



December 2011 Quarterly Update
Investor Teleconference and Live Webcast – 11 January 2012

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MINING
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Forward-Looking Statements Disclaimer



Forward-Looking Statements

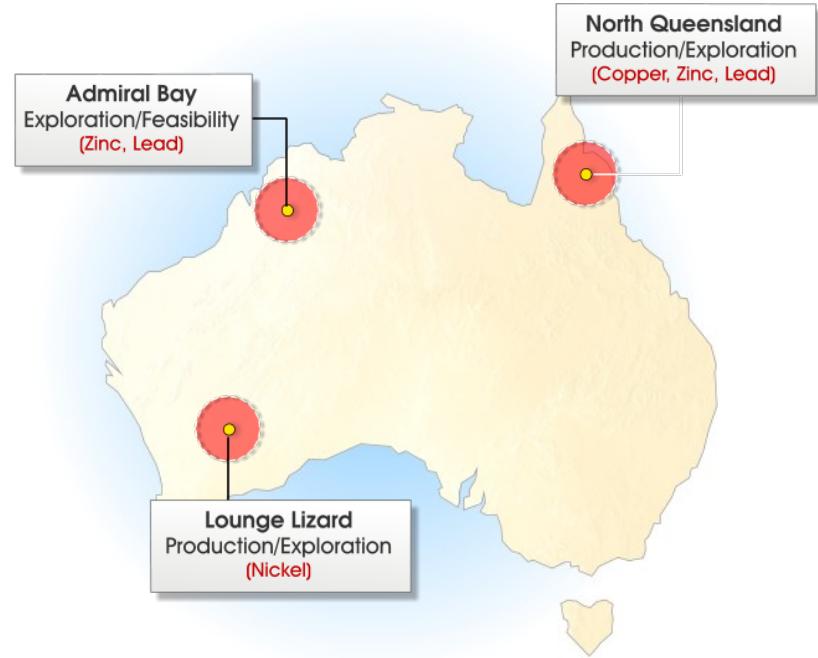
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Agenda

December 2011 Quarterly Update



- Overview
- Safety
- Production
- Operations:
 - *Mining*
 - *Processing*
- Financial
- Projects
- Exploration
- Corporate
- Full Year Outlook



Overview: A Quarter of Delivery and Challenge

Production & exploration results support 5-year strategy: commodity price falls erode margins



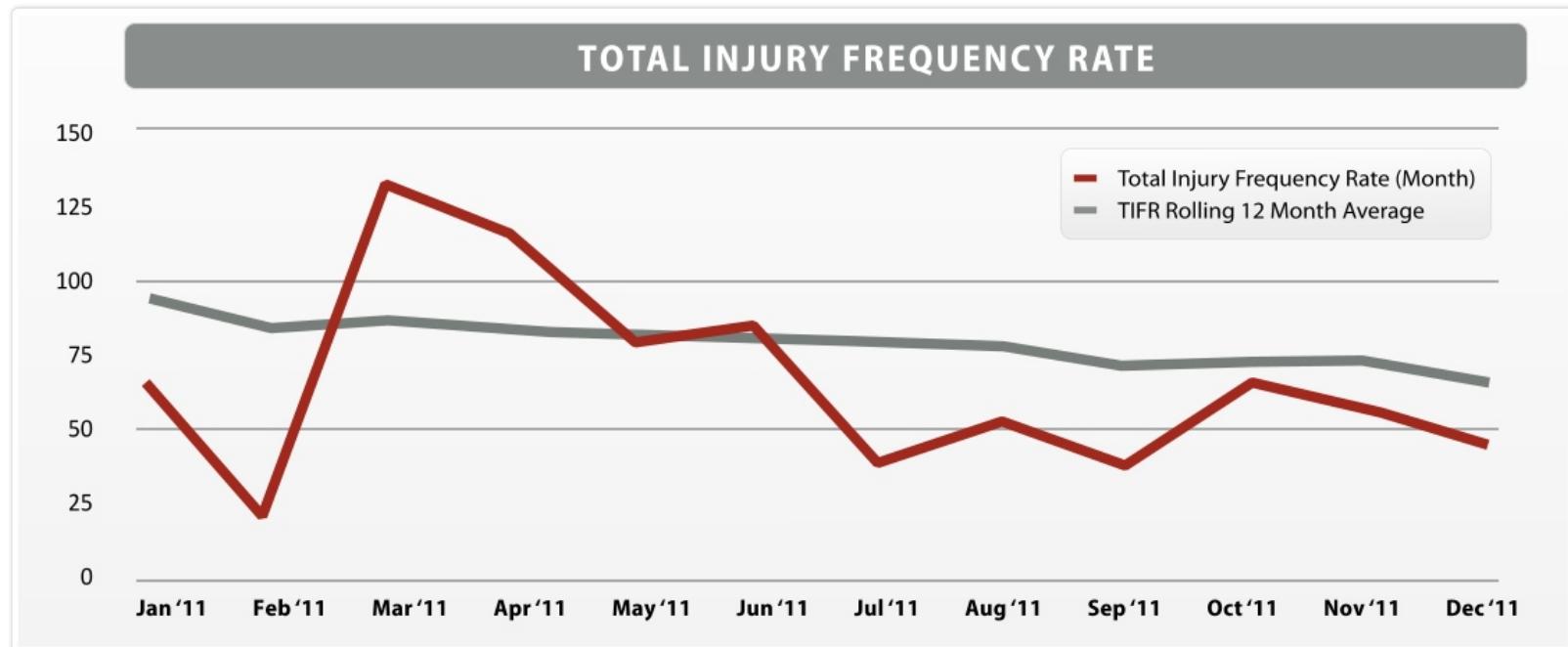
- ✓ Zinc production exceeds guidance
- ✓ Copper production within guidance despite 10-week delay in Baal Gammon start-up due to bureaucratic impediments
- ✓ FY12 metal production guidance maintained at **53-59ktpa** for zinc, **17-20ktpa** for copper
- ✓ 20% reduction in site controllable mining costs on \$/t basis
- ✓ 34,750m drilled with excellent results from King Vol, Redcap and Penzance supporting validity of 5-year growth strategy
- ✓ Activity and costs being tightly controlled to protect cash reserves and margins
- ✓ Einasleigh Copper Project acquisition completed
- ✓ Strengthened senior management team (COO)
- ✓ Increased project development expenditure
- ✓ Decrease in outstanding creditors
- ✓ Reduction in unsold concentrate stocks
- ✗ Deterioration in commodity prices erodes operating margins:
 - ✗ ~30% fall in zinc price and ~28% fall in copper price since July 2011
- ✗ Zinc cash costs increase on a \$/lb basis due to lower by-product credits from copper and budgeted lower production volumes
- ✗ Higher cash operating costs for copper due mainly to increased unit costs arising from budgeted lower production volumes
- ✗ Cash operating margins for zinc and copper reduced reflecting commodity price falls
- ✗ FY12 cash operating cost and EBITDA guidance being reviewed based on activity and cost management measures underway

Safety

Improved safety performance trend continued through the December Quarter



- 5 minor LTI's recorded for Q1FY12 (vs. 1 for Q1FY11)
- 12-month rolling average Total Injury Frequency Rate continued trending down:
 - $TIFR = 64.1$ for Q2FY12 vs. 68.9 for Q1FY11
- Safety Leadership behavioural program being prepared for Q3FY12 to support existing activities driving ongoing performance improvement

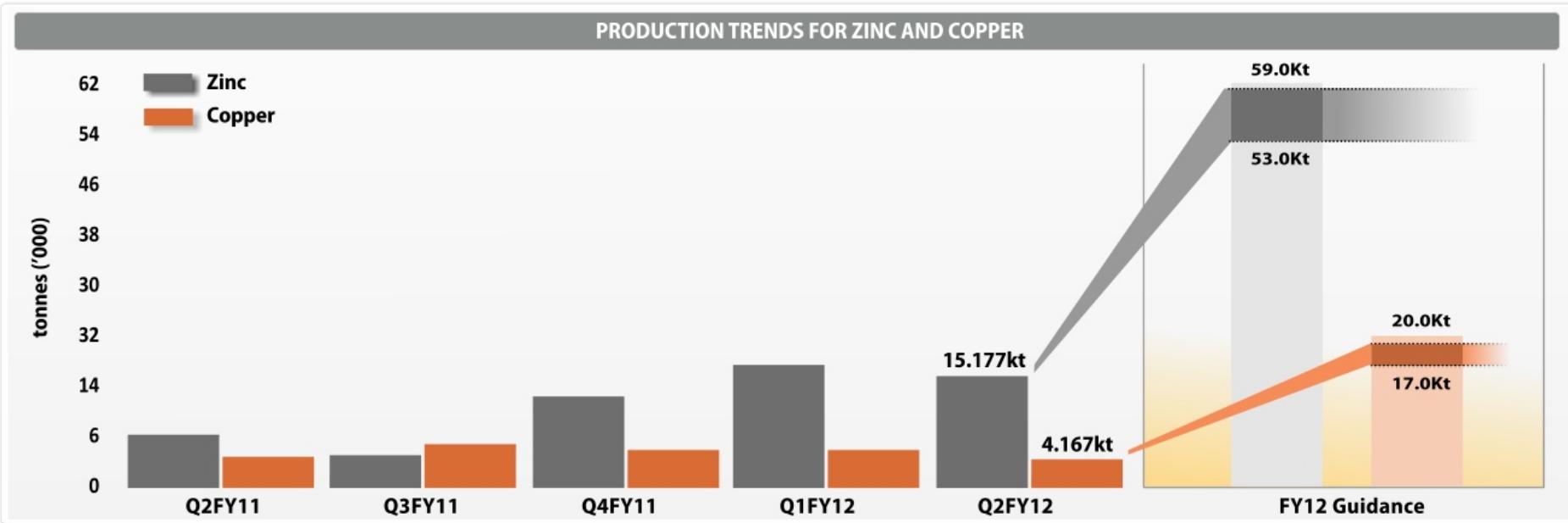


Production

Metal production meets or exceeds guidance, but volumes, as budgeted, lower than Q1FY12

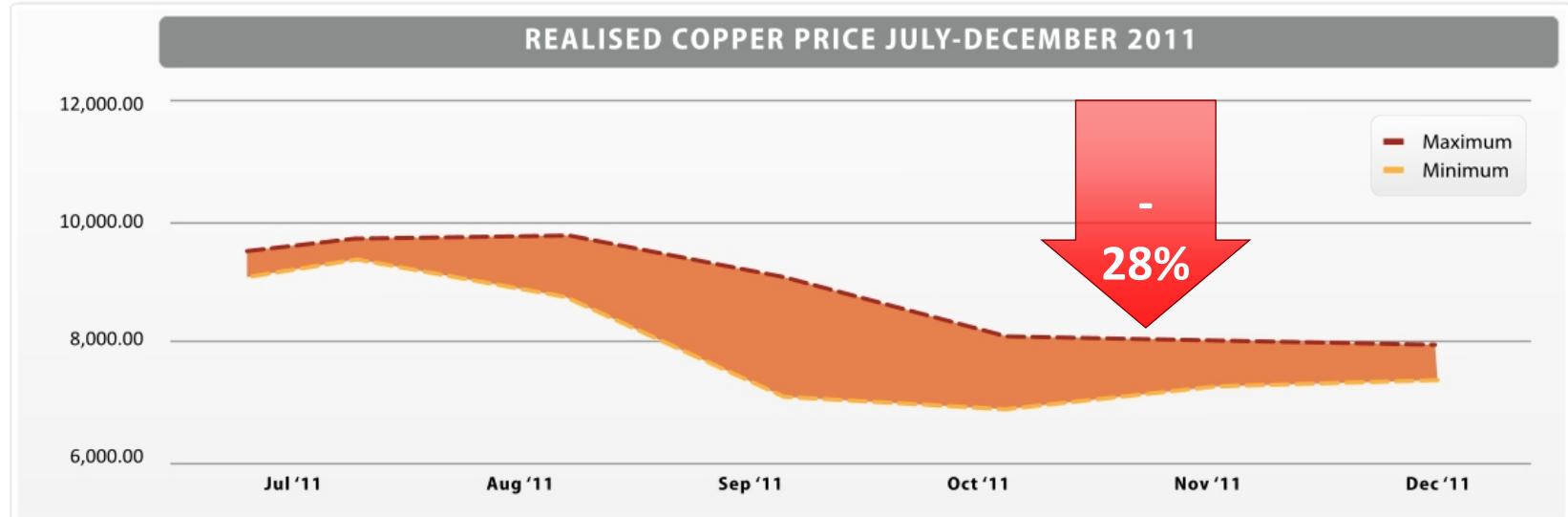
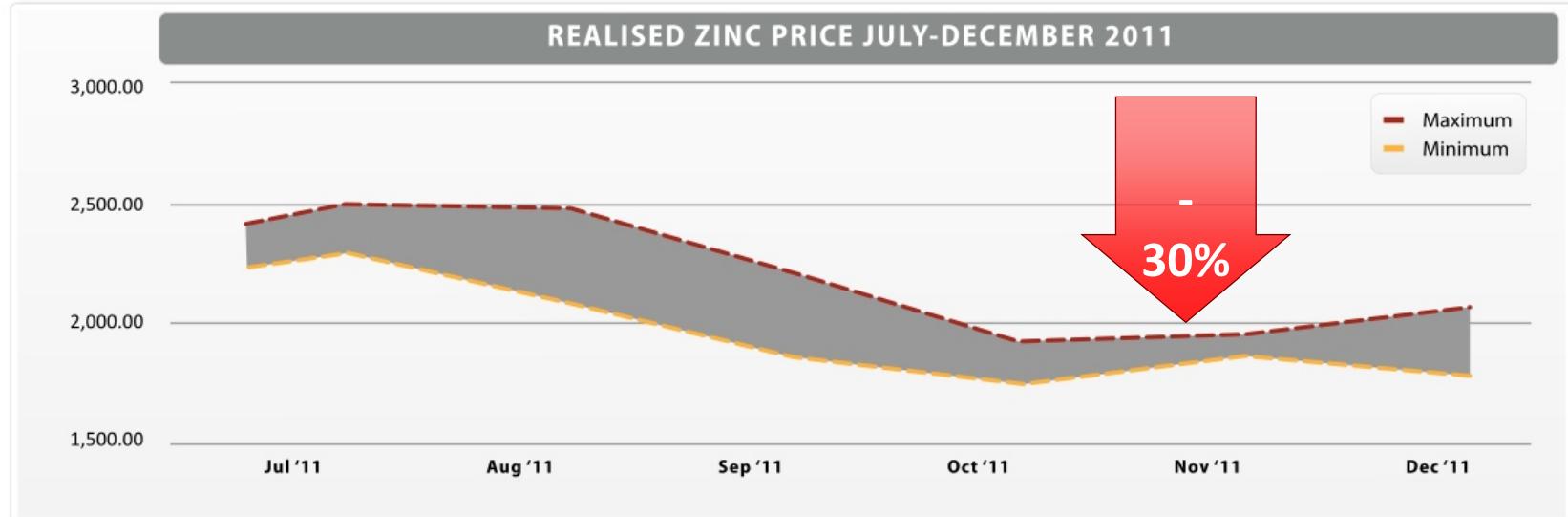


- Zinc production above guidance at **15,177t** (Q1FY12: 17,790t)
 - *1HFY12 zinc production = 32,967t*
- Copper production achieves guidance at **4,167t** despite delays at Baal Gammon (Q1FY12: 5,739t)
 - *1HFY12 copper production = 9,906t*
- Lead production of **918t** (Q1FY12: 1,463t)
- Nickel production of **436t** from Lounge Lizard (Q1FY12: 516t)
- Continued strong focus on production growth and cost control
- FY12 zinc production guidance maintained at **53-59kt**
- FY12 copper production guidance maintained at **17-20kt**



The Backdrop: Commodity Prices

28-30 per cent fall in zinc and copper prices seen over past six months



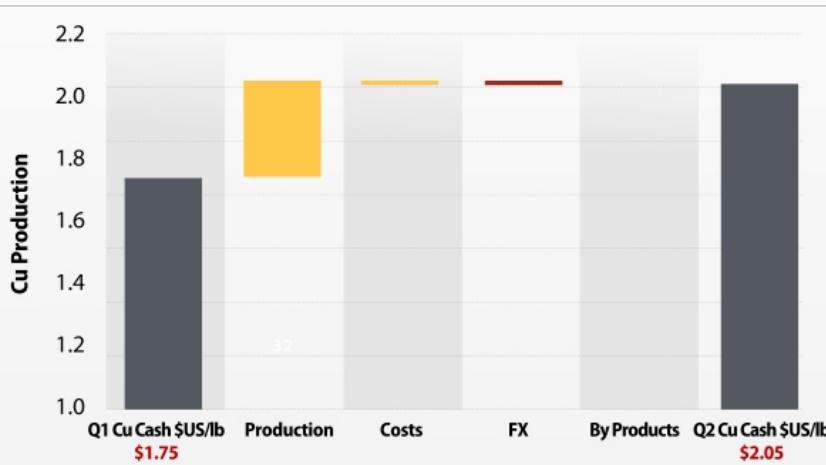
Cash Costs and Operating Margins

Site controllable mining costs reduced but unit cash costs increase due to price falls, volumes

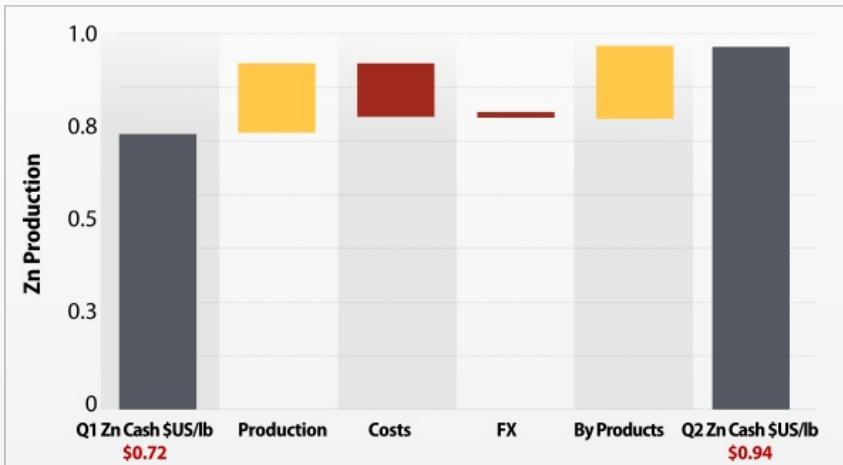


- Continued strong progress in enhancement of operating standards, reporting, cost reductions
- ~20% reduction in site controllable operating unit costs on \$/t basis
- Zinc cash costs increase to **US\$0.94/lb** (Q1FY12: US\$0.72/lb) mainly due to lower by-product revenue from copper and budgeted lower production:
 - *Cash operating margin for zinc reduced to -US\$0.08/lb reflecting ~30% fall in zinc prices since July 2011*
- Copper cash costs increase to **US\$2.05/lb** (Q1FY12: US\$1.74/lb) due to increased unit costs as a result of budgeted lower production
 - *Cash operating margin for copper reduced to US\$1.35/lb reflecting ~28% fall in copper prices since July 2011*

\$US/lb COPPER CASHCOSTS Q1 vs Q2



\$US/lb ZINC CASHCOSTS Q1 vs Q2

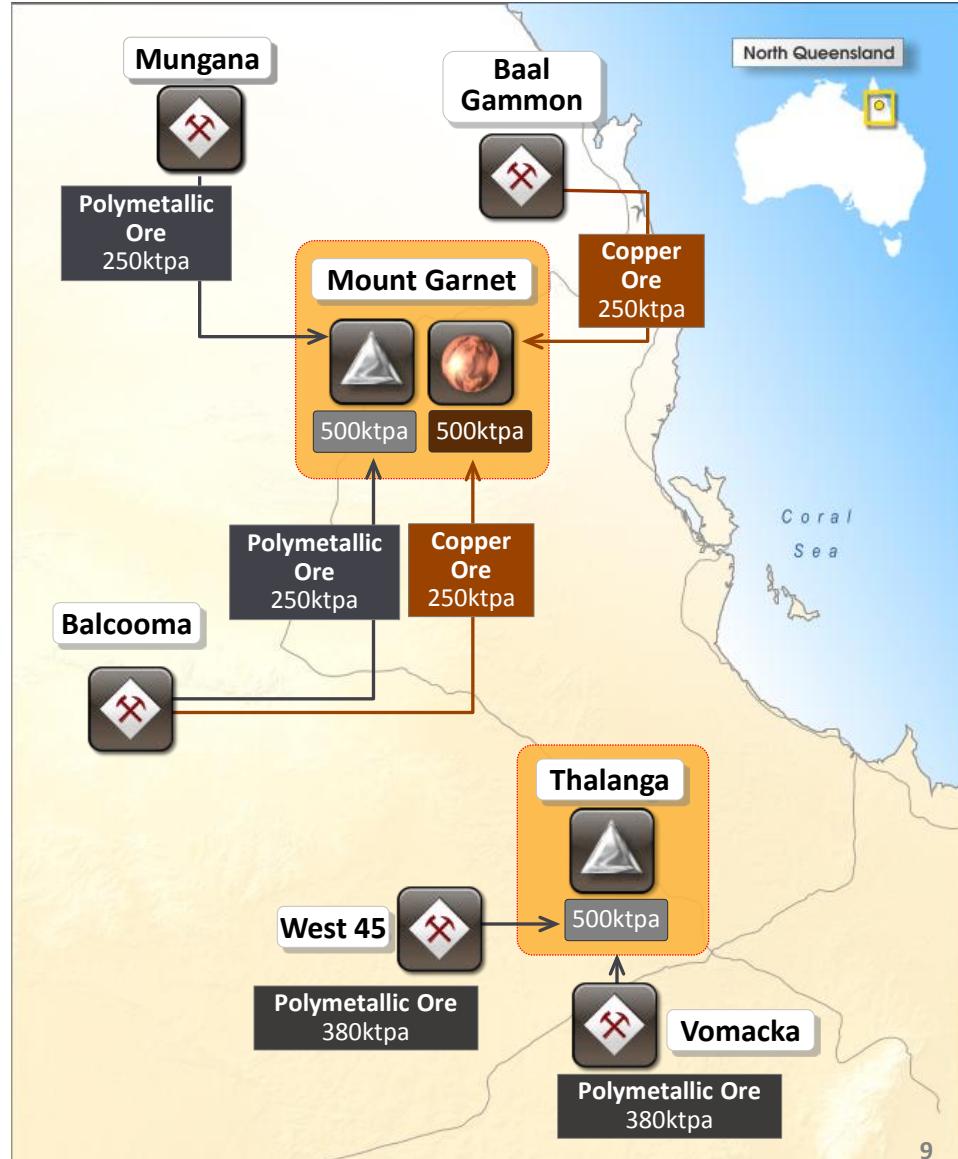


Operations – Mining

Continued progress in development of operating standards, reporting, mine design, scheduling



- **Mungana** underground:
 - Ore production in line with plan
 - Mining fleet and operators temporarily relocated to Balcooma
 - Switch to mains power completed
 - Full review of Ore Reserve, underground operations and life-of-mine plan underway
- **Balcooma** underground:
 - Copper ore production in line with plan
 - Higher tonnage mined to offset delays at Baal Gammon
- **Vomacka** open pit:
 - To be completed by mid-January 2012
- **West 45** underground:
 - 402m of development completed
- **Mt Garnet** underground:
 - Review of remaining opportunities and deeper resources underway

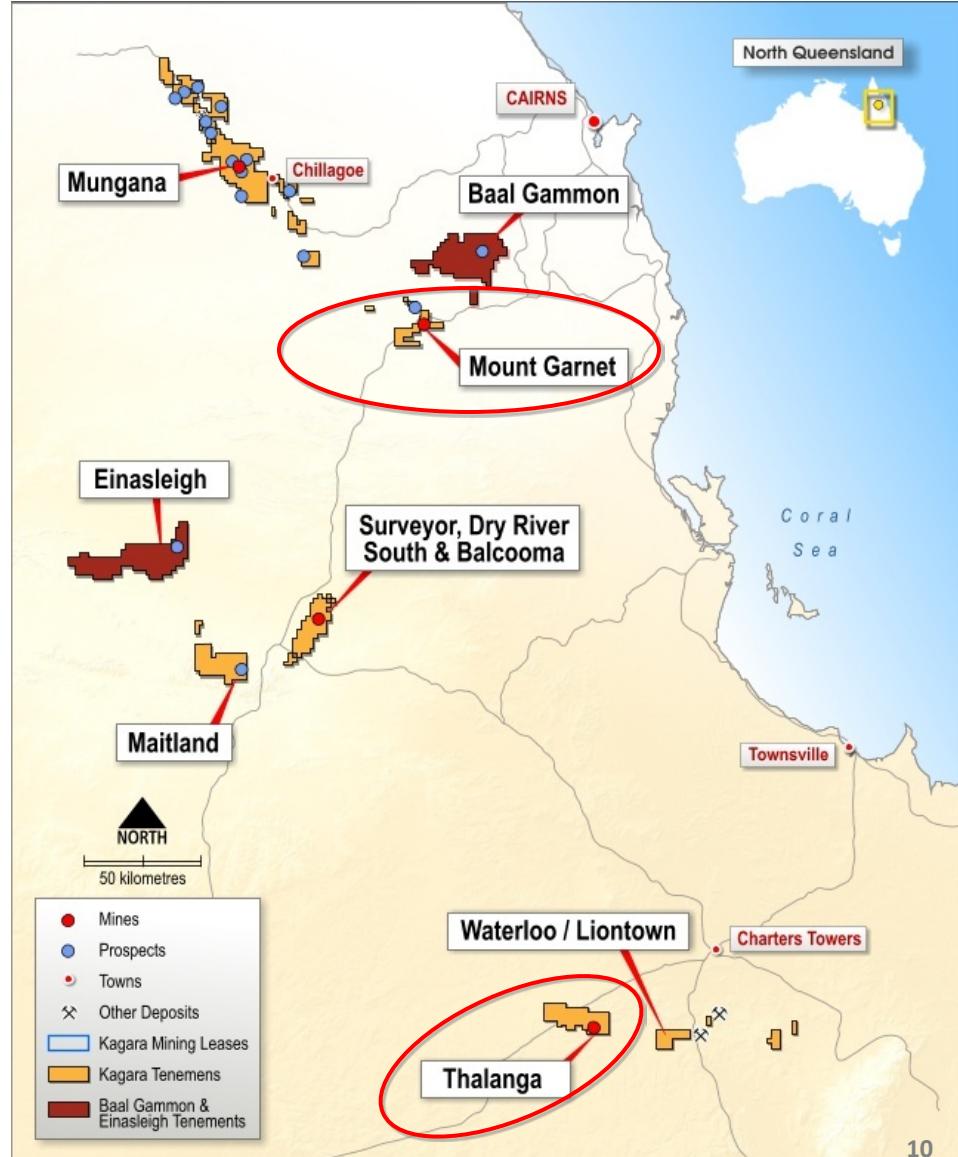


Operations – Processing

Strong performances from both processing centres: guidance achieved



- **Mt Garnet** Polymetallic & Copper:
 - Zinc production above upper guidance level
 - Lower copper production:
 - Lower grade mill feed: alternate mill feed sourced from Balcooma and reduced milling rates
 - Concentrate stocks reduced: new 2-year logistics contract working effectively
- **Thalanga** polymetallic:
 - Throughput in line with plan
 - Metal production lower: reflecting lower Cu, Pb and Zn grades

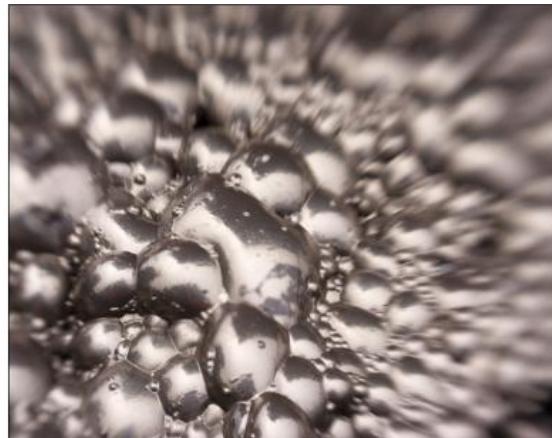


Quarterly Financial Overview

Lower commodity prices impact margins; exploration, mine development at high levels



- Cash operating margins reduced to US\$1.35/lb for copper and -US\$0.08/lb for zinc
- Average realised US\$ exchange rate = US\$1.01 (Q4FY11: US\$1.06)
- High level of expenditure quarter-on-quarter on:
 - *Exploration +A\$10M*
 - *Project/mine developments +A\$12M*
 - *Reduction in creditors -A\$10M*
- Consolidated cash on hand = A\$36.6M (Q1FY11: A\$58.5M), including:
 - A\$10.8M KZL, A\$25.8M consolidated from MUX
- Concentrate stockpiles = 14,861t (50% fall from Q1FY11: 31,144t), value = A\$13M, comprising:
 - *2,420t Cu concentrate, 10,325t of Zn concentrate, 2,116t of Pb concentrate*
- A\$25M institutional capital raising completed



Projects – Copper

Baal Gammon in production; new exploration decline at Balcooma; Einasleigh Project acquired



- Mining commenced at Baal Gammon: 26 September, first copper ore trucked to Mt Garnet: 28 November
- In-fill and resource confirmation drilling completed – new resource estimate:

Resource Category	Volume	Tonnes	Cu%	Ag g/t	Sn%
Inferred	10,492	30,636	0.6	18	0.1
Indicated	918,324	2,769,385	1.0	40	0.2
Total	928,816	2,800,021	1.0	40	0.2

- Includes higher grade zone comprising massive sulphide mineralisation:

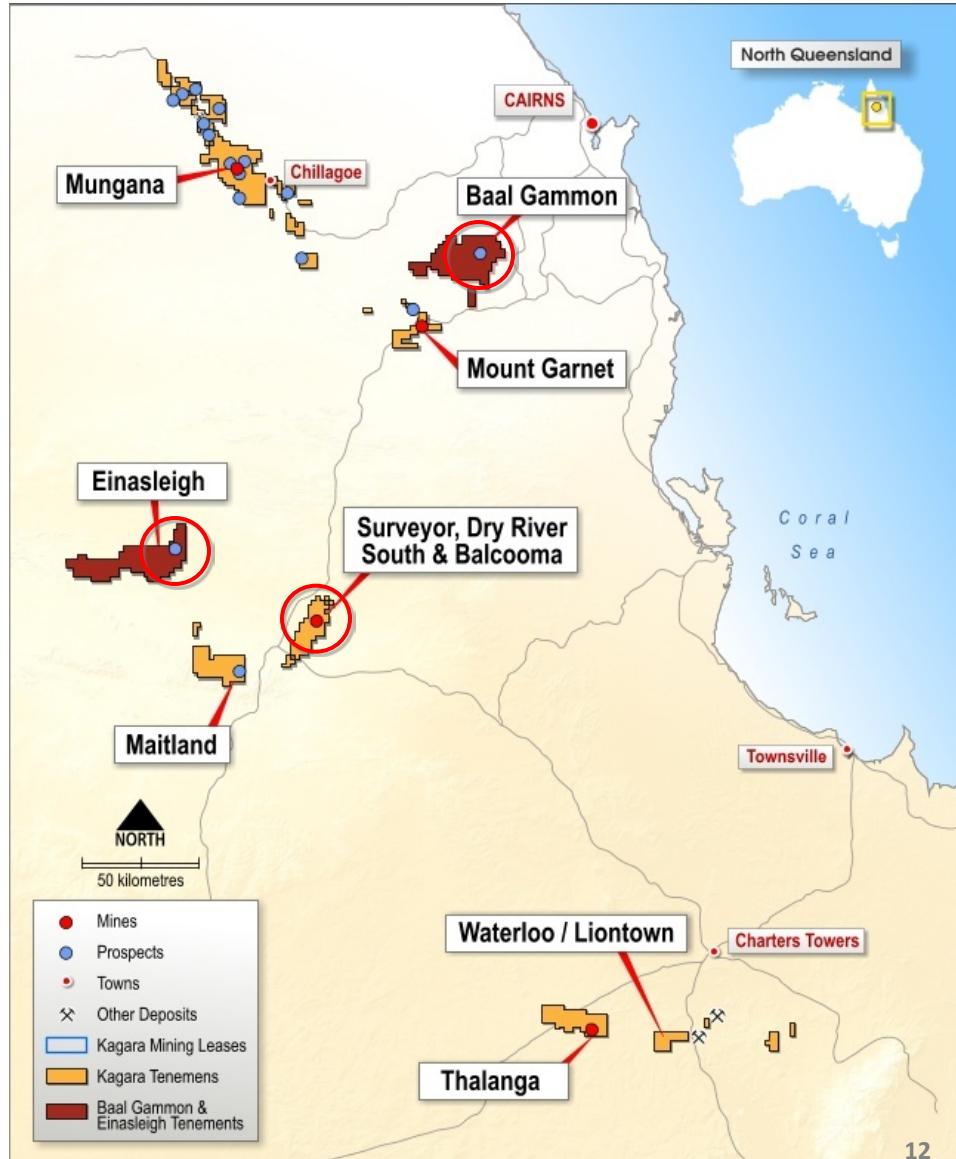
Resource Category	Volume	Tonnes	Cu%	Ag g/t	Sn%
Inferred	238,621	825,629	2.5	96	0.4
Indicated	1,047	3,622	2.7	94	0.4
Total	239,668	829,251	2.5	96	0.4

- New resource for Balcooma North:

Category	Volume	Tonnes	Cu%	Pb%	Zn%	Ag g/t	SG
Indicated	39,406	120,578	2.0	0.0	0.1	6	3.06
Inferred	4,531	12,482	2.3	0.1	0.2	11	2.75
TOTAL	43,937	133,060	2.0	0.0	0.1	6	3.00

- Exploration decline commenced – first production scheduled for Q3FY12
- Acquisition of Einasleigh Project from Copper Strike completed: +31kt Cu metal¹

¹ Measured, Indicated and Inferred Resource of 15Mt @ 0.84% Cu for Kaiser Bill and 1.1Mt @ 2.9% Cu for Einasleigh – Mining One Report (table 1) contained in the Independent Expert Report of CSE's Target Statement



Projects – Zinc

West 45 development nearing ore, in-fill drilling at King Vol, Balcooma resource increase

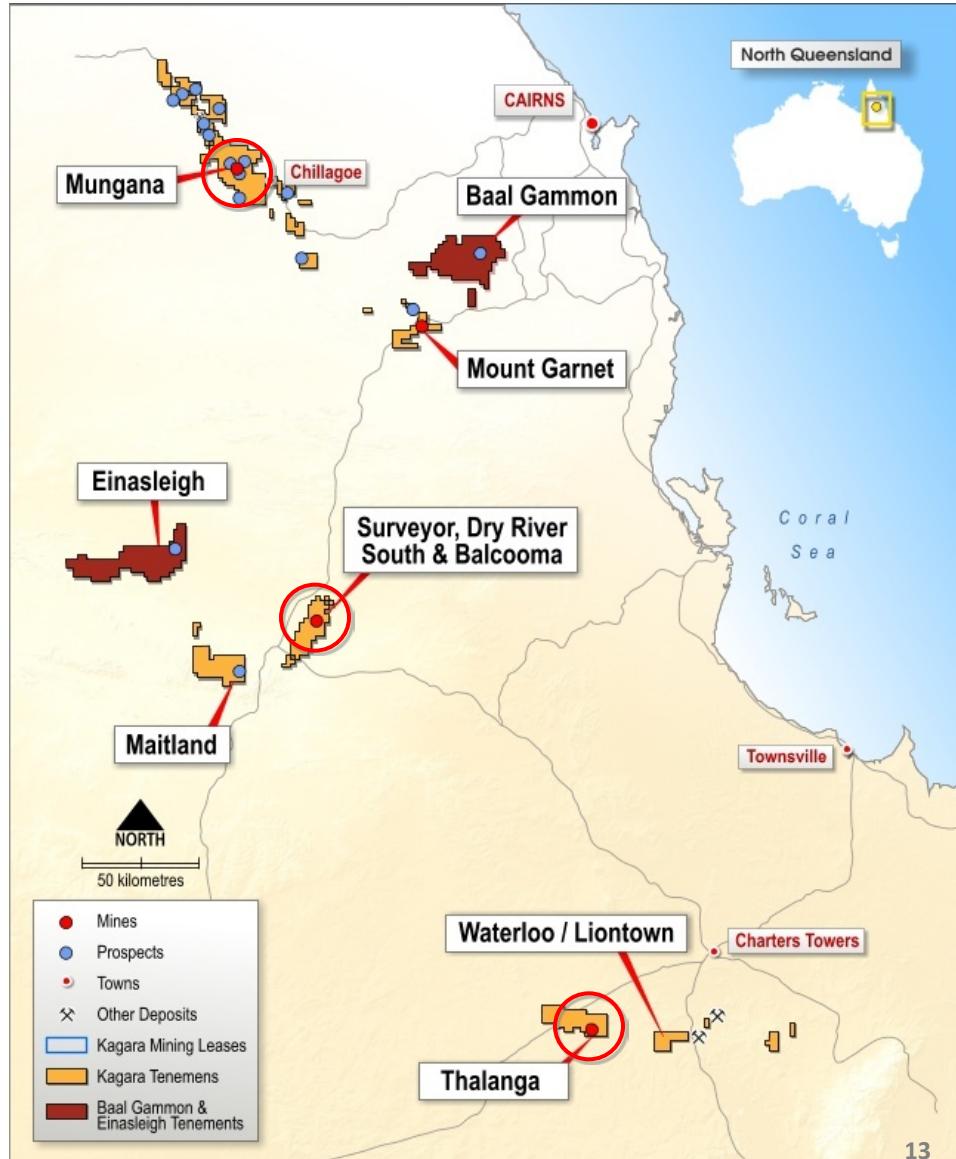


- In-fill drilling continued at King Vol¹ with new resource due by end of January 2012
- King Vol permits received for drilling of dewatering bores – drilling to commence mid-January
- Significant increase in resource for Balcooma No. 2 Lens:

Lens	Category	tonnes	Cu %	Pb %	Zn %	Ag g/t	Au g/t
Lens 2 Main	Indicated	294,427	1.0	2.9	6.6	41	0.46
	Inferred	442,842	1.5	1.4	3.6	28	0.36
	Total	737,269	1.3	2.0	4.8	33	0.4
Lens 2 HW Main	Indicated	6,033	0.5	2.3	3.7	16	0.13
	Total	6,033	0.5	2.3	3.7	16	0.13
	Inferred	6,033	0.5	2.3	3.7	16	0.13
Lens 2 HW 1	Indicated	134,831	1.3	1.8	4.5	28	0.21
	Total	134,831	1.3	1.8	4.5	28	0.21
Lens 2 HW 2	Indicated	27,239	1.4	0.1	0.3	8	0.1
	Inferred	83,700	1.6	0.1	0.2	10	0.09
	Total	110,939	1.5	0.1	0.2	9	0.09
Lens 2 Main Ext	Indicated	42,891	1.1	1.3	2.8	16	0.27
	Total	42,891	1.1	1.3	2.8	16	0.27
TOTAL	Indicated	456,497	1.1	2.4	5.6	35	0.36
	Inferred	575,466	1.5	1.2	3.1	24	0.31
	TOTAL	1,031,963	1.3	1.7	4.2	29	0.34

- West 45 decline currently advanced +341m; 90m remaining to reach first ore

¹ Ore Reserve 1.3Mt @ 11.2% Zn, 0.7% Cu for 145,000t contained Zn, 9,100t contained Cu, additional Inferred Resource of 2.0Mt @ 14% Zn, 0.8% Cu for 280,000t contained Zn, 16,000t contained Cu

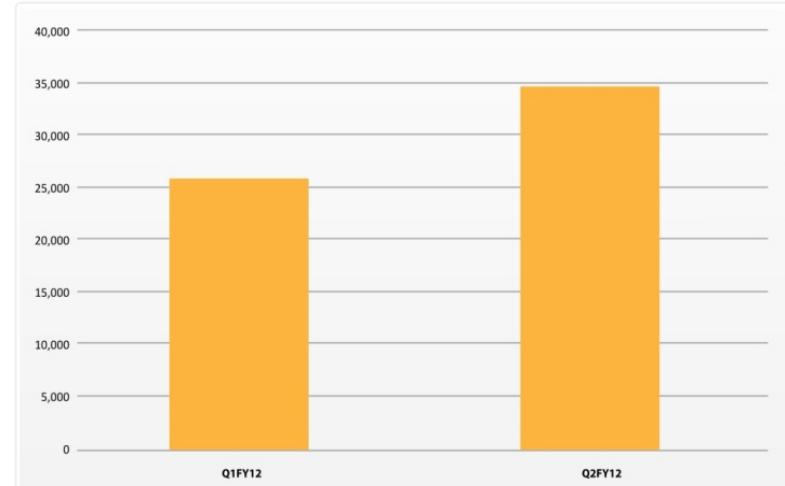
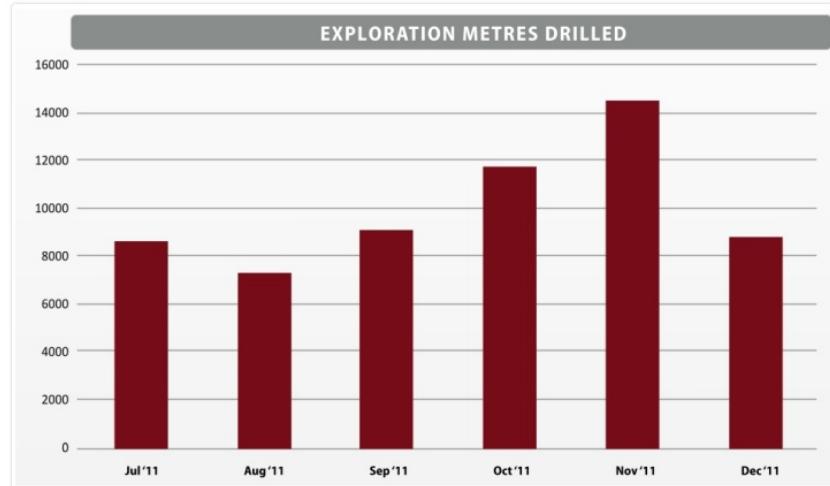


Exploration – Key Quarterly Highlights

Drilling delivering excellent results, supporting objectives of A\$50M exploration drive



- 34,750m of drilling completed for Q2FY12 – 15% above Q2FY12 guidance
- Exploration expenditure on budget, 1HFY12: \$15.5M vs. budget of \$16.9M
- Spectacular intersections returned from King Vol demonstrating potential for significant tonnage of very high-grade mineralisation:
 - *17.85m @ 30.9% Zn, 1.4% Cu and 22g/t Ag from 282.95m*
- Excellent results extend Morrisons and Queensland lodes at Redcap – maiden resource due end January 2012
- Highest grade Zn+Pb intersection to date returned from Redcap – 5m @ 31.63% Zn, 29.13% Pb, 302g/t Ag from 245.4m
- Significant new zone of copper discovered at Penzance, 1km SW of Morrisons:
 - *12.7m @ 4.9% Cu, 88g/t Ag; 16.3m @ 2.1% Cu, 24g/t Ag, incl. 5.5m @ 3.6% Cu, 42g/t Ag*
- Updated North Queensland resource inventory due to be announced late January 2012

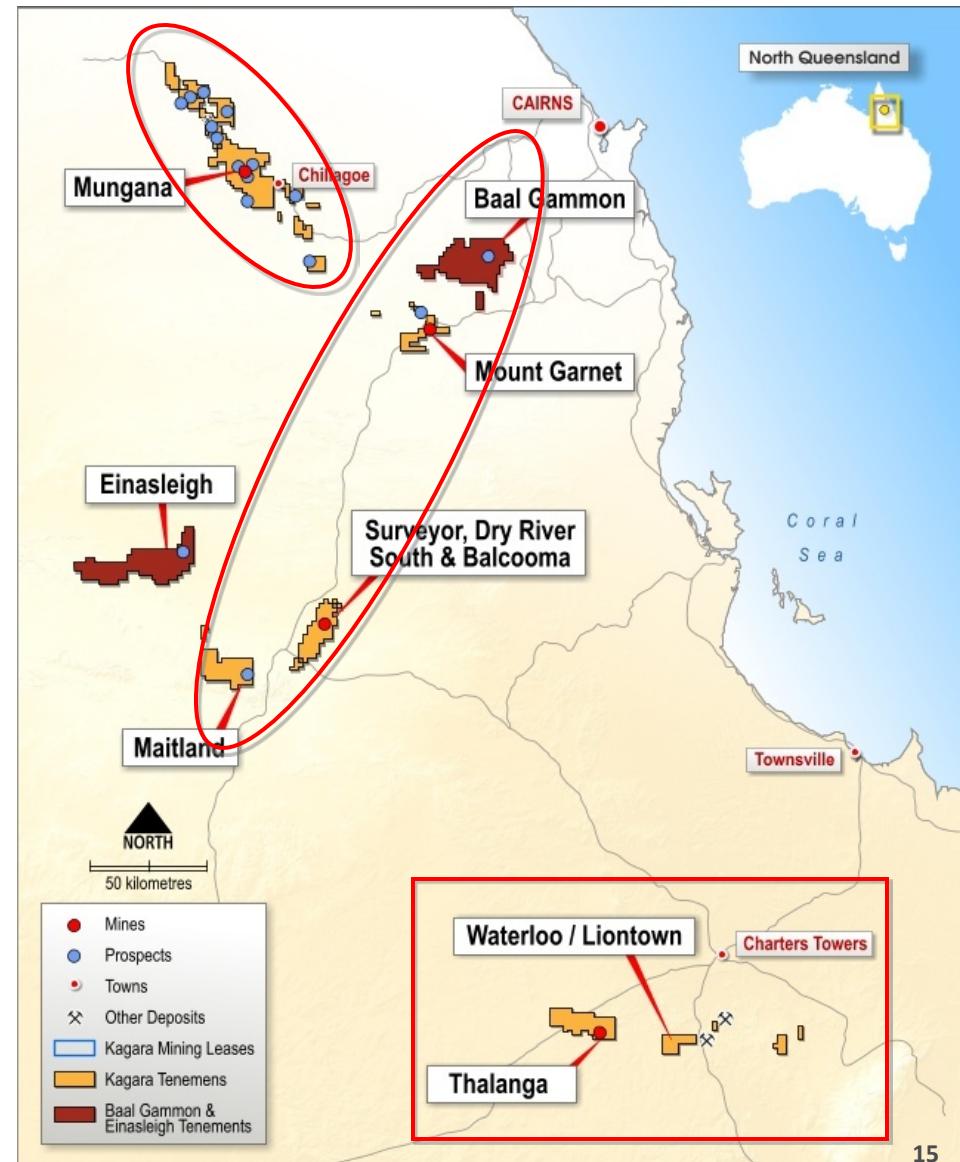


Recap of Kagara's Strategy

An outstanding asset base to underpin the growth strategy



- \$50M exploration spend over two years to rebuild KZL's resource inventory
- Strategy has two key milestones:
 - *8-12 year production profile (2 years)*
 - *10-15 year production profile*
- 8-12 year production from 1 or 2 mining developments per province
- This translates to 6-10Mt of resources per province

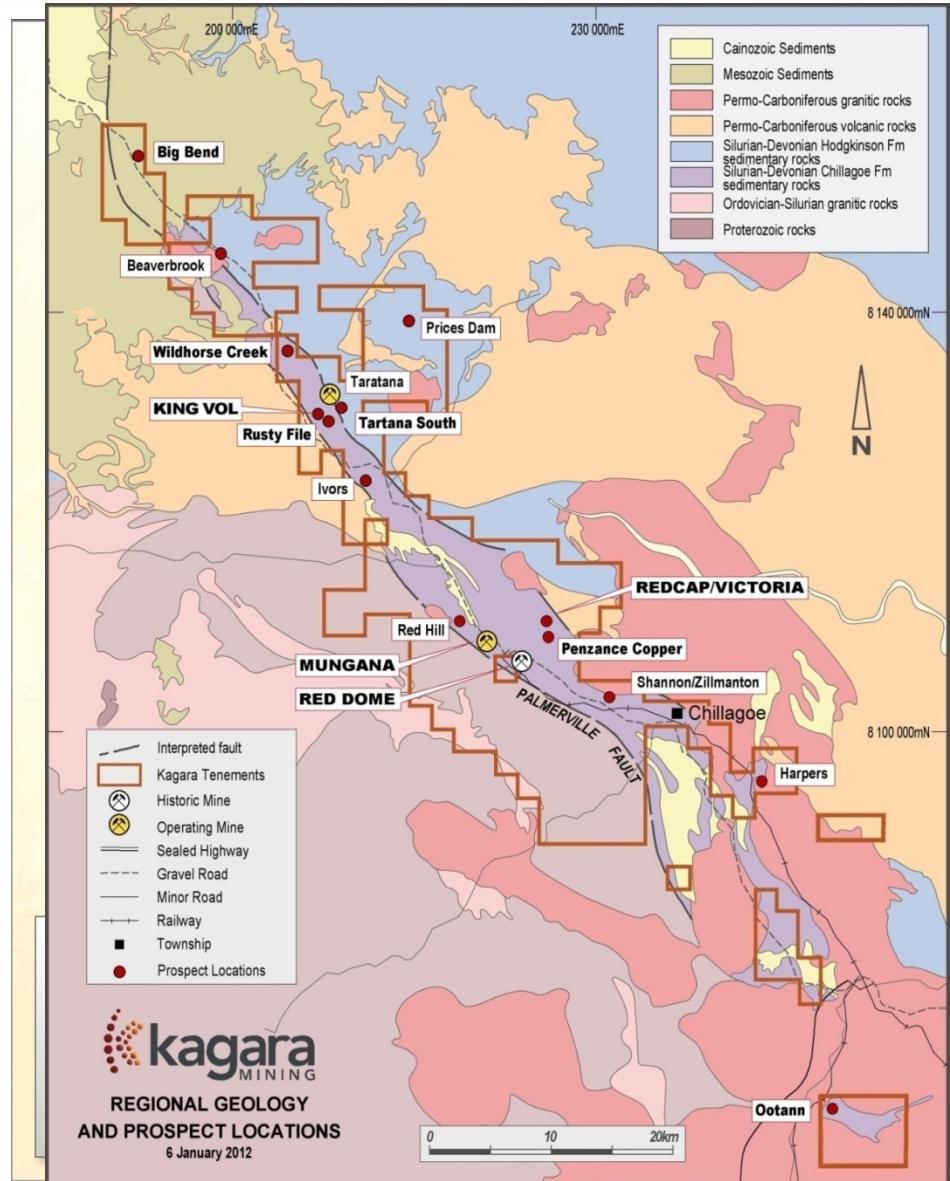


Chillagoe Region – Quarterly Exploration Summary

The engine room of Kagara's zinc and polymetallic production growth



- Extensional and in-fill drilling completed at King Vol – 8,007.7m:
 - *Outstanding results received*
 - *Potential for significant tonnage of very high-grade mineralisation confirmed*
- Extensional and in-fill drilling at Redcap – 9,458.8m:
 - *Excellent results extend Queensland and Morrisons Lodes*
 - *Highest Zn+Pb intersection to date received 500m NW of Queenslander lode*
 - *Maiden resource due January 2012*
 - *Significant new copper discovery at Penzance, 1km SW of Morrisons*
- Regional Reverse Circulation Percussion (RCP) drilling program to test strong geochemical targets – 8,414m:
 - *Redcap, King Vol, Rusty File, Wildhorse Creek, Tartana, Ootan*

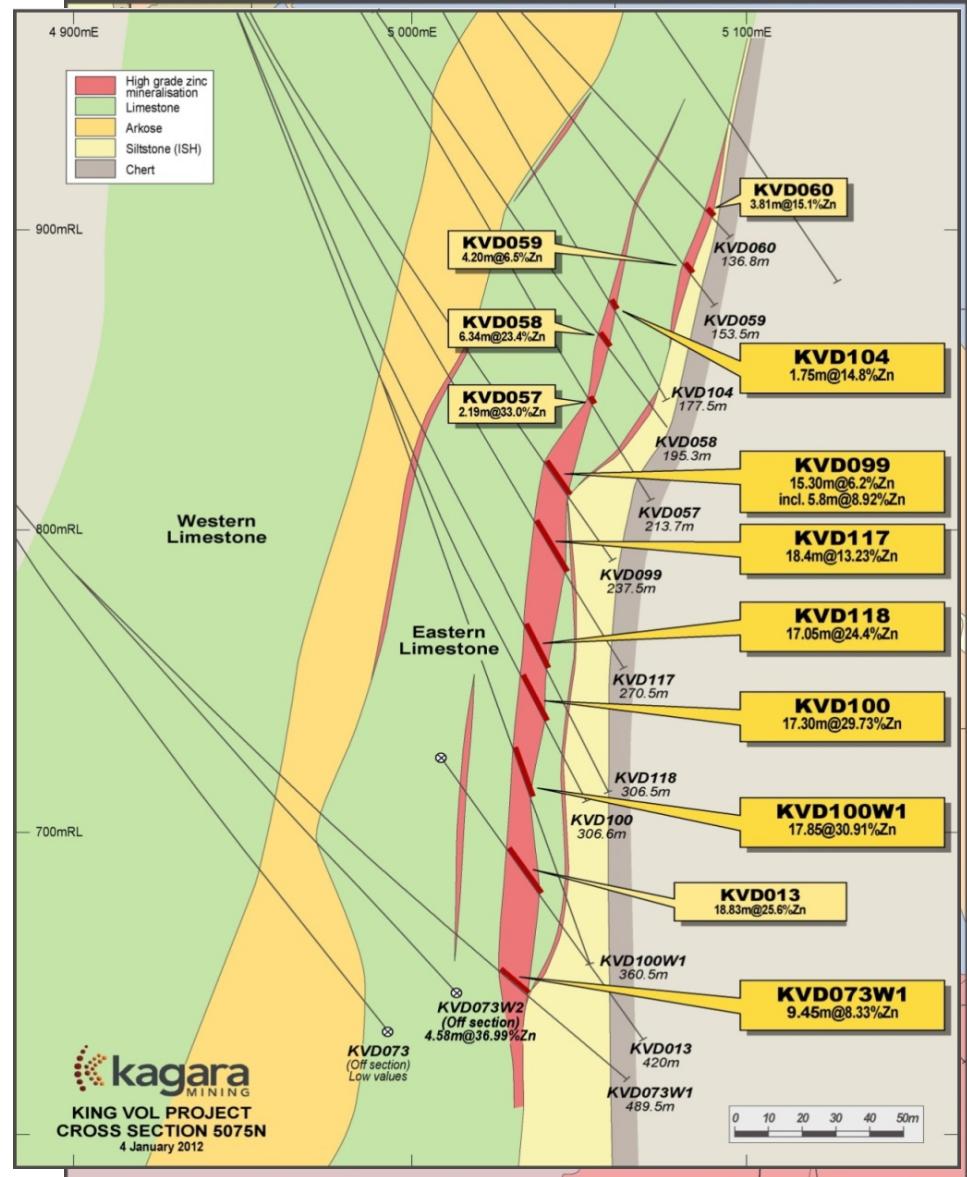


King Vol – Continuing to Grow in Stature

Spectacular intersections demonstrate potential for high-grade zone



- First phase of in-fill and extensional drilling completed
- New resource to be published by end of January 2012
- In fill-drilling focused on Eastern Zone Mineralisation with results including:
 - *18.4m @ 13.2% Zn, 0.6% Cu*
 - *17.1m @ 24.4% Zn, 0.6% Cu*
 - *17.3m @ 29.7% Zn, 1.5% Cu*
 - *17.9m @ 30.9% Zn, 1.4% Cu*

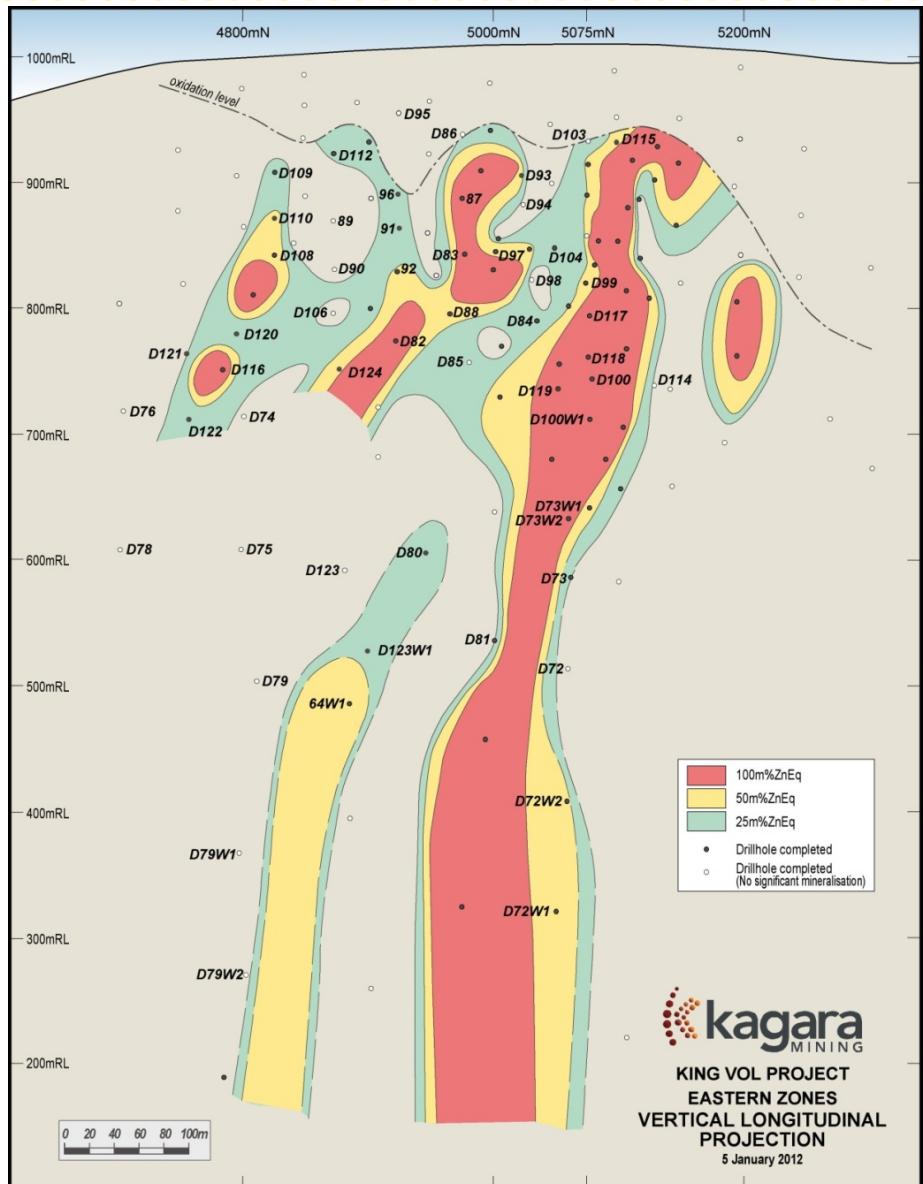


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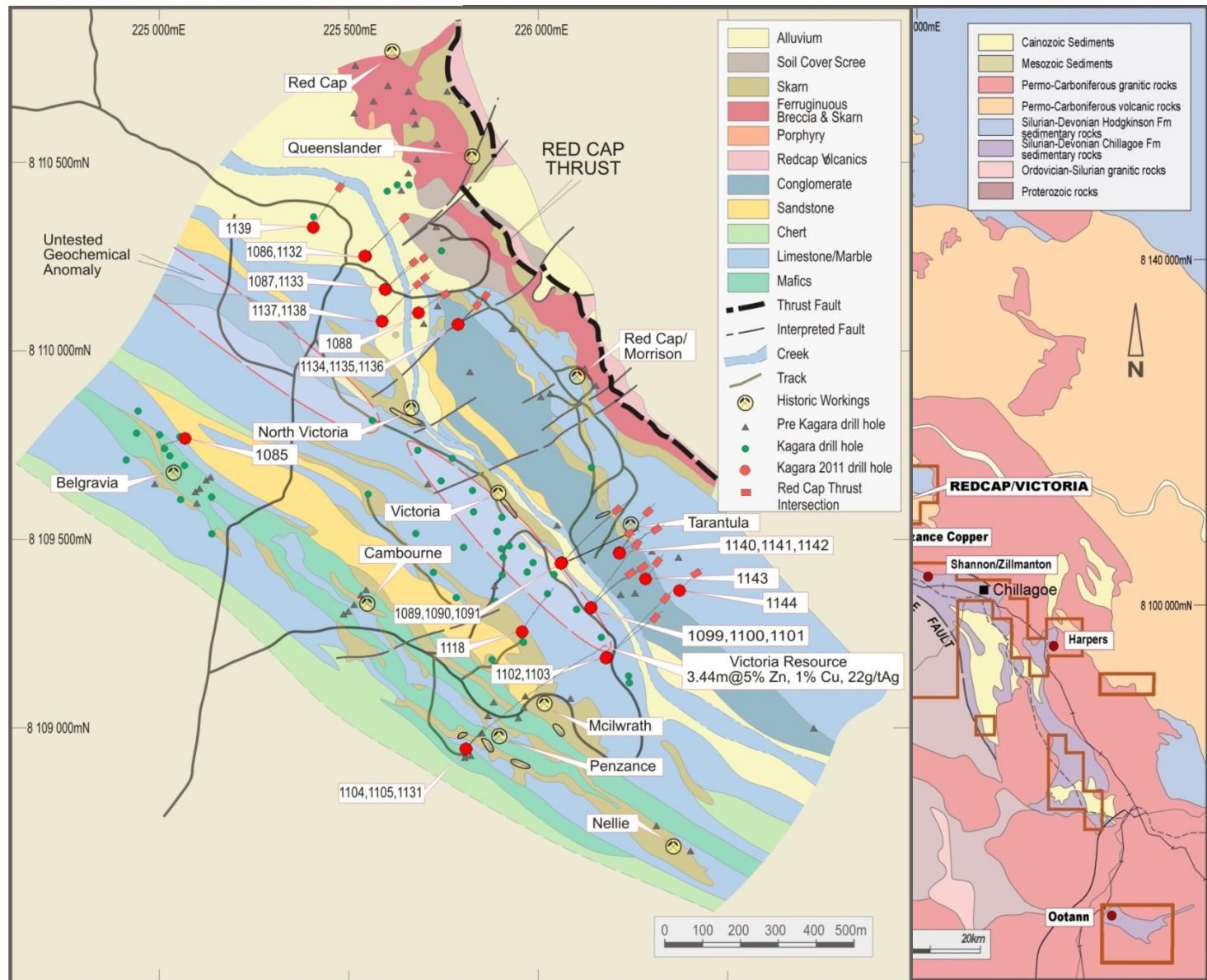


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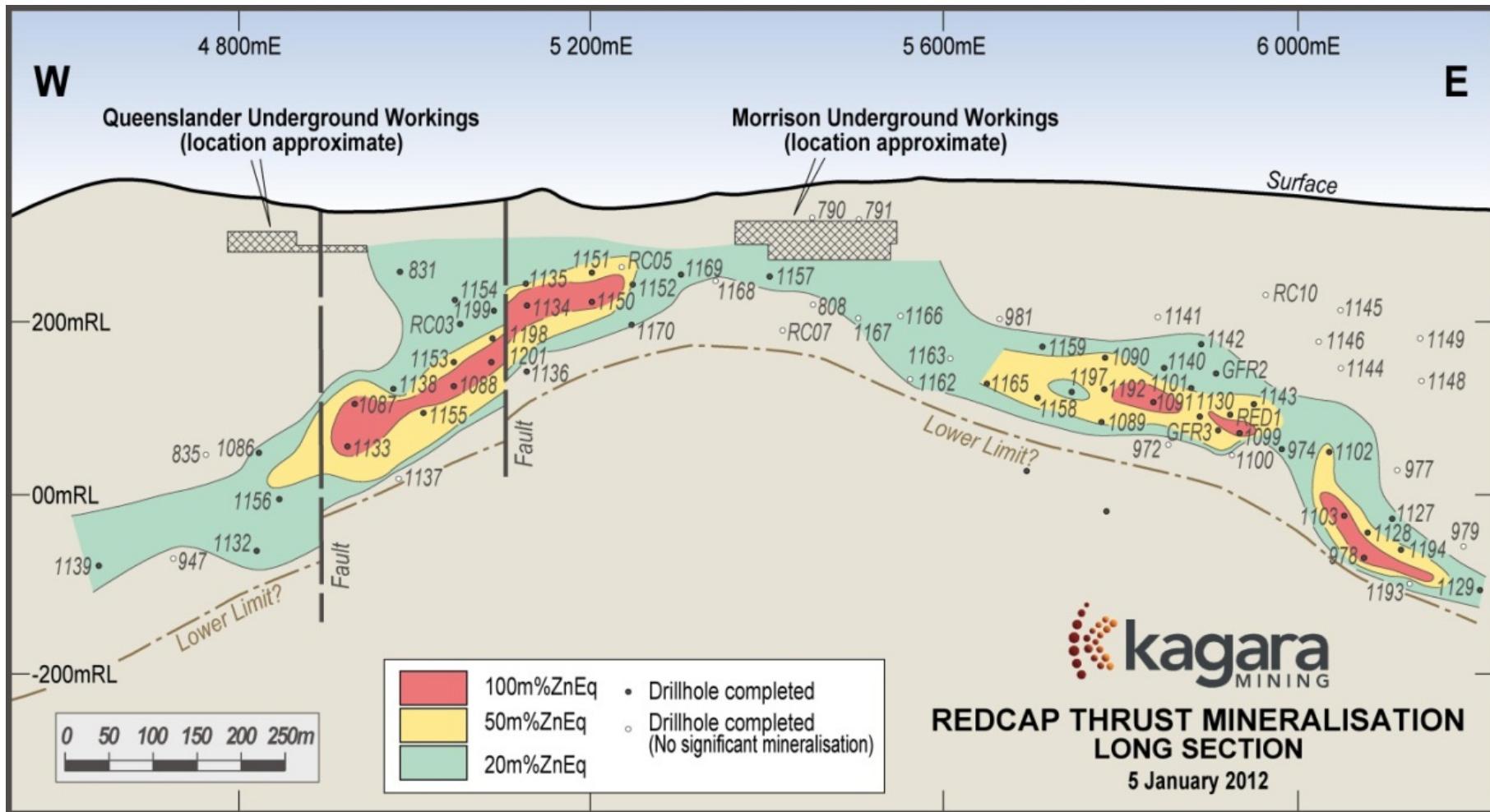
Chillagoe Region – Redcap

Drilling demonstrates potential for thrust zone to host high-grade, zinc-rich mineralisation



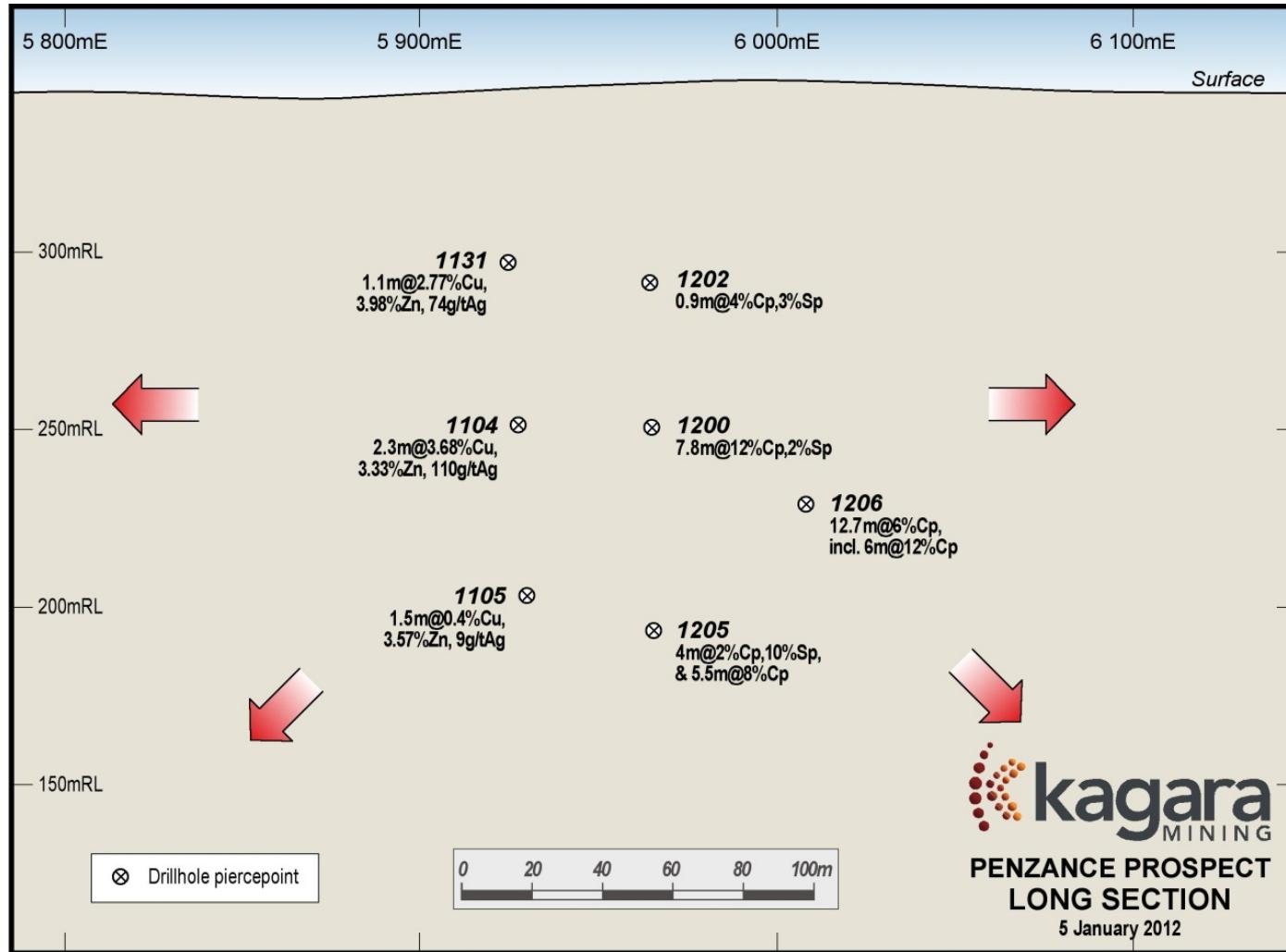
Redcap Long Section

Drilling extends Morrisons and Queenslander lodes



Penzance – An Exciting New Copper Discovery

Significant new copper zone discovered 1km SW of Morrisons lode



Corporate



- Acquisition of Einasleigh Copper Project completed from Copper Strike
- Process for seeking equity or JV partners for Admiral Bay continuing
- Lounge Lizard: a number of parties have moved to second stage of the process – aiming for Q3FY12 completion
- Experienced resource industry executive Mark Hands appointed as Executive General Manager Corporate following retirement of David Peterson



FY12 Outlook

Maintaining tight cost control in current market while preserving growth focus



- Full year production guidance maintained
- Continued exploration to support 5-year growth plan
- Commodity prices expected to recover mid-year
- Activity management:
 - *Suspend wet season operations at Mungana when ore would normally be stockpiled*
 - *Review cut-off grade strategy*
 - *Reduce some drilling expenditure*
- Cost control initiatives being implemented:
 - *Reduction in administration and corporate overheads*
 - *Redeployment of some staff with some non-permanent contractors to be stood down*
- Preserve cash margins – maintain cash reserves
 - *To be monitored on monthly basis*



Competent Person's Statement



Compliance with JORC Code assessment criteria

The Mineral Resource Statements have 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 Presentation 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
King Vol resource and reserve	Mr Ian Hodkinson, formerly Chief Mine Geologist, Kagara Ltd
Balcooma North Copper Resource	Mr Andrew Beaton, General Manager Resource Development, Kagara Ltd
Balcooma No. 2 Lens Resource	Mr Andrew Beaton, General Manager Resource Development, Kagara Ltd
Reporting of exploration results	Mr Ian Morrison, General Manager Exploration, Kagara Ltd
Baal Gammon Copper Project	Mr Andrew Beaton, General Manager Resource Development, Kagara Ltd

JORC – Exploration Targets

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 presentation 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.



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