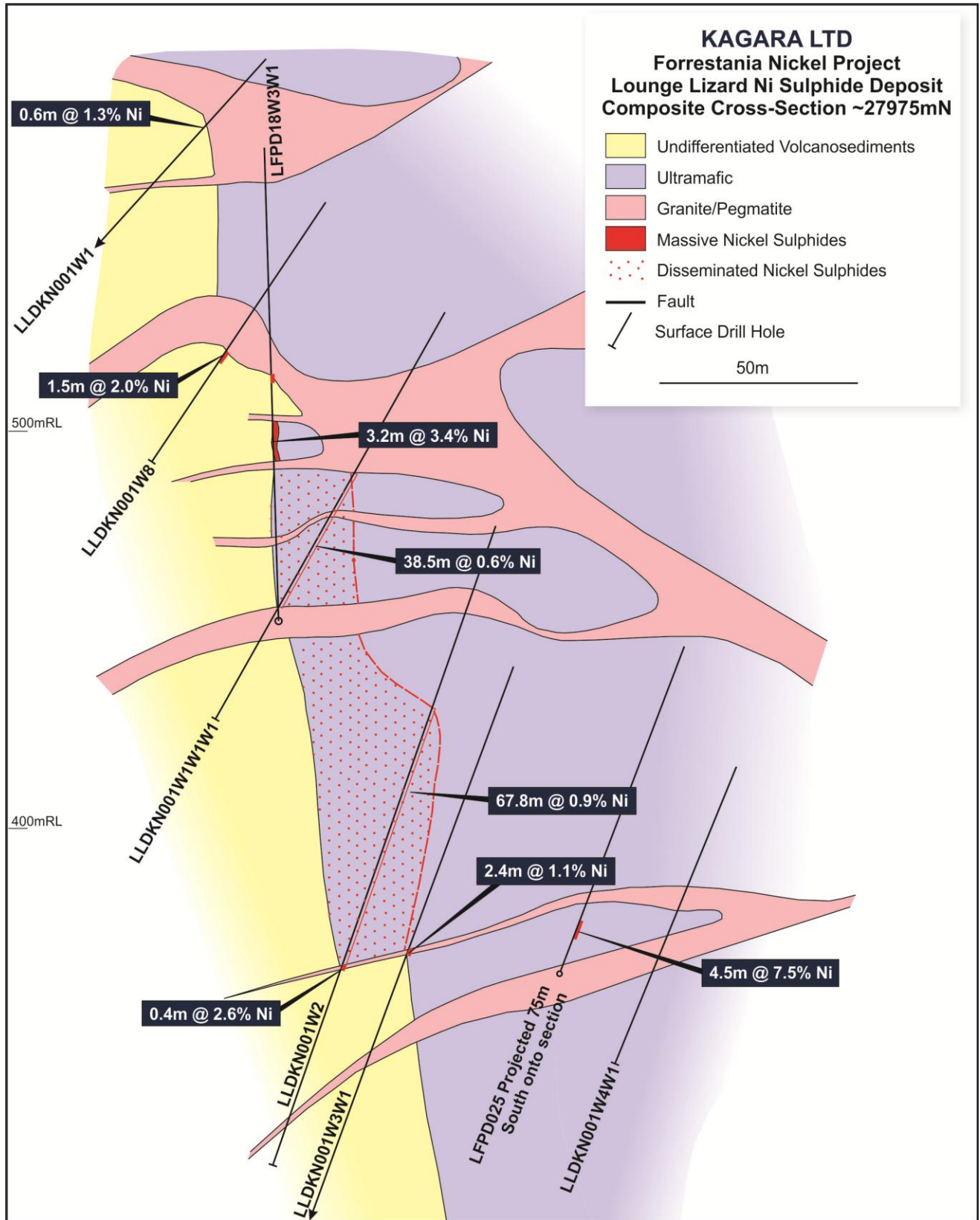


Figure 4 – Forrestania Nickel Project, composite cross-section

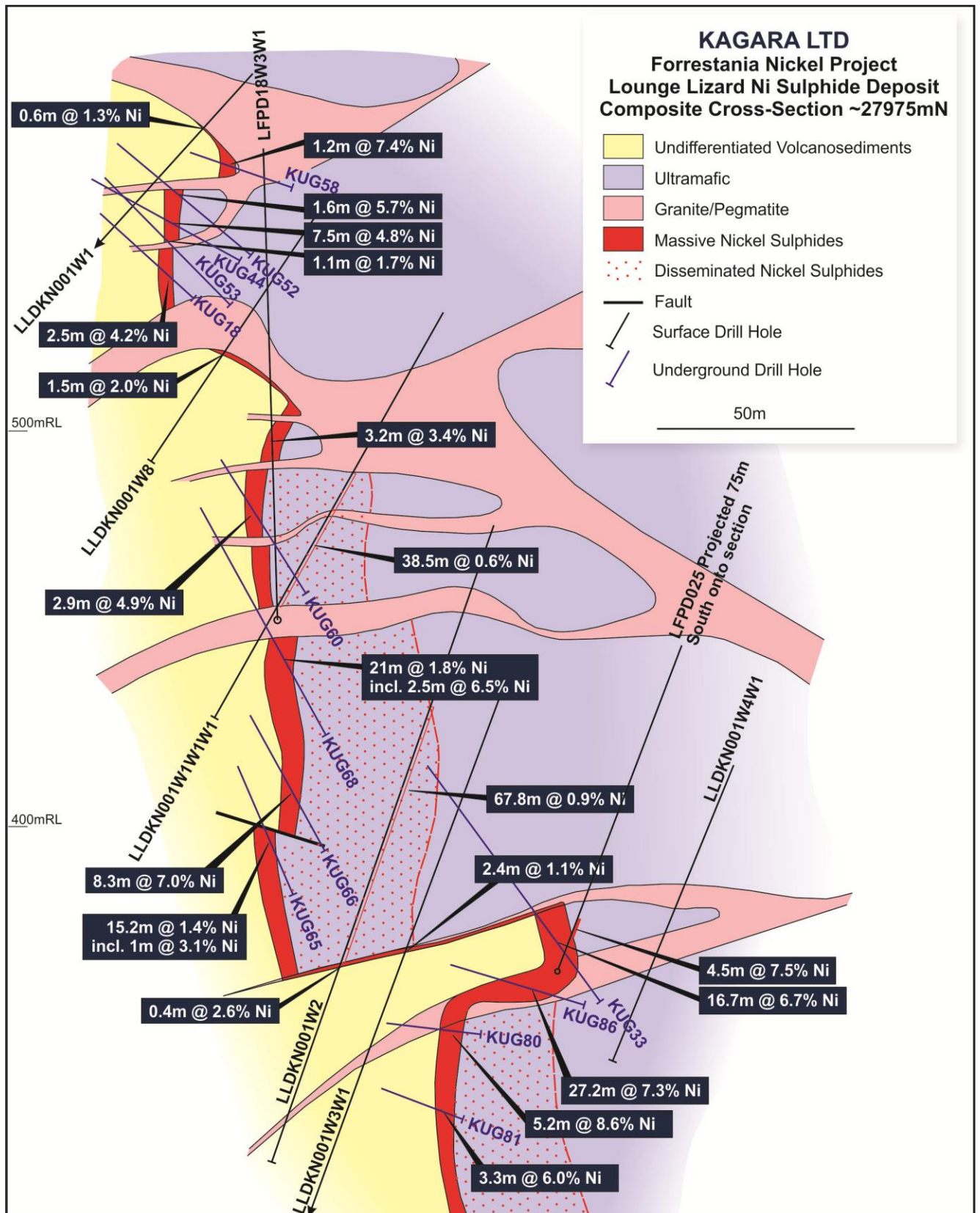
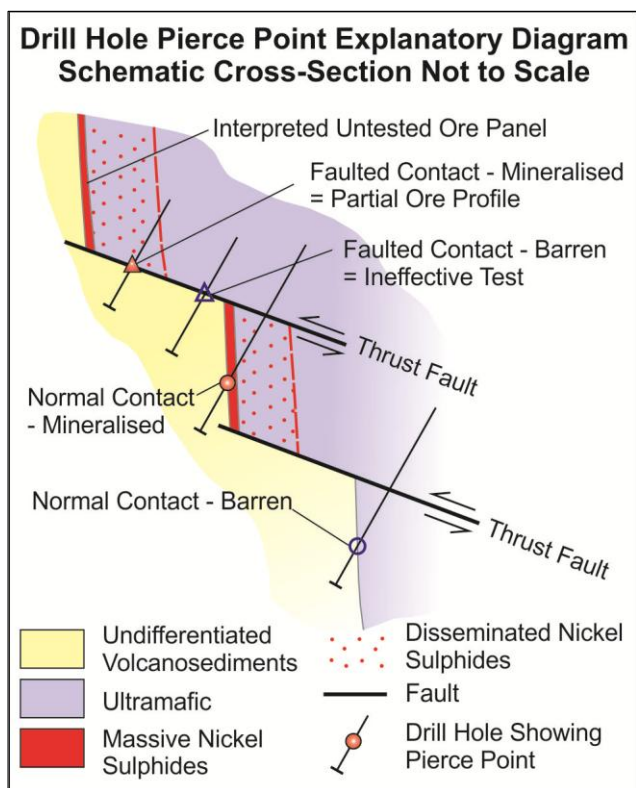


Figure 5 – Forrestania Nickel Project, composite cross-section

This geological concept is illustrated on Figure 6 below.



**Figure 6 – Lounge Lizard, schematic cross-section showing geological concept**

The review of the Forrestania Nickel Project is ongoing with data from the recently completed helicopter-borne electromagnetic survey still to be interpreted.

The amalgamation of historical exploration databases for the Forrestania Project represents an important milestone for the Project and is consistent with Kagara's commitment to fully evaluate the potential of all of its mineral assets in North Queensland and Western Australia.

Kagara will update the market on the outcomes of the strategic review of all its operations and assets in due course.

**ENDS**

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**Competent Person's Statement**

*This Announcement, so far as it pertains to exploration results, ore and mineralisation, is based on information compiled by and as reported upon by Mr Joe Treacy, a full-time employee of Kagara, and Mr Steve Vallance, who are members of the Australasian Institute of Mining and Metallurgy or the Australian Institute of Geoscientists and have over five years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activities which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Treacy and Mr Vallance consent to the inclusion in the Announcement of the matters based on their information in the form and context in which it appears.*

**Table 1 – Summary of historical drilling, Lounge Lizard Nickel Project**

Hole No	Northing	Easting	Azimuth	Dip	Intersection
FFD074					1.07m @ 8.8% Ni from 169m
FFD034	28101	33939	270°	-65°	16m @ 0.7% Ni from 220.8m <i>including</i> 1m @ 2% Ni
NEP038	20180	42600	90°	-90°	7m @ 0.7% Ni from 73m <i>including</i> 1m @ 1.2% Ni
NEP880	41800	19950	90°	-90°	25m @ 0.6% Ni and 163ppm Cu from 20m including 4m @ 1.2% Ni from 32m
WCD05	6408500	758256	90°	-51°	0.25m @ 2.8% Ni from 65.4m