

## June 2013 Quarterly Activity Report

### Kagara Limited (subject to deed of company arrangement) (Kagara, Company, KZL)

As reported previously, all of KZL's operations were placed on care and maintenance leading up to the decision to appoint the Administrators on 29 April 2012. On 25 January 2013, Kagara and its wholly-owned subsidiary Einasleigh Mining Pty Ltd (now subject to deed of company arrangement) (EMPL) completed the sale of the North Queensland Central region assets. All remaining operations of KZL continued to be on care and maintenance.

At the second meeting of creditors for each of Kagara, Kagara Copper Pty Ltd (previously Administrators Appointed) (KCPL), Mungana Pty Ltd (previously Administrators Appointed) (MPL) and EMPL (collectively the Group) held on 6 May 2013, the creditors of each of Kagara, KCPL, MPL and EMPL respectively approved the entry into of deeds of company arrangement (DOCAs) for each member of the Group. On execution of the DOCAs on 27 May 2013, the Administrators became Deed Administrators of each member of the Group under the DOCAs.

On 6 May 2013, the Deed Administrators announced that the Company and MPL had signed a new binding Heads of Agreement (HOA) with Mungana Goldmines Limited (MUX) to facilitate a joint sale of the Northern Region Assets, being the North Chillagoe assets held by Kagara and MPL respectively and the rights held by MUX to explore and exploit gold resources located on certain of the relevant tenements pursuant to the Gold Rights Agreement entered into by the parties (as amended) and the buy back of certain shares held by MPL in MUX. Full details are set out in the "Corporate" section.

On 28 June 2013, the Deed Administrators announced that Kagara had entered into agreements for the sale of the Group's Northern Chillagoe Project and the Thalanga and Liontown/Waterloo Projects respectively. On 8 July 2013, the Deed Administrators further announced that deposits which were due to be paid by the purchaser by 3 July 2013 had not yet been paid, but that Kagara was in ongoing commercial discussions with the purchaser and would update the market again once those discussions are finalised.

#### **Production & Operation**

	June 2013 Quarter	FY13 To Date
Total copper concentrate	Nil	1,820t
Total zinc concentrate	Nil	5,059t
Total lead concentrate	Nil	604t

- There were no milling costs incurred for June 2013 quarter.

#### **Project Development & Exploration**

- Work undertaken for Project Development and Exploration during the reporting period was limited to a small soil sampling program only.

#### **Corporate & Financial**

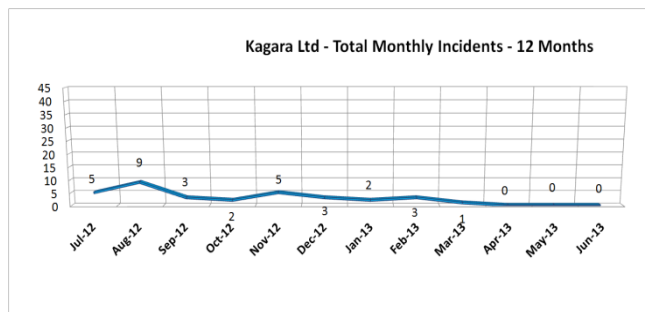
- Consolidated cash was \$7.9 million at the end of the June Quarter.
- At the second meeting of creditors for each member of the Group held on 6 May 2013, the creditors of each of Kagara, KCPL, MPL and EMPL respectively approved the entry into of DOCAs for each member of the Group. On execution of the DOCAs on 27 May 2013, the Administrators became Deed Administrators under the DOCAs.
- In accordance with the DOCAs, it is envisaged that the directors will prepare and submit (accompanied by detailed cash flows and budgets) a restructure plan to the Deed Administrators by no later than 30 September 2013. The Deed Administrators will consider any plan put forward (by the directors or any other party), and, as appropriate, convene creditor meetings as necessary and provide their recommendations to creditors. On 31 May 2013, the Deed Administrators sought on behalf of the Group, and were granted, a further extension from ASIC for relief from compliance with sections 315 and 319 of the Corporations Act for the financial year ending on 30 June 2013 and with section 320 of the Act for the half-year ending 31 December 2012. That relief has been granted until 30 November 2013 (being one month after the end of the DOCA period).
- On 28 June 2013, the Deed Administrators announced that Kagara had entered into agreements for the sale of the Group's Northern Chillagoe Project and the Thalanga and Liontown/Waterloo Projects respectively. On 8 July 2013, the Deed Administrators further announced that deposits which were due to be paid by the purchaser by 3 July 2013 had not yet been paid, but that Kagara was in ongoing commercial discussions with the purchaser and would update the market again once those discussions are finalised.

## OPERATIONS

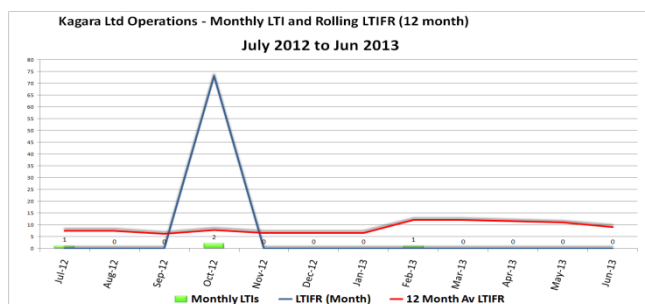
Mining operations were on full care and maintenance during the quarter.

### Safety

The safety performance for the Quarter also continued its strong positive trend with no Lost Time Injuries (LTI) reported and no reported incidents. The Mungana mine site achieved 691 days LTI free and Thalanga with a strong 521 days LTI free. During the Quarter, First Aid refresher training was undertaken by all remaining Care and Maintenance employees.



The LTI Frequency Rate for the Quarter remained at 0.0, while the 12 month LTI rolling average remained steady at 6.1.



### Environment

The Group continued with core activities at all sites during the Quarter. The Group continues to meet regularly with the Department of Environment and Heritage Protection.

## PROJECT DEVELOPMENT

No project development work was undertaken during the Quarter as work focused on assisting the Deed Administrators with the asset sale processes.

## EXPLORATION

A small program of soil sampling was conducted during the Quarter over an area along the Thalanga Range, along strike north-west of the West 45 polymetallic resource. A total of 887 samples were collected over the Jasper Flats and Wattle Tree prospects to determine the levels of near-surface base metal content of these areas. Areas of moderate-strength Zn-Pb-Cu in soils have been defined; however the significance of these "anomalous" areas is still being assessed. Work otherwise during the Quarter has been restricted to statutory tenement reporting and data assessment across the Northern and Southern regions.

## CORPORATE

### Change in officers

On 28 April 2013, Mr Geoff Day resigned as director of each of Kagara, KCPL, MPL and EMPL.

### Execution of DOCAs and appointment of Deed Administrators

At the second meeting of creditors for each of Kagara, KCPL, MPL and EMPL held on 6 May 2013, the creditors of each member of the Group respectively approved the entry into of DOCAs for each entity. The DOCAs were executed on 27 March 2013 and the Administrators became Deed Administrators under the DOCAs at that time.

The DOCAs provide a framework under which the management and control of the Group, including continuation of the current sale process for certain of the Group's assets, will continue to be with the Deed Administrators. All assets other than those assets being retained are intended to be sold. The retained assets at this stage are intended to be the assets at Admiral Bay and the balance of the Group's shareholding in MUX following the share buy-back envisaged under the Heads of Agreement entered into with MUX (see below and KZL's announcement of 6 May 2013).

During the period of the DOCAs, it is envisaged that the directors will prepare and submit (accompanied by detailed cash flows and budgets) a restructure plan to the Deed Administrators. The Deed

Administrators will consider any plan put forward (by the directors or any other party), and, as appropriate, convene creditor meetings as necessary and provide their recommendations to creditors.

If a detailed restructure plan is not submitted by 30 September 2013 or approved by creditors by 31 October 2013, each DOCA will be terminated and each company in the Group will be wound up.

### **New Heads of Agreement with MUX**

On 6 May 2013, the Deed Administrators announced that Kagara and MPL had signed a new binding HoA with MUX to facilitate a joint sale of the Northern Region Assets, being the North Chillagoe assets held by Kagara and MPL respectively and the rights held by MUX to explore and exploit gold resources located on certain of the relevant tenements pursuant to the Gold Rights Agreement entered into by the parties (as amended) (the **GRA**) and the buy back of certain shares held by MPL in MUX.

The new HoA provides that, at completion of a sale of the Northern Region Assets (**Sale Completion**), and after, among other things, reimbursement of any cash-backing currently in place in respect of existing financial assurances relating to the Northern Region Assets and payment of certain transaction costs associated with the sale process and any duty payable in connection with the HoA, the balance of the sale proceeds would be paid in the proportion of 75:25 to MUX and to Kagara/MPL, respectively.

In relation to any sale proceeds payable to MUX, MUX has undertaken to:

- (a) accept responsibility to pay and discharge the amount of duty determined by, or agreed with, the Queensland Office of State Revenue arising from the execution of the GRA (plus interest and any additional penalties) and to apply the proceeds of any sale to satisfy that liability; and
- (b) subject to an agreed level of retained cash, apply the balance of any such sale proceeds to buy back a number of the shares currently held by MPL in MUX at a buy-back price determined in accordance with an agreed formula.

Under the new HoA, subject to and conditional upon Sale Completion, the net intercompany payable by KZL and MPL to MUX (subject to certain express exceptions), will be deemed to be satisfied, claims between MUX, KZL and MPL will be settled and released and all encumbrances MUX may have over KZL, MPL and their respective tenements will be released.

Completion of the buy-back is subject to a number of condition precedents, details of which were listed in KZL's announcement dated 6 May 2013. These conditions precedent link to the status of the sale of the Northern Region Assets. An update on the status of the sale of the Northern Region Assets is set out below under the heading "Sale of Northern Queensland Assets".

### **Extension of Convening Period for the Deed Administrators**

On 31 May 2013, the Deed Administrators sought and were granted a further extension from the ASIC for relief to the Group from compliance with sections 315, 319 and 320 of the Act. The extension to the relief granted by ASIC to the Company is set out below:

- a deferral of its financial reporting obligations for the year ending 30 June 2012 until 30 November 2013;
- a deferral of the Company's financial reporting obligations for the period ending 31 December 2012 until 30 November 2013; and
- a deferral of its obligation to hold an Annual General Meeting until 31 December 2013.

It remains a condition of the ASIC Order that the Deed Administrators are required to maintain arrangements to answer, free of charge, reasonable queries from the Company's members about the consequences of the administration of the Company.

### **Sale of Northern Queensland Assets**

On 28 June 2013, the Deed Administrators announced that Kagara had entered into agreements for the sale of the Group's Northern Chillagoe Project and the Thalanga and Liontown/Waterloo Projects (**Southern Projects**) respectively. The proposed

purchaser under the agreements is Lucky Metals Pty Ltd (the **Purchaser**).

#### Northern Chillagoe Project

Under the agreement, it is proposed that the Purchaser will acquire the shares in MPL (which is currently subject to deed of company arrangement) and the other assets of the Group relating to the Northern Chillagoe Project (including certain mining tenements and information, residential properties and relevant plant and equipment held by Kagara). The Purchaser will also acquire the mineral rights/mining information held by MUX in respect of the Northern Chillagoe tenements. The total consideration under the agreement is a cash component of \$50m plus a deferred cash or share component comprised of either \$8.197m or the equivalent value of shares in a listed entity into which the Purchaser has transferred all (or substantially all) of the Northern Chillagoe assets. Out of the total consideration, the Purchaser will assume approximately \$1.5m of environmental bonds.

#### Southern Projects

Under the agreement, it is proposed that the Purchaser will acquire the shares in KCPL (which is currently subject to deed of company arrangement) and the other assets of the Group relating to the Southern Projects (including a mining lease, mining information, real properties and relevant plant and equipment, held by Kagara, as well as certain other associated mineral rights held by Kagara) at a total consideration of a cash component of \$11m plus a deferred cash or share component comprised of either \$1.803m or the equivalent value of shares in a listed entity into which the Purchaser has transferred all (or substantially all) of the Southern Projects assets. Out of the total consideration, the Purchaser will assume approximately \$9.1m of environmental bonds.

For more details of the sales agreements, refer to Kagara's announcement on 28 June 2013.

Deposits of approximately \$4.9m and \$1.1 million respectively were to be paid by the Purchaser by 3 July 2013. On 8 July 2013, the Deed Administrators announced that these deposits had not yet been paid and that Kagara was in ongoing commercial discussions with the Purchaser. As at the date of this Quarterly Report, those discussions are continuing

and Kagara will update the market again once those discussions have been finalised.

## **FINANCIAL**

Consolidated cash on hand of Kagara as at 30 June 2013 was \$7.9 million, excluding the reported cash of MUX which is not under voluntary administration. Pledged term deposits as full cash backing for performance bonds and guarantees issued by Investec remained at \$11.5 million.

As at 30 June 2013, concentrate stockpiles had decreased by 84% to 790 tonnes of copper concentrates on hand (31 March 2013: 4,924 tonnes). This decrease in concentrate stockpile is a result of successful sale of the concentrates as lead concentrates with total sales value of US\$2.28 million.

The average US\$ exchange rate realised during the Quarter was US\$0.9918 (3<sup>rd</sup> Quarter FY13: US\$1.0386).

## **Investments**

Kagara holds a 60.71% interest in Mungana Goldmines Ltd (ASX: MUX). Refer to "Corporate" section for discussion on transactions with MUX.



Joe Treacy Executive Director and Executive General Manager, Minerals & Business Development who has been authorised to sign this report by the Deed Administrators.

1 August 2013

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

For further information, please contact:

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## Appendix 1 – Corporate Information

### Deed Administrators

Michael Ryan, Mark Englebert, Stefan Dopking and Quentin Olde, joint and several administrators, all of FTI Consulting

### Board Members

Shad Linley	Chairman
Geoff Day	Managing Director and CEO (up to 30 November 2012) Director (effective from 1 December 2012, resigned 28 April 2013)
Joe Treacy	Executive Director
Kim Robinson	Director
Ross Hutton	Non-Executive Director
Mark McConnell	Non-Executive Director
Mark Hands	Company Secretary

### Forward Shareholder Enquiries to

Security Transfer Registrar  
770 Canning Highway Applecross,  
WA 6153  
Australia

Telephone: +61 8 9315 2333  
Facsimile: +61 8 9315 2233  
Email: [registrar@securitytransfer.com.au](mailto:registrar@securitytransfer.com.au)  
Website: [www.securitytransfer.com.au](http://www.securitytransfer.com.au)

### Registered & Principal Office

Kagara Ltd (subject to deed of company arrangement)  
c/- Level 6, The Esplanade  
Perth, WA 6000  
Australia

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Facsimile: +61 8 9481 1233  
Email: [admin@kagara.com.au](mailto:admin@kagara.com.au)  
Website: [www.kagara.com.au](http://www.kagara.com.au)

### Top Ten Shareholders at 28 June 2013

GHG Kagara Co Ltd	133,776,785
JP Morgan Nom Aust Ltd	81,646,424
DeBortoli Wines PL	54,867,038
Citicorp Nom PL	49,825,618
HSBC Custody Nom Aust Ltd	45,220,229
UOB Kay Hian Private Ltd	39,857,984
National Nom Ltd	32,917,592
JP Morgan Nom Aust Ltd (Cash Income A/C)	27,177,907
Colwell Kennedy Aust PL	13,360,000
K & J Robinson	5,954,240

At 30 June 2013, Kagara's issued capital was 798,953,117 ordinary shares.

### Stock Exchange Listings

Australian Securities Exchange (KZL) (currently suspended)

### Quarterly Share Price Activity

(KZL's shares were suspended from trading on ASX on 26 April 2012)

## Appendix 1 – Corporate Information (cont')

### Corporate ASX Releases During the Quarter

28/06/2013	Sale of Northern and Southern Region Assets in North QLD
28/06/2013	MUX: Mungana enters into Sale Agreement for Chillagoe
31/05/2013	Further Relief on Deferral of Financial Reporting Obligation
28/05/2013	Execution of Deeds of Company Arrangement
08/05/2013	Appendix 3B
07/05/2013	Approval of entry into DOCAs
06/05/2013	New Binding HoA with MUX
06/05/2013	MUX: MUX enters into new Heads of Agreement
01/05/2013	Final Director's Interest Notice
01/05/2013	Quarterly Activities Report
30/04/2013	Change in Officers

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

### **COMPETENT PERSON’S STATEMENT:**

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

*This report, so far as it pertains to exploration results including targets, ore and mineralisation, is based on information compiled by, and as reported upon by, Mr Glen Little, an employee of Kagara, who is a member of the Australian Institute of Geoscientists and has over five years’ experience which is relevant to the style of mineralisation, type of deposit under consideration and to the activities which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Mr Little consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.*

### **FORWARD LOOKING STATEMENT:**

*This report contains certain forward-looking statements. 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.*

*Further, 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 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.*