

Kagara Limited - Announces North Queensland Resource Update

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Perth, Australia (ABN Newswire) - [Kagara Limited](#) (ASX:KZL) is pleased to announce an updated polymetallic resource inventory for the Northern Chillagoe Region, part of its North Queensland base metal operations, following successful drilling programs carried out during 1HFY12.

The updated resource inventory - which includes maiden Inferred Resource estimates for the recently discovered Queenslander and Morrisons lodes at Redcap, as well as updated Indicated and Inferred Resource estimates for the King Vol deposit following recent in-fill drilling - demonstrates that KZL has made rapid progress towards achieving the objectives of its 5-year growth strategy.

This strategy, which was released to the market in September 2011, was predicated on the following

key assumptions:

- the need to grow KZL's production base to achieve economies of scale and reduce unit costs to protect the business against downturns in commodity prices, as highlighted by the recent impact of short-term falls in the zinc and copper price during Q2FY12;
- that demand and prices for both zinc and copper are expected to remain robust over the next five years, with the medium term outlook for zinc in particular expected to be driven by falling production beyond 2014-15 in response to the closure of several large mines across the globe; and
- that to date KZL's tenements in North Queensland have been largely under-explored from a resource definition perspective.

The four key elements to the strategy are:

1. Grow the resource base through the expenditure of A\$50M in the first 2 years of the 5 year strategy to sustain increased production for, initially 8-12 years and then for 15+ years by the end of the 5-year plan period;
2. Increase zinc production from ~40,000tpa and copper production from ~20,000tpa in FY11 to 120,000tpa and 30,000tpa respectively;
3. Strengthen the skills and management of the business in order to enable it to realise this strategy; and
4. Divest non-core assets and focus on growing resources and production from North Queensland as the core focus of the business for the next five years.

Kagara's Managing Director, Geoff Day, said the key highlights of the first Half Yearly resource update were consistent both with the objectives of the Company's 2-year, A\$50 million exploration push and its commitment to improved governance of Mineral Resource and Ore Reserve management.

'The first priority for the 2-year exploration push was in the Northern Chillagoe Region, where our focus was to increase the resource base sufficiently to justify the capital investment required to complete the Mungana processing facility, which was mothballed during the Global Financial Crisis in 2009.

'In broad terms, the Company's target was to identify a nominal 10 million tonne polymetallic resource base in this region from one, or at most two, potential mining fronts, which would be sufficient to sustain 8-12 years of ore feed into the Mungana plant as well as deliver additional feed to the Mt Garnet process plant.

'The second priority was growing resources in the Central Mt Garnet Region, in particular in and around the Balcooma operation, while significant exploration effort in the Southern Thalanga Region was not scheduled

until year 2 of the 5-year plan.

'It is very pleasing to report that, with the discovery and rapid delineation of the Queenslander and Morrisons lodes at Redcap and the in-fill drilling at King Vol, we have already increased the combined resource inventory in the Northern Chillagoe Region to over 10 million tonnes from just 2 mining fronts - attaining our published 2-year target of 10-11 million tonnes in just six months.'

'That is a great result which is a credit to the focused efforts of our exploration team over the past six months, and which also reinforces the validity of the 5-year growth strategy and our confidence in the Northern Chillagoe region as an integral part of the Company's growth plans,' Mr Day continued.

'What is even more exciting is that this is not the end of it, with more drilling planned to define the overall extent of resources in this highly prospective area.'

As noted above, the Southern Thalanga Province has not been a focus of activity for the first year of the 5-year plan and, as such, the Mineral Resource base in this region remains unchanged (excluding depletion).

Redcap Project

The Redcap Project, which is located approximately 5km east of the Mungana treatment facility, comprises the Victoria, Queenslander and Morrisons lodes and numerous prospects, including the recently discovered Penzance Copper Lode.

The Victoria Lode, which was outlined from drilling completed in 2008, contains an Inferred Resource of 3.4 million tonnes grading 5.1% zinc and 1.0% copper. The resource contains a higher grade core, comprising an Inferred Resource of 950,000 tonnes grading 7.4% zinc, 1.6% copper and 30 g/t silver.

The latest drilling of the Queenslander and Morrisons lodes has resulted in the estimation of a maiden Inferred Resource comprising a combined 3.52 million tonnes grading 5.0% zinc, 0.6% copper, 0.2% lead and 17g/t silver. At a 7.3% Zn Eq cut-off, the combined Inferred resource for Queenslander-Morrisons is 1.45 million tonnes grading 7.0% zinc, 0.7% copper, 0.4% lead and 28g/t Ag.

The total Inferred Resource at the Redcap Project now stands at 6.96 million tonnes grading 5% zinc, 0.8% copper, 0.1% lead, 19g/t silver and 0.1 g/t gold, within which is a higher grade resource of 2.398 million tonnes at 7.1% Zn, 1.1% Cu, 0.2% Pb, 28g/t Ag and 0.2g/t Au.

As outlined in the December 2011 Quarterly Report, reconnaissance drilling adjacent to the historic Penzance copper open pit has discovered a new zone of copper-zinc mineralisation. The attached long section shows that the copper mineralisation is open in most directions and continues to be extended with drilling.

Some of the better recent intersections include:

- 12.7m @ 4.9% Cu, 0.42% Zn and 88g/t Ag from 139.4m (Hole 1206)

including 6m @ 8.7% Cu, 0.6% Zn and 161g/t Ag from 144.1m

- 7.8m @ 2.5% Cu, 1.4% Zn and 50g/t Au from 117.4m (Hole 1200) - - 4.0m @ 4.0% Cu, 5.5% Zn and 41g/t Ag from 154.7m (Hole 1205)

including 5.5m @ 3.6% Cu, 0.1% Zn and 42g/t Ag from 163.5m (Hole 1205)

Note: True widths range from 50% to 70% of drilled widths.

The geological setting of Penzance is similar to the Victoria, Morrisons and Queenslander lodes in that it is also associated with mineralised skarn on faulted contacts with marble or limestone units.

While this area is at an early stage of exploration, it shows very encouraging signs for additional lodes of mineralisation of economic significance within the Redcap Project area. Drilling is continuing to test this area, which is now focusing on strike extensions to the northwest and southeast.

The Redcap Project as a whole remains highly prospective for additional mineralisation, with all systems still open along strike. Additionally, recent reconnaissance drilling over surface geochemical anomalies has

intersected zinc mineralisation at a number of localities which has not yet been followed up, and which may provide additional targets for future drilling.

King Vol

Following the announcement of Kagara's commitment to improved governance of Mineral Resources and Ore Reserves as part of its FY11 results release (which coincided with the impairment to the resource of the Mungana underground ore body), a key priority at King Vol was to increase the Company's confidence levels in the geometry and integrity of the orebody.

Given cost and logistics constraints, the Company decided to direct its focus towards the upper 200-300m of the orebody while assessing the potential financial and technical benefits of drilling the deeper sections of the orebody from underground.

Drilling of the top 250m (between 1,000m and 750m RL) of the King Vol deposit has been conducted on a nominal 25m by 25m spacing and, in critical areas, has been reduced to 12.5m by 25m. An update of the resource model has been completed comprising an Indicated Resource of 900,000t @ 16% Zn, 0.9% Pb, 0.9% Cu, 42g/t Ag (144,000 tonnes contained Zn).

As a result of the detailed drilling, the geological interpretation will change slightly and a new reserve will be calculated in Q4FY12. This is expected to result in higher grade, lower tonnage reserve but with only a minor difference in total metal content.

An updated Inferred Resource of 1,860,000t @ 9.9% Zn, 0.4% Pb, 0.6% Cu, 24g/t Ag (184,000 tonnes contained Zn), which is less than the previous Inferred Resource of 2.0 million tonnes at 14% Zn (280,000 tonnes of contained Zn), reflecting a more conservative approach to the drilling data given the wider spaced drilling at depth and along strike.

As outlined in the Exploration Update released on December 5, 2011, in-fill drilling of the lower regions of the King Vol resource is best carried out from underground since it will require close spaced drilling to adequately define geological controls. The updated combined Inferred and Indicated Resource at King Vol is 2,760,000t @ 11.9% Zn, 0.6% Pb, 0.7% Cu, 29g/t Ag.

While the overall tonnage of zinc and copper metal remains similar to previous resource estimates for King Vol, the updated resources have resulted in a significant increase in the Company's level of confidence in the integrity and quality of the resource and its ability to host a substantial core of very high-grade mineralisation.

The presence of this high-grade core has positive implications for the future economics of a mining operation at King Vol, as it will enhance the possibility of applying large-scale bulk stoping methods in conjunction with ore sorting given the clearer delineation between waste and ore. This will form a key focus of the current Feasibility Studies being conducted at King Vol.

Central Mt Garnet Region Summary

In the Central Mt Garnet Region exploration has focused on the Balcooma area. Underground and surface drilling has been successful in outlining a new resource of 1.03 million tonnes at 1.3% Cu, 1.7% Pb, 4.2% Zn, 29g/t Ag and 0.34g/t Au for the number two polymetallic lens, representing an increase of approximately 100% in contained zinc and 75% in contained copper, lead and silver over the previous resource of 503,000t @ 4.3% Zn, 1.5% Cu, 2.0% Pb, 35g/t Ag and 0.30g/t Au.

The coming quarters will see exploration activity ramp up in the Central Mt Garnet Region with the aim of significantly increasing the copper resource base.

Next Steps

The combined Inferred and Indicated Resources for the Northern Region are now in excess of 10 million tonnes (Red Cap and King Vol Projects combined).

The coming Quarters will see a focus on detailed drilling to increase the confidence of the Redcap and King Vol resources to allow mining studies to be undertaken to determine how much of these Indicated and Inferred Resources can be upgraded to Ore Reserves, supporting a decision to complete the Mungana processing facility.

In addition, having already achieved its 2-year target the Company will continue to progress exploration

activities designed to increase the overall resource base in the Northern Chillagoe region towards its previously published 5-year target of 17-18 million tonnes. Kagara looks forward to reporting continued results from its 2-year exploration strategy in the months ahead.

For the complete announcement including figures, tables and Appendix, please view:
<http://media.abnnewswire.net/media/en/docs/ASX-KZL-577508.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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