



KAGARA LTD

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First Ore Production from Lounge Lizard Nickel Project

Kagara Ltd (ASX:KZL) is pleased to report that the first ore from its Lounge Lizard high grade nickel sulphide deposit in Western Australia has been mined, bringing to fruition the innovative joint venture agreement struck just eight months ago with project neighbour Western Areas.

The ore was accessed by Western Areas as part of the joint development of its Flying Fox deposit and the connecting Lounge Lizard orebody. Importantly, the ore produced so far is outside the indicated and inferred resource estimate of 1.15 million tonnes grading 4.6 per cent nickel previously announced by Kagara (see attached longitudinal projection and photographs of ore faces).

The 744 tonnes of development ore produced so far, grading 4.4 per cent nickel, has been stockpiled and is awaiting treatment through Western Areas' Cosmic Boy concentrator.

Kagara Executive Chairman Kim Robinson said production of the first ore at Lounge Lizard highlighted the significant benefits of the JV with Western Areas, which enabled mining to start much sooner and at a lower cost than had Kagara developed the project as a standalone operation.

"The speed at which Lounge Lizard has been developed has been extremely impressive," Mr Robinson said. "This will generate cash flow from the project far sooner and at significantly less expense than would have been the case had Kagara not struck the joint venture with Western Areas. It is also expected to result in even greater operating and capital cost benefits for both parties going forward.

"It should be remembered that Kagara only acquired these nickel rights in November 2006. This schedule could not have been achieved without the professional team at Western Areas who are mining the body on our behalf and we extend our thanks to all those involved."

Under the terms of the joint venture, Western Areas will mine Lounge Lizard using access from the Flying Fox decline. Western Areas will manage and operate all aspects of the combined project and Lounge Lizard ore will be treated at the Cosmic Boy nickel concentrator and sold into Western Area's offtake agreements.

In addition to accessing first ore at Lounge lizard a further 21 diamond drill holes have been drilled from the exploration drive on the 630 RL and assay results have been received for eight holes since the ASX release on 18 December 2009(see below). When the drilling program outlined on the attached longitudinal projection is complete, a reserve for Lounge Lizard will be calculated and this will incorporate any ore drive development within the upper section of the ore body.

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This report, so far as it pertains to ore and mineralisation, is based on information compiled by and as reported upon by Mr Joe Treacy and Mr Ian Hodkinson, both employees of Kagara Ltd, and who are members of the Australian Institute of Geoscientists or the Australasian Institute of Mining and Metallurgy and have over five years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are 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 Treacy and Mr Hodkinson consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

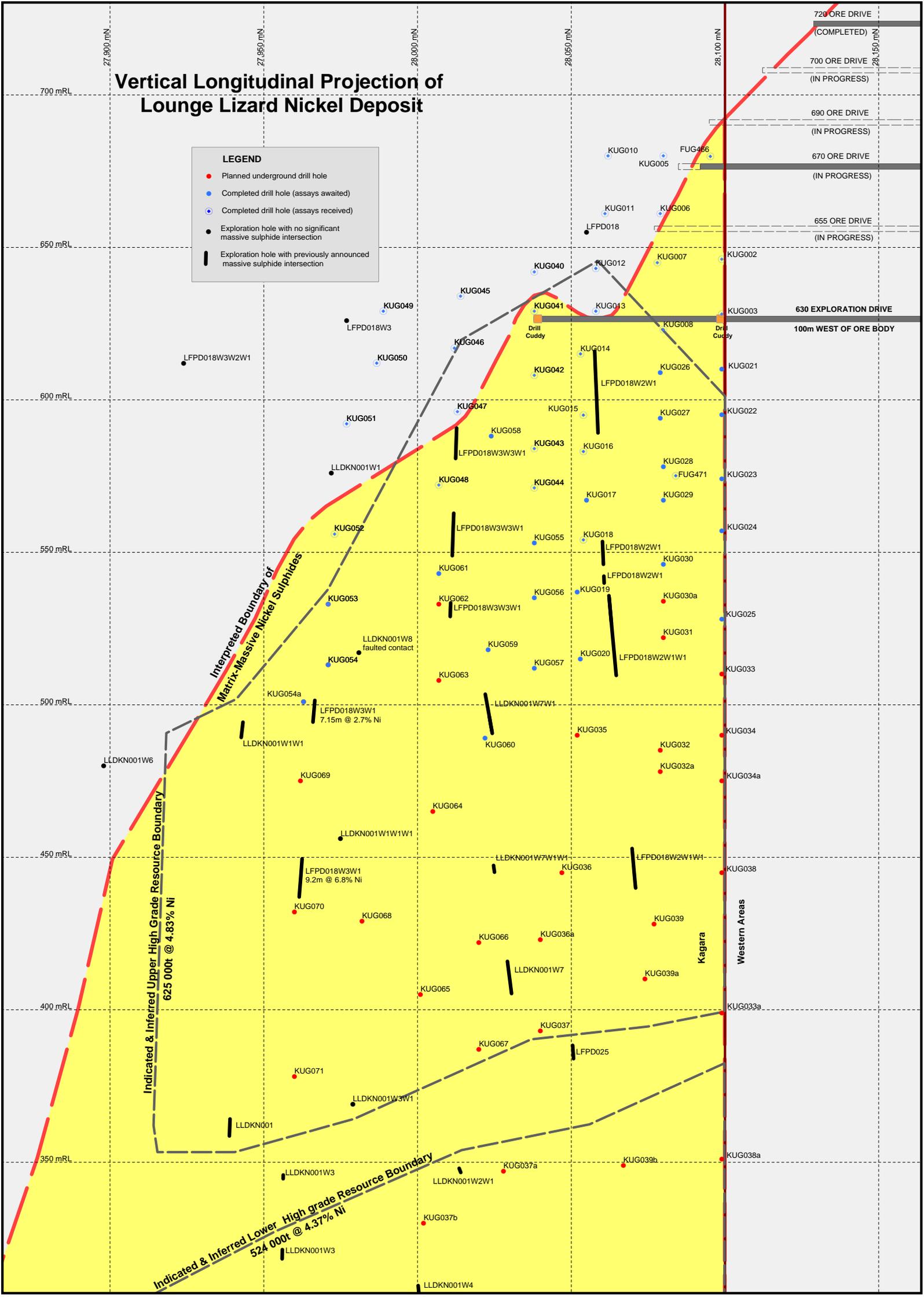
TABLE OF DRILLING RESULTS

Hole ID	Northing	Easting	RL	Az	Dip	From (metres)	To (metres)	Interval (metres)	Ni (%)
KUG012	28098.90	34462.30	626.8	120	11	95.51	100.11	4.60	1.1
KUG 13	28098.90	34462.30	626.8	120	1	No significant intersection			
KUG014	28098.90	34462.30	626.8	120	-8	98.86	102.77	3.91	3.6
KUG015	28098.90	34462.30	626.8	120	-20	99.43	102.82	3.39	8.2
KUG016	28098.90	34462.30	626.8	120	-26	101.90	103.17	1.27	3.8
KUG018	28098.90	34462.30	626.8	120	-39	110.04	112.50	2.46	4.5
KUG048	28038.70	34437.80	627.4	108	-29	113.45	114.76	1.31	6.6
KUG052	28038.70	34437.80	627.4	127	-33	119.70	120.89	1.19	7.1

Vertical Longitudinal Projection of Lounge Lizard Nickel Deposit

LEGEND

- Planned underground drill hole
- Completed drill hole (assays awaited)
- Completed drill hole (assays received)
- Exploration hole with no significant massive sulphide intersection
- | Exploration hole with previously announced massive sulphide intersection



Interpreted Boundary of Matrix-Massive Nickel Sulphides

Indicated & Inferred Upper High Grade Resource Boundary
625 000t @ 4.83% Ni

Indicated & Inferred Lower High grade Resource Boundary
524 000t @ 4.37% Ni

Kagara

Western Areas

630 EXPLORATION DRIVE
100m WEST OF ORE BODY

655 ORE DRIVE
(IN PROGRESS)

670 ORE DRIVE
(IN PROGRESS)

690 ORE DRIVE
(IN PROGRESS)

700 ORE DRIVE
(COMPLETED)

LFPD018W3W2W1

LFPD018W3

LFPD018W3W1

LLDKN001W1

LLDKN001W8 faulted contact

LFPD018W3W1
7.15m @ 2.7% Ni

LFPD018W3W1
9.2m @ 6.8% Ni

LLDKN001W7W1W1

LFPD018W2W1W1

LLDKN001W7

LFPD018W2W1W1

LLDKN001W3

LLDKN001W2W1

LLDKN001W3

LLDKN001W4

FUG466

LFPD018

Drill Cuddy

Drill Cuddy

LFPD018W2W1

LFPD018W3W3W1

LFPD018W3W3W1

LFPD018W2W1

LFPD018W2W1

LFPD018W2W1

LFPD018W2W1W1

LFPD018W2W1W1

LFPD018W2W1W1

LFPD018W2W1W1

LFPD018W2W1W1

LFPD018W2W1W1

LFPD025

LFPD018W2W1W1

LFPD018W2W1W1

LFPD018W2W1W1

LFPD018W2W1W1

KUG005

KUG006

KUG007

KUG008

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