

# Kagara Limited (ASX:KZL) North Queensland Exploration Update December 2011

04.12.2011 | [ABN Newswire](#)

08:23 AEST Dec 5, 2011 ABN Newswire (C) 2004-2011 Asia Business News PL. All Rights Reserved.

Perth, Australia (ABN Newswire) - Kagara Limited (ASX:KZL) is pleased to provide an update on its exploration programs in North Queensland, which are continuing to ramp up and deliver encouraging results on a number of fronts - providing strong support for the resource growth targets outlined in the Company's recently announced 5-year growth strategy.

The 5-year strategy presentation, which was released in Chillagoe on September 21 (refer to the Company's web site or the ASX Company Announcements Platform - 21 September 2011), established firm targets and guidance for planned exploration expenditure (A\$50 million exploration budget for FY12 and FY13) as well as drilling metres and resource growth targets from this significant exploration commitment.

As outlined in the September 2011 Quarterly Report, drilling metres for Q1FY12 were 13,000m below guidance (at 26,000m) due to the late arrival of the Reverse Circulation (RC) rig at Chillagoe and late commencement of drilling at Lounge Lizard.

The Company is on track to make up this shortfall with a steady increase in metres drilled during Q2FY12 to over 14,000m for the month of November, as shown below:

This substantial exploration push reflects Kagara's confidence in the exploration potential of its North Queensland assets and its overall commitment to the North Queensland region as a core focus for its operations and projects over the coming years.

The principal objective of the A\$50 million exploration program for FY12 and FY13 was to develop and increase the resource base from the Company's three operating regions in North Queensland (Northern Chillagoe Region, Central Mt Garnet Region and Southern Thalanga Region) in order sustain increased zinc and copper production targets of 120ktpa zinc and 30ktpa copper for at least 8-12 years.

Beyond FY13, the focus of exploration and resource development will be to increase mineral resources to sustain increased production levels for 15+ years.

In the strategy release of 21 September 2011, Kagara advised the market that it would be updating its resource inventory at the end of January 2012.

The Company and the market clearly acknowledge that Kagara's current growth strategy is directly linked to its exploration success. This release is provided as a progress update towards achieving the Company's strategic resource development goals, consistent with the Company's commitment to more frequent and transparent reporting to the market.

Kagara also notes that its tenement holding in the very prospective North Queensland region has increased by 45 per cent to 2,858 square kilometres over the past six months. This increase results from the Strategic Alliance with Monto Minerals Limited and the acquisition of the Einasleigh Copper Project from Copper Strike Limited and provides the Company with a deep pipeline of future exploration targets and opportunities once it achieves the initial resource growth objectives outlined in the 5-year strategy presentation.

As outlined in the Company's strategic plan released in late September 2011, the aim of exploration drilling in the Northern Chillagoe Region in particular is to define sufficient resources and reserves to justify the completion of the Mungana concentrator - an extremely important milestone in the Company's strategy to

underpin sustained zinc production growth targets.

Diamond drilling is also continuing at the Company's Lounge Lizard Nickel Project in Western Australia and is due to be completed before Christmas. The results of this drilling will be reported separately once they become available.

#### King Vol Polymetallic Deposit (Northern Chillagoe Region)

A program of in-fill and extensional drilling has been undertaken at King Vol since August 2011 which has returned some spectacular zinc intersections. The aim of the drilling program was twofold:

- to test for extensions to the known resource at depth and along strike; and
- to in-fill the current resource on 25m centres to assist with mine planning to improve the integrity of the current resource and reserve prior to mining, consistent with the improved governance processes implemented recently by the Company for Mineral Resource and Ore Reserve delineation and management.

Drilling is still underway and a large number of assays are yet to be received; however, close-spaced drilling indicates that the King Vol probable Ore Reserve will host a significant tonnage of very high-grade zinc mineralisation associated with the Eastern Zone Mineralisation Replacement (EZMR) and the Eastern Zone Mineralisation Contact (EZMC).

This is considered to be a very positive development as the presence of this very high-grade mineralisation is likely to enhance the economics of a future mine development at King Vol. Some of the better intersections from these two zones are summarized in Table 1 below (see link at the bottom of the release).

The Cross-Section in Figure 1 (see link at the bottom of the release) shows the relationship between the EZMR, which is located within the eastern limestone unit and usually in close proximity to the EZMC. Currently, the EZMR is of limited strike whereas the EZMC mineralisation can be traced over the length of the deposit.

Assays are yet to be received for all holes on section 5075N but the visual estimates of mineralisation are set out in Table 2 (see link at the bottom of the release).

Shareholders are cautioned that assays are needed to confirm these results but the intersections up- and down-dip indicate the presence of a significant zone of high-grade mineralization.

Deeper drilling of the deposit has indicated that the same style of mineralisation is present at depth. The drill-out of King Vol Deeps to upgrade the current Inferred Resource of 1.9 million tonnes at 14% zinc and 0.8% copper to Indicated status is budgeted for Q4FY12. Kagara is currently reviewing the technical and economic merits of drilling from surface compared with continuing the in-fill drilling from underground.

In addition to the EZMC and the EZMR, the King Vol deposit has several other significant zones of mineralisation. More importantly, there is a significant difference in the host mineralogy between waste and ore. Previous beneficiation testwork carried out by the Company produced results showing recoveries of more than 90 per cent of contained metal for over 50 per cent rejection of waste.

Further testwork capitalizing on more recent developments in ore sorting is planned, as this technique has obvious applications to this style of deposit and may open up the possibility of using more efficient bulk mining techniques at King Vol.

The published probable Ore Reserve for King Vol stands at 1.3 million tonnes at 11.2% zinc and 0.8% copper. This was calculated in 2007 at a 4% zinc cut-off grade.

The Company's understanding and geological interpretation of the King Vol deposit continues to evolve as the influence of this high-grade core is more fully understood.

The current phase of the drilling program is scheduled for completion in late December and, once all assays have been received, the Mineral Resource will be updated to incorporate the latest data. However, it is clear that King Vol will form an integral part of Kagara's future mining inventory in the northern Chillagoe region.

#### Redcap Polymetallic Deposit (Northern Chillagoe Region)

The Redcap Project comprises the Victoria, Queenslander and Morrisons lodes or mineralised structures. At Victoria, an Inferred Resource of 3.4 million tonnes at 5.1% zinc and 1% copper was outlined from drilling completed in 2008. To date there has been no resource estimate completed for the Queenslander or

Morrison's lodes.

Like King Vol, recent resource development exploration at Morrison's and Queenslander has been highly successful and, during the current field season, drilling has been concentrated along the highly mineralized Redcap Thrust.

Since June 2011, 56 holes have been drilled for a total of 13,763.9 metres of diamond core and 902.8 metres of Reverse Circulation Percussion (RCP) drilling. Better results are shown in Table 3 (see link at the bottom of the release) with results still pending for a further 19 holes. Drilled intercepts are close to true widths and hole pierce points are shown on the attached longitudinal section

The mineralisation at Morrison's and Queenslander is hosted in a magnetite-pyrrhotite skarn assemblage that is remarkably consistent and predictable in its location and geology. Mineralisation occurs at the faulted contact between a limestone unit and volcanic unit. Mineralisation is typically zinc-dominated, with associated significant copper, silver and more rarely lead.

The mineralisation dips to the south-west at approximately 50 degrees; as a result, drilled width approximates true width in most cases.

Estimation of a JORC compliant resource for the Morrison's and Queenslander lodes is planned for mid-December 2011 and, as previously advised, scheduled for release at the end of January 2012.

Noting again that there is no JORC resource estimate for Morrison's or Queenslander, the current Exploration Target1 for these lodes is 2-3 million tonnes at a grade range of 6-10% zinc and 0.5-1% copper. The potential to find extensions to, and repeats of, this style of mineralisation throughout the Redcap Thrust is believed to be excellent, as evidenced by the very large and strong zinc in soils anomaly located over Redcap.

As a result, Kagara has committed to continue drilling the system over the coming months, with the aim of adding substantially to the resource inventory at Redcap.

In addition, a second drill rig will be commissioned in January 2012 focusing on increasing the integrity of the Victoria resource in general and, in particular, to in-fill and extend the Victoria high grade Inferred Resource of 948,000 tonnes at 7.3% zinc, 1.6 % copper and 30 g/t silver.

The drilling will also test for extensions to the Victoria resource, which has only had one hole drilled in it since 2008.

The drilling to date at Redcap has been very encouraging and an increase in the resource base is expected at the end of January 2012, when the initial resource statement for the Morrison's and Queenslander lodes will be combined with an updated Victoria resource.

#### Balcooma Project (Central Mt Garnet Region)

As noted in the September 2011 Quarterly Report, a large underground exploration drilling program was underway Balcooma to quantify the extension to the Lens 2 polymetallic mineralisation.

Excellent results received from this drilling have resulted in an increase in the Indicated and Inferred Resource by more than 100% from 503,227 tonnes at 4.8% zinc, 1.5% copper, 2.0% lead, 35 g/t silver and 0.41 g/t gold to an Indicated and Inferred resource of 1,031,963 tonnes at 4.1%, zinc, 1.3% copper, 1.7% lead, 29 g/t silver.

Drilling to extend the main copper mineralisation has commenced and will continue for the next three months. The location of the new drilling and exploration targets is shown on Figure 6 (see link at the bottom of the release).

The first hole, BK229W1, returned a 5 metre sulphide intersection from 345.20m including approximately 3m of moderate to high-grade lead-zinc polymetallic mineralisation (visual estimate to be confirmed by assay).

This intersection is interpreted to represent a down-plunge extension to the upper polymetallic lens. This hole is approximately 250 metres down plunge from the upper lens resource, opening up the potential for a significant extension to the polymetallic mineralisation at Balcooma.

The hole did not intersect any copper mineralisation (which is expected to occur below the polymetallic mineralisation lens - as shown in Figure 6 (see link at the bottom of the release)) but confirmed the continuation of the architecture of the Balcooma mineralising system at depth. Drilling is ongoing.

## Summary

In conclusion, Kagara has made significant progress with its turnaround and is moving systematically towards achieving the strategic goals outlined in its 5-year strategy released in September 2011. Key achievements over the past six months include:

- two successive record quarters of production;
- guidance achieved in Q1FY12 and on target to meet Q2FY12 guidance for copper production and possibly exceed Q2FY12 guidance for zinc production;
- two successive quarters of production cost reduction with margin improvement programs underway across the business;
- excellent progress towards Mineral Resource growth, as highlighted in this release;
- a substantially increased tenement footprint across the highly prospective North Queensland base metals province;
- good progress on the monetization of Kagara's nickel business;
- draw-down of the significant concentrate stockpiles, as foreshadowed, following the significant build-up following the last wet season;
- two new mine developments commenced; and
- further strengthening of the KZL management team.

For the complete announcement including figures and tables, please view:  
<http://media.abnnewswire.net/media/en/docs/ASX-KZL-570161.pdf>

## About Kagara Limited:

Kagara Limited is an S&P ASX 200 Australian resources group and one of Australia's lower cost producers of zinc, copper, lead and nickel.

The Company's base metals operations centre on the Mt Garnet-Chillagoe region of north Queensland, with three underground mines, one open pit mine and three processing facilities and a substantial production profile targeting copper production of 23,000 tonnes in FY2011 and zinc production of 100,000 tonnes in FY2012.

Production is also underway at the Lounge Lizard Nickel Project in Western Australia at a targeted nickel ore production rate of 50,000 tonnes per annum.

In addition, Kagara holds an extensive portfolio of high quality development and exploration assets, including the world-class Admiral Bay zinc-lead-silver-barite deposit in Western Australia, capable of delivering long term growth for the Company's shareholders well into the future.

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Die URL für diesen Artikel lautet:

<https://www.rohstoff-welt.de/news/115672--Kagara-Limited-ASX-KZL-North-Queensland-Exploration-Update-December-2011.html>

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