



## KAGARA LTD

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### **Kagara Delivers Positive Pre-Feasibility Study for Admiral Bay Lead-Zinc-Silver Project, Western Australia**

#### **HIGHLIGHTS**

- **Pre-feasibility Study completed by RSV Australia for initial 2.5mtpa operation.**
- **Forecast revenue of A\$4.964 billion over an initial 10.2 year mine life.**
- **Forecast production of over 1.5 million tonnes of lead concentrate and 1.5 million tonnes of zinc concentrate.**
- **Net cash flow of A\$675M after capital payback of A\$997M in under four years with IRR of 12.5%.**
- **NPV of A\$159.8M for a 2.1 kilometre strike length of Admiral Bay deposit, representing approximately 10% of overall potential.**
- **Bankable Feasibility Study estimated to cost A\$184.5M and will include sinking an exploration shaft to 1,428m to drill a 1.2km section of the deposit to reserve status.**

Kagara Ltd (ASX: KZL) is pleased to report positive results from a recently completed Pre-feasibility Study (PFS) for its 100%-owned Admiral Bay Lead-Zinc-Silver-Barite Project, located in Western Australia's Kimberley region.

The PFS, which was undertaken by leading project management and engineering group RSV Australia Pty Ltd, has confirmed that Admiral Bay is a world-class project, with the potential to become one of the largest producers of lead and zinc in the world.

The development would be well timed to take advantage of a forecast supply shortfall in the zinc market, with a number of leading analysts forecasting that a significant amount of mine supply will close over the next five years leading to market deficits of up to 5% by 2014.

Kagara expects to move to a full Bankable Feasibility Study (BFS) for development of the Project, with funding arrangements for the BFS expected to be completed within the next six months. These arrangements are likely to include a suitable joint venture structure to enable the Project to move forward as rapidly as possible while retaining significant ownership for Kagara.

**Key recommendations from the PFS include:**

- the financial modelling indicates a positive cash flow with a healthy Internal Rate of Return (IRR) of 12.5% and a capital payback of less than four years based on an initial 2.5 million tonnes per annum (mtpa) operation, commencing production in 2018; and
- a BFS be undertaken at an estimated cost of A\$184.5 million. This would include the sinking of a 6.7 metre diameter shaft to 1,428 metres depth and the drilling out to reserve status of a 1.2 kilometre section of the Admiral Bay deposit to support the financial modelling.

**PFS – Key Financial and Production Outcomes**

Based on processing an initial 25.2 million tonnes of ore over a 10.2 year time frame and using lead and zinc prices of US\$2,600 per tonne, a silver price of US\$18 per ounce and an exchange rate of 0.85, the PFS estimated:

- **Pre-production capital (excluding BFS costs) of A\$812.2 million**
- **Revenue of A\$4,964 million**
- **Net cash flow (inclusive of BFS costs) of A\$675 million**
- **IRR of 12.5%**
- **Net present Value at 8% discount of A\$159.8 million**
- **Payback of 3.8 years**
- **Lead concentrate production of 1.552 million tonnes grading 70% lead**
- **Zinc concentrate production of 1.539 million tonnes grading 55% zinc**
- **Silver production of 18.97 million ounces contained in concentrates**

*“We are very pleased with the results of the Admiral Bay PFS, which paves the way for the next phase of development of this Tier One asset,”* said Kagara’s Executive Chairman, Mr Kim Robinson.

*“Using conservative commodity pricing, the Study has confirmed that Admiral Bay can generate substantial cash flows over the initial modelled 10-year mine life, repay the initial capital outlay in less than four years and generate robust returns.”*

*“This provides a solid platform on which to move forward with a Bankable Feasibility Study, the focal point of which will be the sinking of a shaft to enable the resource to be fully evaluated and upgraded to reserve status.”*

*“It is important to note that the PFS encompasses only a relatively small proportion of the broader potential of this Project with an overall strike length of mineralisation at least nine or ten times greater than the strike length which has been modelled for the purposes of the PFS.”*

*“The strategic nature of this Project also needs to be understood in the context of the long-term fundamentals of the lead and zinc markets, which are widely expected to move into a period of under-supply by the middle of this decade as several major operations come to the end of their life.”*

*“Admiral Bay is perfectly positioned to fill this supply gap,”* Mr Robinson added.

## Project Upside and Market Outlook

The Admiral Bay deposit is a Tier One asset which has been demonstrated to be continuous over a 2.1 kilometre strike length, with drilling to date resulting in the definition of an Inferred Resource of 72 million tonnes grading 3.1% zinc, 2.9% lead and 18 grams per tonne silver (calculated at a 3% ZnEq cut-off).

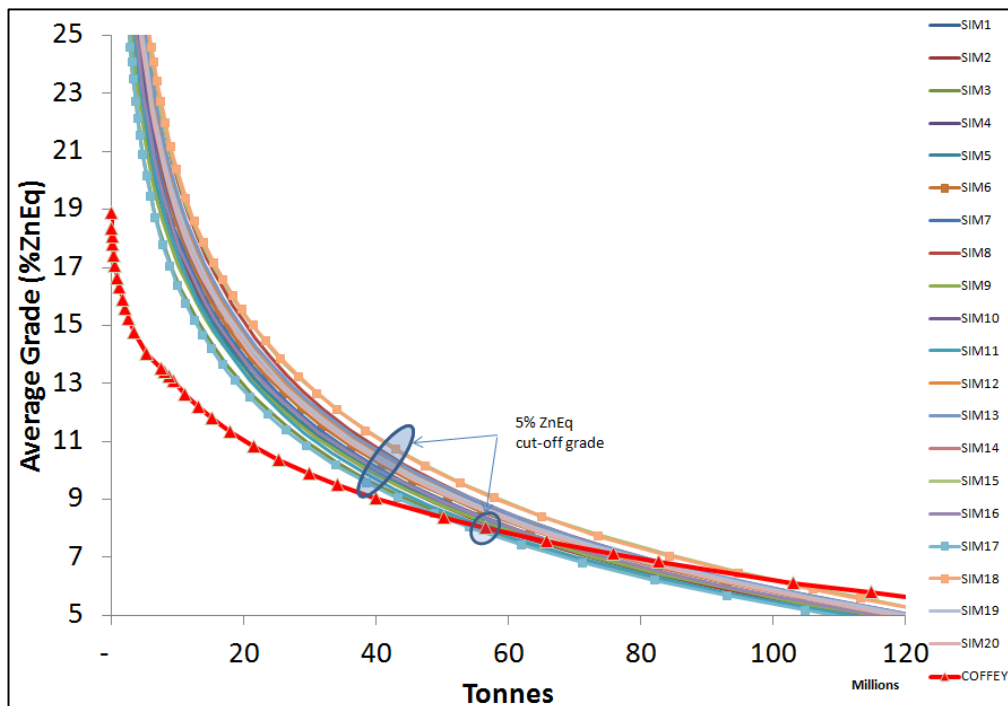
With time, the mineralisation is expected to be defined with further diamond drilling over an 18 kilometre strike length which will support production over many price cycles in the future.

The lead and zinc markets are currently at a low point in the current cycle with leading commodity analysts expecting zinc to be in excess of US\$4,000 per tonne in 2016. The forecast closure of a significant amount of mine supply over the next five years is expected to result in a production deficit rising to 4.5% by 2015.

For the purpose of the PFS, Kagara commissioned Snowden Mining Industry Consultants (Snowden) to perform a conditional simulation analysis on the Admiral Bay Project.

The data analysed was drawn from the previously announced Inferred Resource, calculated by Coffey Mining (Coffey) using the inverse distance squared technique.

The conditional simulation, which recognises the variability of samples within the drilling data, generates a number of equally probable, possible grade scenarios which are graphically presented below and compared with the original inverse distance squared analysis:



A range of potential mining inventories considered by the PFS for the upside, base and downside cases from the conditional simulations are shown in the table below.

| Case     | Inventory (Mt) | ZnEq Grade (%) | Zn grade (%) | Pb grade (%) | Ag grade (g/t) | Ba grade (%) |
|----------|----------------|----------------|--------------|--------------|----------------|--------------|
| Upside   | 26.3           | 10.40          | 4.14         | 4.52         | 24.92          | 11.08        |
| Base     | 25.2           | 9.99           | 3.73         | 4.54         | 23.39          | 11.41        |
| Downside | 24.2           | 9.13           | 3.89         | 3.77         | 22.07          | 11.43        |

The lower tonnages and higher grades produced in this estimation process are a result of using a cut-off grade of 5% ZnEq together with the application of Snowden's Stopesizer software to determine areas of continuous potentially economic mineralisation.

Geotechnical constraints, which were the result of a preliminary geotechnical appraisal by Snowden, then dictated what proportion of this economic material could be extracted by the pillar arrangement for each case.

Barrier pillars, which make up approximately 40% of the potentially economic material, will remain as regional support after the initial stoping has been completed, however the viability of extraction of these internal pillars will be assessed further during the BFS process.

A number of other factors including increased production rates, use of geothermal power and the utilisation of continuous mining equipment – all of which have the potential for significant cost reductions – will also be investigated during the BFS.



**Kim Robinson**  
**Executive Chairman**

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

This Mineral Resource Statement has 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.

| Area of Responsibility                     | Competent Person  |
|--|---|
| Admiral Bay Drillhole Database and Geology | Peta Libby, Director/Senior Consulting Geologist, Digirock Pty Ltd. |
| Admiral Bay Resource Estimate              | Ingvar Kirchner, Principal Resource Geologist, Coffey Mining Ltd.   |
| Reporting of exploration results           | Joe Treacy, Executive Director, Kagara Limited                      |

Each of the Competent Persons, Snowden Mining Industry Consultants and RSV Australia Pty Ltd have given their consent for the inclusion of the material in the form and context in which it appears.