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ASX/Media Release

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Kagara Announces First Half Financial Results and Significant Restructure of North Queensland Operations

In conjunction with the release of its financial results for the six months to 31 December 2011, Kagara Limited (ASX: KZL – "Kagara" or "the Company") today announced a significant restructure of its North Queensland base metal operations and updated production guidance for FY12.

The Company has also recently announced the sale of its non-core nickel assets (*see ASX Announcement of March 5*).

Financial Results

The delay in release of the Company's financial results for the six months to 31 December 2011 (see Appendix 4D) was due to the Company electing to delay submission for an audit opinion of the accounts following the recent introduction of new financial modeling processes as well as ongoing improvements to accounting and cost management systems within the business.

While the delay is regrettable, Kagara believes that the new systems being introduced across Kagara's business provide a solid foundation for further improvements in to the future.

The Company posted a net loss after tax of A$48.9 million for the half-year (1HFY11: A$2.5 million profit) on revenue from concentrate sales of A$130.5 million (1HFY11: A$90.9 million).

EBITDA was A$(15.3) million (1HFY12: A$22.3 million) for the half year, principally as a result of the continuing strength of the Australian/US Dollar exchange rate and the significant decline in commodity prices over the six months ending December 2011. This impacted significantly on cash operating margins for both zinc and copper.

The result was based on contained metal in concentrate production of 32,967t of zinc (1HFY12: 17,298t), 9,906t of copper (1HFY12: 9,386t), 2,381t of lead (1HFY12: 211t) and 952t of nickel.

The combined effects of a higher Australian Dollar, falling commodity prices and decreased by-product credit revenue resulted in a higher zinc cash cost for the half year of US$0.82/lb (1HFY12: US$0.79/lb). Copper cash costs increased to US$1.87/lb for the half year (1HFY12: 1.67/lb).

While this reflects only modest changes in cash costs on a half-yearly comparison basis, it masks the impact of the significant increase in the cash costs reported in the December 2011 Quarterly Activity Report, where cash costs rose sharply to US$0.94/lb for zinc and US$2.05/lb for copper.

Based on 1HFY10 prices, production levels for copper and zinc for 1HFY11 would have yielded an additional $35M in revenue during 1HFY11 demonstrating the significant impact of market conditions during the period.

The highly volatile commodity price during 1HFY11, particularly during the December Quarter, also impacted the revenue line given it was the December Quarter during which most of the large stockpile inventory built up in 2011 was monetized.

In Australian Dollar terms, the median realized zinc price fell between periods by approximately 20% while copper price fell by approximately 11%, reflecting the combined effect of price and FX impacts.

Material changes influencing the increase in production costs for 1HFY11 were:

- Approximately A$32 million (40 per cent) of the increase was attributable to increased mining and processing activity;
- Owing to the closure of Mt Garnet and Vomacka mines and the impairment of the Mungana resource base during the period a more aggressive expensing of development expenditure had a significant impact on the P&L;
- Inventory adjustments for the large concentrate stockpiles reported through 2011 (which had accumulated following the previous wet season) for delivery through 2012.

Amortization charges also increased resulting from the impairments previously reported in September 2011, which related to a write-down in the book value of the Mt Garnet and Mungana underground mines.

Looking Forward

The Company's 5-year growth strategy released in September 2011 highlighted the need to move Kagara's Queensland base metal operations from their historic position as a high fourth quartile cost producer down the cost curve into the third and second quartiles.

The plan to achieve this involved the following elements:

- A substantial investment in exploration to address the long-standing under-development of the Company's Queensland tenements from a resource development perspective;
- Increasing production on the back of resource growth and driving unit costs down; and
- Divesting non-core assets, including the Company's nickel assets.

This strategy required a significant investment in new and more experienced talent within the organization in order to deliver a more robust business, which is now in place. This has included the recruitment of an experienced former Rio Tinto executive, Paul Warme, as Chief Financial Officer, and former Barrick executive, Evan Spencer, as Chief Operating Officer.

Kagara has been very pleased with the early results of its exploration efforts, with significant progress achieved towards its key resource target in the Northern Chillagoe region in just the first six months of its two year program (*see ASX Announcements – 5 December 2011 and 9 February 2012*).

The Company has also achieved the sale of its WA nickel assets for cash proceeds of A$68 million. The sale of these assets was announced to the market on 5 March 2012. Kagara is also progressing early-stage discussions for the introduction of a strategic partner to its Admiral Bay zinc asset in Western Australia.

However, the sharp drop in commodity prices and continued strength of the Australian Dollar have made it apparent that Kagara's business needs to be significantly restructured in the short-term before the broader elements of the 5-year growth strategy can be advanced. The postponement of certain activities are an extension to the restructuring which commenced at the start of this year by placing the Mungana underground mine on care and maintenance, substantially scaling back its exploration expenditure and introducing a series of cost containment measures across the business (*see December Quarterly Report – released on 13 January 2012*).

Whilst intentionally postponed to focus on its core profit generating operations the Company believes that the fundamental components of the 5-year growth strategy will continue to provide the backdrop to Kagara's future.

The Company continues to review its business outlook for the remainder of FY12 in light of the continued weakness in base metal prices, the continuing high Australian Dollar, ongoing volatility in global markets and the impacts of the first half financial results.

Operational Restructure

The Company has now implemented a series of initiatives (further to those already outlined in the December Quarterly Report) designed to streamline activities toward the most profitable elements of the business. These initiatives include:

- Re-focusing the Company's operations around zinc and copper production from the Balcooma underground operation and Baal Gammon open pit operation in the Central Mt Garnet region, with ore processed through the Mt Garnet treatment facility;
- Continuing Mungana underground mine in the Northern Region on care and maintenance;
- Suspending development of the West 45 underground mine at Thalanga and placing the mine on care and maintenance until a sustained improvement in zinc prices is evident;
- Moving the Thalanga processing operation in the Southern Thalanga Region onto care and maintenance once economic stockpiles are processed towards the end of March 2012;
- Suspending exploration activities in North Queensland until market conditions improve, but maintaining a focused exploration programme on the most prospective tenements; and
- Continuing to reduce corporate and administrative overheads to a level consistent with the changed operating base of the business.

The implementation of these initiatives will result in approximately 130 redundancies from its permanent workforce (excluding contractors) across the North Queensland operations and the Perth corporate headquarters, with the overall workforce (including contractors) being reduced to approximately 350.

As a key player in the resource sector in North Queensland, the Company deeply regrets the impact of these measures on its workforce. Meetings are being held by Senior Management representatives across the business and a recruitment consultant has been engaged to assist people impacted by these regrettable but necessary decisions to restructure the business.

Production Guidance

As a result of the operational restructure, Kagara provides updated production for its North Queensland base metal operations.

- Zinc production guidance for FY12 is now in the range of 43-47kt, compared with the previous guidance of 53-59kt; and
- Copper production guidance for FY12 is now in the range of 14-17kt, compared with the previous guidance of 17-20kt.

As a result of the implementation of the changes outlined above, Kagara expects to return to modest profitability during 2HFY12, subject to any further significant adverse movements in commodity prices and/or exchange rates.

The Company is confident that, by focusing on its core Central Region Operations, it will be in a strong position to weather the current downturn and be well placed to achieve its growth plans as conditions improve. The mid to longer-term outlook for zinc and copper prices is widely viewed as robust, especially in response to the closure of many major zinc mines over the coming few years.

A key part of these changes will be to retain a core team capable of ensuring that the Company's near-production assets (West 45, King Vol, Waterloo, Liontown) have all appropriate permits and approvals in place so they can be quickly moved into production as market conditions improve.

The Company will also be making an announcement on its Board restructure within the coming weeks.

The Company's core executive team will be reduced to Geoff Day (Managing Director), Paul Warme (Chief Financial Officer), Evan Spencer (Chief Operating Officer) and Mark Hands (EGM Corporate and Company Secretary).

The Board believes this core team has the experience and capability to lead Kagara through this challenging period and to reposition the Company appropriately to secure the value of its core assets and be in a position to reactivate its growth strategy as global conditions improve, as anticipated.

ENDS

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