

24 June 2014

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

ASX code: MUX

Shareholder and Market Update

Mungana embarks on North Queensland zinc strategy

Highlights

- \$15M acquisition of Chillagoe base metal and gold assets from Kagara Limited (in Liquidation) on track to be completed by early August following a shareholder meeting to approve the transaction scheduled for 24 July 2014.
- Consideration comprises the issue of two Secured Convertible Notes for \$7.5M each. The first instrument is automatically convertible at 10c per share following the recent successful stamp duty outcome. The second is convertible at 20c at the note-holder's election up to 5 years from the date of issue.
- The cornerstone asset in the Chillagoe portfolio is the advanced, high-grade King Vol zinc deposit (JORC 2004 Indicated Resource of 900,000t at 16% Zn, 0.9% Cu, 0.9% Pb and 42g/t Ag and Inferred Resource of 1.9Mt at 9.9% Zn, 0.6% Cu, 0.4% Pb and 24g/t Au).
- King Vol is a high quality zinc asset, providing a rare exploration and medium-term development opportunity located next to a partially completed base metals concentrator.
- Mungana's strategy following completion of the acquisition will be to commence technical studies to upgrade the existing King Vol Mineral Resource to JORC 2012 standards, and to undertake exploration to expand the resource down-plunge and along strike.
- This work will lay the foundations for a feasibility study designed to advance King Vol towards development in the medium term.
- This strategy will position Mungana to take advantage of a significant looming shortfall in the zinc market. Leading forecasters and market analysts predict persistent deficits for the next five years through until 2018 as several major global mines shut down.

Mungana Goldmines Ltd (ASX: MUX – “Mungana” or “the Company”) is pleased to advise that it has embarked on a zinc exploration and development strategy in North Queensland underpinned by the \$15 million acquisition of a base metal and gold portfolio which includes one of Australia’s most significant undeveloped zinc deposits.

As previously announced, the Company has entered into a binding 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 transformational acquisition – which follows the recent sale of the Company’s South Australian gold assets for initial cash consideration of \$1.5 million – will put Mungana on track to become a significant new player in the Australian zinc sector over the next few years.

The Company has convened a shareholder meeting for 24 July 2014 to approve the acquisition.

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 – see below) 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.

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 base metal 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 highly prospective Chillagoe region, as well as the Mungana Gold Project (following termination of the previous Gold Rights Agreement).

The Company has cash reserves of approximately \$4 million following the recent sale of its South Australian gold assets and receipt of \$2.27 million in refunds under the Federal Government’s Research & Development Tax Concession Scheme. A previous stamp duty liability to the Queensland Government has recently been resolved in Mungana’s favour with a refund received following overpayment of a previous assessment and no further liability remaining.

The proposed acquisition has the potential to increase Kagara’s shareholding in Mungana from 59.25% currently to 79.07% assuming conversion of both Convertible Notes in full and payment of the maximum amount of interest in shares.

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 41g/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 Resource

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

King Vol, which is located near a partially completed base metals concentrator, formed the centrepiece of a long-term growth strategy by Kagara to become a top-10 global zinc producer.

This strategy was significantly advanced, with Pre-Feasibility Studies completed on King Vol and extensive drilling carried out on surrounding satellite exploration targets, prior to Kagara's collapse in 2011.

The King Vol deposit remains open along strike in both directions and at depth, and offers significant potential to expand the higher grade core (10-17% Zn).

In addition, there are numerous advanced near-mine exploration targets such as Rusty File (just 500m from King Vol) and Montevideo, as well as broader polymetallic exploration opportunities in the nearby Red Cap area and further afield.

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 and exploration upside.

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 JORC 2004 Mineral Resource to JORC 2012 status;
 Drilling targeting extensions to the high-grade core within the deposit (10-17% 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
 Assessment of the broader potential of the Red Cap Area, which contains the Penzance, Victoria, Queenslander and Morrisons deposits with a combined resource base of +7Mt of polymetallic mineralisation.

This work will lay the foundations for feasibility and development studies commencing within 12-18 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).

The zinc market is already in deficit, with LME stocks down some 40% in the past 18 months and prices up around 11% this calendar year.

Leading commodity forecaster Wood Mackenzie has forecast market deficits in the range of 150-250,000tpa for the five years to 2018, while CRU predicts that the zinc price could increase from current levels of around US\$0.94/lb to US\$1.73/lb by 2016.

Management Comment

Mungana's Chairman, Mr Joe Treacy, who was one of the founding Directors of Kagara Zinc and has an intimate knowledge of the Chillagoe assets, said the acquisition marked the beginning of a new chapter for the Company based on a rejuvenated growth strategy.

"There are very few undeveloped zinc assets anywhere in the world, which makes King Vol – with its exceptional grade and proximity to a partially completed base metals concentrator, as well as its location in a zinc-rich province with outstanding exploration upside – a unique and exciting opportunity," he said.

"We are pleased to have secured these assets and we look forward to completing the transaction over the next two months, establishing what we believe to be a solid growth platform for the Company and its shareholders.

"Following the sale of the South Australian gold assets, Mungana will have sufficient cash to pursue a focused, low-cost exploration program at Chillagoe designed to upgrade and expand the existing resources and assess some promising regional growth opportunities.

"Our broader strategy is to advance these assets towards development and position Mungana to take advantage of a significant looming market opportunity for zinc which we believe will continue to emerge over next 2-3 years," he continued.

ENDS

For further information, please contact:

Investors

Joe Treacy, Chairman
Mungana Goldmines
Mobile: +61 428 600 121

Media

Nicholas Read
Read Corporate
Tel: +61-8 9388 1474
Mobile: +61 419 929 046

Competent Person's Statement

The data in this report that relates to Mineral Resources for the King Vol deposit is based on information evaluated by Mr Andrew Beaton who is a member of the Australasian Institute of Mining and Metallurgy (MAuslmm) and who has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity 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 (the "JORC Code"). Mr Beaton is a consultant to Mungana Goldmines Ltd, and he consents to the inclusion in the report of the Mineral Resource in the form and context in which it appears.

This information was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with JORC Code 2012 on the basis that the information has not materially changed since it was last reported.