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Company Announcement Office
Australian Stock Exchange Ltd
4th Floor, 20 Bridge Street, Sydney NSW

ASX code: MUX

Mungana on track to launch North Queensland zinc strategy

Highlights

- **Shareholders approve the acquisition of the Chillagoe base metal assets** from Kagara Limited (in Liquidation) at today's EGM, clearing the way for the transaction to be completed by early August.
- Consideration includes the **issue of two convertible notes for \$7.5M each**.
- Cornerstone asset at Chillagoe is the **advanced, high-grade King Vol zinc deposit** (JORC 2004 Indicated Resource of 899,000t at 16% Zn, 0.9% Cu, 0.9% Pb and 42g/t Ag and Inferred Resource of 1.86Mt at 9.9% Zn, 0.6% Cu, 0.4% Pb and 24g/t Ag).
- King Vol is located close to the **partially completed base metals concentrator**, providing a near-term pathway to production.
- Technical studies to commence immediately to upgrade the **existing King Vol Mineral Resource to JORC 2012 standards**, alongside exploration to **expand the resource down-plunge and along strike**. This work will lay the foundations for a feasibility study targeting development in the medium term.

Mungana Goldmines Ltd (ASX: MUX – “Mungana” or “the Company”) is set to move ahead with its North Queensland zinc strategy after its shareholders today overwhelmingly approved the previously announced **\$15 million acquisition** of a portfolio of base metal assets, from the Liquidators of Kagara Ltd.

The transformational acquisition, which is now expected to be completed by 31 July 2014, puts Mungana on track to become a significant new player in the Australian zinc industry over the next few years. The high quality portfolio being acquired includes one of Australia's highest grade undeveloped zinc deposits, the King Vol Project.

Transaction Overview

Today's positive vote satisfies the last of the Conditions Precedent to the previously announced agreement with Kagara Limited (in Liquidation) to acquire the Northern Region base metal and gold assets, located around Chillagoe, 210km west of Cairns in North Queensland.

The consideration is \$15 million, payable through the issue of two Secured Convertible Note instruments for \$7.5 million each. The first instrument is automatically convertible at 10 cents per share upon payment of all duty on the acquisition (and is therefore expected to convert shortly after completion of the acquisition) and the second is convertible at 20 cents per share at the election of the note holder at any time up to five years from the date of issue of the instrument. The parties also agreed to release each other from obligations under the Gold Rights Agreement and that the agreement will settle all outstanding claims between KZL, MPL and MUX.

Interest on the convertible notes is at 7.5% payable in cash or shares at Mungana's election. The notes are redeemable at the option of Mungana at any time prior to conversion. The obligations under the convertible notes will initially be secured over all of the assets in the Chillagoe region including the gold rights, but once the first tranche notes are converted (which is expected to occur shortly after completion of the acquisition), the security will be released.

Following completion, Mungana will have 100% ownership of a high quality portfolio of emerging zinc assets in the prospective Chillagoe region, as well as the Mungana Gold Project (following termination of the Gold Rights Agreement).

High Quality Zinc Portfolio

The key asset within the Chillagoe portfolio is the King Vol zinc deposit, a high-grade undeveloped zinc project which includes a JORC 2004 Indicated Resource of 899,000 tonnes grading 16% Zn, 0.9% Cu, 0.9% Pb and 42g/t Ag for 144,000 tonnes of contained zinc and an Inferred Resource of 1.86Mt grading 9.9% Zn, 0.6% Cu, 0.4% Pb and 24g/t Ag for 184,000 tonnes of zinc. The King Vol resource is shown in Table 1 below:

Table 1 – King Vol Mineral Resource¹

Deposit	Category	Type	Tonnes	Zn%	Pb%	Cu%	Au g/t	Ag g/t
King Vol	Indicated	Fresh	899,000	16.0	0.9	0.9	0.0	42
	Inferred	Fresh	1,858,000	9.9	0.4	0.6	0.0	24
Total			2,757,000	11.9	0.6	0.7	0.0	30

The King Vol deposit remains open along strike in both directions and at depth, and offers significant potential to expand the higher grade core (10-20% Zn). In addition, there are numerous advanced near-mine exploration targets such as Rusty File (just 500m from King Vol) and Montevideo.

Mungana believes that King Vol has the potential to underpin a significant new zinc development with strong economics due to its high grade, combined with outstanding near-mine and regional growth potential, exploration upside and a low-cost pathway to production.

¹ Refer to Note 1

Regional Exploration Portfolio

In addition to King Vol, the Chillagoe assets also contain proven polymetallic potential, with numerous base metal and gold deposits already defined. Satellite deposits include Griffiths Hill, Penzance and Red Cap.

The existing partially-constructed base metals concentrator near King Vol has flotation capacity to produce zinc, copper and lead concentrates.

In addition, the acquisition results in direct ownership of the Red Dome and Mungana porphyry deposits, which has a current 2004 JORC resource of 2.7 million ounces of gold, 273,000 tonnes of copper and 34 million ounces of silver.²

A detailed outline of the Chillagoe zinc, copper and gold assets is provided in a presentation which was lodged separately on the ASX today.

Proposed Mungana Exploration Programs

Following completion of the acquisition, Mungana plans to embark on a focused exploration program with the following objectives:

- Technical studies to upgrade the existing King Vol JORC 2004 Mineral Resource to JORC 2012 status;
- Drilling targeting extensions to the high-grade core within the King Vol deposit (10-20% Zn);
- Drilling targeting potential extensions along strike and down-plunge of the King Vol deposit;
- Carrying out an IP survey to identify potential blind base metal targets within a 500m-1km radius of King Vol;
- Drill testing near-mine exploration opportunities such as Rusty File and Montevideo; and

This work will lay the foundations for feasibility and development studies over the next 12 to 18 months. Mungana has retained one of Kagara's former senior geology managers, Andrew Beaton, as a consultant to assist with overseeing the design and implementation of these programs.

Zinc Market Outlook

Zinc has one of the most favourable supply/demand outlooks of any commodity over the next few years due to the recent or imminent closure of numerous major mines representing some 11% of current global production.

These include Brunswick (closed 2013), Perseverance (closed 2013), Lisheen (closing 2014), Century (closing 2015), Paragashu (closing 2015) and Skorpion (closing 2016).

Having fluctuated around US\$1,900 a tonne for most of last year, zinc prices started to increase at the end of 2013 and have continued to surge upwards for most of this year. Prices are currently around US\$2,300 a tonne, up 22% since December. Stock levels have also declined, down 46% since January 2013 and by 30% since the beginning of 2014.

² Refer to Note 2

Management Comment

Mungana's Chairman Mr Joe Treacy said the completion of the Chillagoe acquisition marked the beginning of an exciting new chapter for Mungana.

"This is a transformational deal for Mungana, positioning us with outstanding, high-grade, high quality assets in the zinc-copper space, with the added bonus of having a large porphyry gold-copper asset at Red Dome," he said.

"We are looking forward to hitting the ground running, with exploration programs set to commence at King Vol within 4-6 weeks. Our objective is to advance this deposit towards development as quickly as we can to take advantage of the outstanding market fundamentals for zinc," Mr Treacy added.

ENDS

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Additional Information

Note 1:

The information pertaining to the King Vol mineral resource was extracted from the report entitled "March 2012 Quarterly Activity Report" dated 1 May 2012. This report is available to view at www.asx.com.au. The information for the project was first disclosed by Kagara Ltd under the JORC code 2004. It has not been updated since to comply with the JORC code 2012 on the basis that information has not materially changed since it was last reported.

Note 2:

The information pertaining to the Red Dome and Mungana mineral resources was extracted from the report entitled "Annual Report to Shareholders" dated 29 October 2013. This report is available to view on the Company's web site at www.munganagoldmines.com.au and at www.asx.com.au. 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.

Disclaimer

In this report reference is made to the King Vol deposit. The Company wishes to advise the market that the information pertaining to the King Vol mineral resource estimate was prepared and first disclosed by Kagara Ltd under the JORC code 2004 in the report entitled

“March 2012 Quarterly Activity Report” released on 1 May 2012. The Company is reliant on the veracity of the King Vol resource previously published by Kagara and is currently conducting work to verify each of the mineral resources contained in the Chillagoe base metal acquisition, with the intention of publishing them under the JORC code 2012.

Forward-looking information is no guarantee of future performance and, accordingly, investors are cautioned not to put undue reliance on forward-looking information due to the inherent uncertainty therein. Forward-looking information is made as at the date of the announcement and the Company disclaims any intent or obligation to update publicly such forward-looking information, whether as a result of new information, future events or results or otherwise.