growing more than our business

5 March 2012

Company Announcements Office
Australian Stock Exchange Ltd
4th Floor
20 Bridge Street
Sydney NSW 2000

Dear Sir,

HALF YEAR REPORT – 31 DECEMBER 2011

Please find attached the Half Year Report for the period ended 31 December 2011

Yours faithfully,

Geoff Day
Managing Director & CEO

2011 HALF YEAR FINANCIAL SUMMARY

- **Revenue from Concentrate Sales** of A$130.5 million for the half year
- **Concentrate Stockpiles** on hand at half year end of 14,862 tonnes with an estimated value of over A$12.9 million
- **EBITDA** of -A$15.3 million
- **Net Profit after Tax** decreased to A$49.8 million loss for the half year, A$30 million of which reflecting increased amortization resulting from the impairments reported in September 2011
- **Consolidated cash on hand** plus receivables of A$60.5 million at the end of the period

KAGARA LTD Financial Summary	**6 Months to 31 DEC 2011 A$'000**	6 Months to 31 DEC 2010 A$'000
Revenue	**130,458**	90,932
Production costs	**(145,800)**	(68,643)
Earnings from Operations	**(15,342)**	22,289
Depreciation & amortisation	**(40,886)**	(13,772)
Gross profit	**(56,228)**	8,517
Other revenue	**3,121**	1,703
Other expenses	**(10.293)**	(4,242)
Share base payments expense	**(1,806)**	(1,499)
Finance costs	**(2,232)**	(973)
Net profit before tax	**(67,438)**	3,506
Income tax benefit (expense)	**17,653**	(1,279)
Net profit after tax	**(49,785)**	2,227
Non-controlling interest	**854**	234
Net Profit/(Loss) after tax attributable to Kagara	**(48,931)**	2,461

Half Year Production Summary (metal in concentrate)	31 DEC 2011 Tonnes	31 DEC 2010 Tonnes
Zinc	32,967	17,298
Copper	9,906	9,386
Lead	2,381	211
Nickel	952	-

OVERVIEW

Kagara reports a net loss after tax of A$49.8 million for the half year ended 31 December 2011 (Dec 2010: profit A$2.2 million). Pre-tax loss was A$67.4 million for the half year (Dec 2010: profit A$3.5 million) and cash on hand plus receivables was $60.5 million as at 31 December 2011 (Dec 2010: $79.9 million).

While Kagara continued to deliver on the key elements of its 5-year growth strategy during the December 2011 half year in terms of production and exploration, the second quarter of the financial year presented a challenging environment for the Company due to a continuing decline in both zinc and copper prices and upward FX pressures which have impacted significantly on its cash operating margins for both commodities. Additionally, a more aggressive expensing of development costs to the P&L was elected during the period. Furthermore, a significant proportion of costs were incurred in the period on the back of the accelerated completion of certain mining campaigns without the resulting benefit of increased revenues from additional ore stocks flowing through during the period.

The combined effects of high FX, 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 (Dec 2010: US$0.79/lb). Copper cash costs increased to US$1.87/lb for the half year (Dec 2010: US$1.67/lb).

OUTLOOK

Depressed commodity prices and a sustained high AUD:USD FX have had a significant impact on the operating cash flows from the business when compared to budget forecasts. The Company's strategy released in September 2011 highlighted a plan to materially increase exploration activities to exploit the Company's highly prospective Queensland tenements, and to increase production from existing and new resource growth to capture scale economies across the operations. This activity has required investment in strengthening the experience and talent pool within the organisation, which is now in place.

Whilst still in its early stages, the Company is pleased with the early results of its recent exploration efforts, and as market conditions improve the near-term focus will reemphasise the conversion of resources to reserves. This will best position the company to capitalise on a sustained improvement in commodity prices. The company is also taking steps to restructure the business in light of current conditions, with the core of this restructure intended to focus primarily on the Company's high margin copper producing assets, while at the same time significantly decreasing discretionary expenditure including exploration and development. Key elements of this restructure include:

- The Mungana underground mine in the Company's Northern Region of North Queensland will remain on care and maintenance
- The Thalanga process plant and West 45 underground mine will move to care and maintenance
- The Company will focus on optimising mining operations from Baal Gammon and Balcooma, which are processed through its Central Region Mt Garnet operation
- The Company's exploration drilling has been suspended until market conditions improve
- Corporate and administrative overheads continue to be reduced to a level consistent with the changed operating base for the business
- Ensuring the Company's near production assets (West 45, King Vol, Waterloo and Liontown) are well placed to capitalise on an environment of improved zinc prices

The impact of these changes has resulted in a restatement of the Company's previously published FY12 production guidance. Revised FY12 production guidance includes:

- Zinc production guidance reduced to 43-47 kt from previous guidance of 53-59 kt
- Copper production guidance reduced to 15-17 kt from previous guidance of 17-20 kt

The impact of these changes is aimed at reducing the operating cost base and focus increasingly on production from higher margin assets. The Company believes that by taking these necessary steps the Company will return to profitability in the second half of the current fiscal year without having to rely on improved commodity prices or FX rates.

The longer term outlook for the Company remains favourable based on the medium to longer term outlook for zinc in particular, and copper – a current view shared by many market experts.

growing more than our business

ABN 36 008 988 583

APPENDIX 4D
&
HALF YEAR REPORT

for the period ending

31 December 2011

The information set out in this Half Year Report should be read in conjunction with the Annual Report for the year ended 30 June 2011

TABLE OF CONTENTS

CORPORATE DIRECTORY

Registered Office:
Second Floor
24 Outram Street
WEST PERTH
WA 6005
Ph: (08) 9481 1211
Fax: (08) 9481 1233

Directors:
Kim Robinson (Non-Executive Chairman)
Geoff Day (Managing Director & CEO)
Joseph Allen Treacy (Executive Director)
Ross Clive Hutton (Non-Executive Director)
John (Shad) Linley (Non-Executive Director)
Mark McConnell (Non-Executive Director)

Company Secretary:
David Peterson

Auditors:
Crowe Horwath Perth
Level 6
256 St Georges Terrace
PERTH
WA 6000

Share Registrar:
Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS
WA 6153

Legal Advisers:
Squire Sanders
Level 49 Central Park
152-158 St Georges Terrace
PERTH
WA 6005

Bankers:
ANZ Banking Group Limited
77 St Georges Terrace
PERTH
WA 6000

Stock Exchange Listing:
Kagara Ltd's fully paid ordinary shares are quoted on the Australian Stock Exchange Ltd.

ASX code: KZL

Website:
Visit our web site which is updated regularly at: www.kagara.com.au
Email: admin@kagara.com.au

APPENDIX 4D

REPORTING PERIOD

The reporting period is the half year ended 31 December 2011 and the previous corresponding reporting period is the half year ended 31 December 2010.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Change %			Amount A$'000
Revenue	up	86%	to	130,458
Profit/(Loss) from ordinary activities after tax attributable to members of Kagara Ltd	down	N/A	to	(49,785)
Net profit/(Loss) attributable to members of Kagara Ltd	down	N/A	to	(49,785)

No dividend was declared during the half year ended 31 December 2011.

Commentary on the review & results of operations for the half year ended 31 December 2011 is detailed in the Directors' Report.

INVESTMENTS IN CONTROLLED ENTITIES

Wholly owned subsidiaries of Kagara Ltd during the half year ended 31 December 2011:

- Mungana Pty Ltd
- Kagara Copper Pty Ltd
- Kagara Nickel Pty Ltd

Wholly owned subsidiaries of Kagara Ltd acquired during the half year ended 31 December 2011:

- Einasleigh Copper Pty Ltd – acquired 21 December 2011

Controlled subsidiary of Mungana Pty Ltd during the half year ended 31 December 2011:

- Mungana Goldmines Ltd – 61.9% ownership interest

All subsidiary companies were incorporated in Australia.

NET TANGIBLE ASSET BACKING

The net tangible asset backing per ordinary share for the half year ended 31 December 2011 is A$0.60 (31 December 2010: A$0.75).

COMPLIANCE STATEMENT

This report is based on accounts that have been subject to audit review.

Geoff Day
MANAGING DIRECTOR & CEO

5 March 2012

DIRECTORS' REPORT

Your Directors present their report on the Consolidated Entity consisting of Kagara Ltd and the entities it controlled for the half year ended 31 December 2011.

DIRECTORS

The following persons were Directors of Kagara Ltd during the whole of the half year,up to the date of this report and as at 31 December 2011 unless otherwise stated:

Geoff Day	(Managing Director & CEO)
Joseph Allen Treacy	*(Executive Director)*
Flavio Garofalo	*(Executive Director) – resigned 4 January 2012*
Kim Robinson	*(Non-Executive Chairman)*
Ross Clive Hutton	*(Non-Executive Director)*
John (Shad) Linley	*(Non-Executive Director)*
Mark McConnell	*(Non-Executive Director)*
Mark John Ashley	*(Non-Executive Director) – resigned 19 August 2011*

REVIEW & RESULTS OF OPERATIONS

HALF-YEAR RESULT

Earnings before interest, tax, depreciation and amortisation for the half year ended 31 December 2011 was -A$15.3 million compared to A$22.3 million for the previous corresponding half year. Net loss after tax was A$48.9 million for the half year ended 31 December 2011 compared to net profit of A$2.5 million for the previous corresponding half year.

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Non-controlling interest	**854**	234
Net Profit/(Loss) after tax	**(48,931)**	2,461

Sales revenue from the sale of zinc, lead and copper concentrates for the half year ended 31 December 2011 was A$130.5 million (31 December 2010: A$90.9 million).

The average zinc price realised from the Mt Garnet and Thalanga polymetallic plants half year was US$0.94 (31 December 2010: US$0.95) per pound of payable zinc. The average copper price realised from the Mt Garnet facility was US$3.74 (31 December 2010: US$3.53) per pound of payable copper. The average foreign exchange rate for the half year was A$1.03 (31 December 2010: A$0.95).

The zinc cash operating cost after by-product credits for the half year ended 31 December 2011 was US$0.82 per pound of payable zinc (31 December 2010: US$0.79). The copper cash operating cost after by-product credits from the Mt Garnet copper plant was US$1.87 (31 December 2010: US$1.67) per pound of payable copper.

CASH FLOW

Consolidated cash on hand as at 31 December 2011 was A$36.6 million (31 December 2010: A$60.0 million), including A$25.8 million which is consolidated from Mungana Goldmines Ltd. Receivables as at 31 December 2011 was A$23.8 million (31 December 2010: A$19.9 million).

DIVIDEND

No dividend was declared for the half year ended 31 December 2011.

FINANCE

As at 31 December 2011, the Corporate Facility with ANZ comprised of a working capital facility of A$40 million, leasing facility of A$11 million, and a guarantee facility of A$32 million with $22 million of performance bonds being drawn down. The ANZ working capital facility expired on 28 February but the company successfully negotiated an extension of the facility to April 2012.

As at 31 December 2011, a balance of A$19 million remains owing to Guangxin Holdings Group Ltd (GHG), as part of a A$25 million advance to Kagara for the development of the Vomacka polymetallic deposit at the Thalanga Operations.

HEDGING

Forward Sales Contracts
As at 31 December 2011, the Company sold forward 1,270 tonnes of copper at an average weighted forward price of US$7,300 per tonne (US$3.31/lb) for delivery January 2012, and 300 tonnes of nickel at an average weighted average forward price of US$19,850 per tonne (US$9.00 per pound) for delivery during the 3 months ending 31 March 2012.

As at 31 December 2011, the Company has sold US$ currency forwards of US$10.9 million at an average weighted forward exchange rate of $1.03 for delivery during the next five months to May 2012.

OPERATIONS

During the half-year ended 31 December 2011, ore mined and processed was from mining operations at Balcooma, Mt Garnet, Mungana and Vomacka. Production from the polymetallic plant at Mt Garnet was 43,323 tonnes of zinc concentrates at a grade of 50.5% zinc, 1,275 tonnes of lead concentrates at a grade of 47.9% lead and 8,259 tonnes of copper concentrates at a grade of 24.2% copper. Copper concentrate production from the Mt Garnet plant was 20,462 tonnes at 24.9% copper.

During the half year ending 31 December 2011, the Thalanga plant produced 21,011 tonnes of zinc concentrates at a grade of 52.7% zinc, 5,162 tonnes of lead concentrates at a grade of 34.3% lead and 8,066 tonnes of copper concentrates at a grade of 27.1% copper.

Further production details are detailed on the following page.

GOING CONCERN

The consolidated statement of financial position at 31 December 2011 has been prepared on a going concern basis which contemplates the realisation of assets and extinguishment of liabilities in the ordinary course of business. The Group's ability to continue as a going concern is reliant upon cash flows from its finance facilities and the sale of non-core assets. (ref. Note 1c.)

MT GARNET POLYMETALLIC PLANT-PRODUCTION RESULTS	FY 2012
Ore Treated	
Ore treated (tonnes)	244,864
Zinc grade (%)	9.7
Lead grade (%)	0.6
Copper grade (%)	1.1
Gold grade (g/t)	0.60
Silver grade (g/t)	72
Zinc Concentrate	
Production (tonnes)	43,323
Grade (% zinc)	50.5
Contained zinc (tonnes)	21,891
Zinc Recovery (%)	91.9
Lead Concentrate	
Production (tonnes)	1,275
Grade (% Lead)	47.9
Contained lead (tonnes)	611
Contained silver (tonnes)	2.4
Contained gold (kg)	8.50
Lead Recovery (%)	38.5
Copper Concentrate	
Production (tonnes)	8,259
Grade (% Copper)	24.2
Contained copper (tonnes)	2,003
Contained silver (tonnes)	10.1
Contained gold (kg)	38.20
Copper recovery (%)	74.1

THALANGA POLYMETALLIC PLANT-PRODUCTION RESULTS	FY 2012
Ore Treated	
Ore treated (tonnes)	285,083
Zinc grade (%)	5.2
Lead grade (%)	1.5
Copper grade (%)	1.3
Gold grade (g/t)	0.40
Silver grade (g/t)	41
Zinc Concentrate	
Production (tonnes)	21,011
Grade (% zinc)	52.7
Contained zinc (tonnes)	11,708
Zinc Recovery (%)	75.6
Lead Concentrate	
Production (tonnes)	5,162
Grade (% Lead)	34.3
Contained lead (tonnes)	1,770
Contained silver (tonnes)	2.3
Contained gold (kg)	9.00
Lead Recovery (%)	38.2
Copper Concentrate	
Production (tonnes)	8,066
Grade (% Copper)	27.1
Contained copper (tonnes)	2,182
Contained silver (tonnes)	2.6
Contained gold (kg)	19.20
Copper recovery (%)	65.1

MT GARNET COPPER PLANT-PRODUCTION RESULTS	FY 2012
Ore treated (t)	227,938
Copper grade (%)	2.4
Gold grade (g/t)	0.17
Silver grade (g/t)	13
Copper Concentrate	
Production (tonnes)	20,462
Grade (% Copper)	24.9
Contained copper (tonnes)	5,721
Contained silver (tonnes)	1.9
Contained gold (kg)	17.5
Copper recovery (%)	94.9

LOUNGE LIZARD PRODUCTION RESULTS	FY 2012
Ore treated (t)	26,070
Nickel grade (%)	3.9
Nickel Concentrate	
Production (tonnes)	6,801
Grade (% Ni)	14.0
Contained Nickel (tonnes)	952
Nickel recovery (%)	92.1

As at 31 December 2011, the Consolidated Entity had 14,862 tonnes of concentrate stockpiles on hand and yet to be invoiced. The concentrate stockpiles consist of 10,325 tonnes of zinc concentrate, 2,117 tonnes of lead concentrate and 2,420 tonnes of copper concentrate. These stockpiles have a realisable value of over A$12.9 million based on closing metal prices as at 31 December 2011.

EQUITY

Total market capitalisation as at 31 December 2011 was A$203.7 million comprising of 799.0 million shares and 26.8 million unlisted options. During the half year the following shares were issued:

- 9.4 million shares at $0.64 for the acquisition of the Baal Gammon project
- 125,000 shares at $0.67 to Peter Gough (Executive General Manager – Organisational Development and Sustainability) under the executive service agreement
- 239,120 shares at $0.42 to Evan Spencer (Chief Operating Officer) under the executive service agreement
- 29.0 million shares at $0.31 to Prosperity Steel
- 51.6 million shares at $0.31 to EL & C Bailleu

During the half year the following options were issued under ESOP:

- 7.9 million options exercisable at $1.40 (expiry between July 2014 and October 2015)
- 4.0 million options exercisable at $1.80 (expiry between October 2014 and October 2015)

INVESTMENTS

Kagara's wholly owned subsidiary Mungana Pty Ltd currently holds 97.5 million shares in Mungana Goldmines Ltd, representing a 61.9% controlling interest. Kagara's shareholding is escrowed until 9 June 2012.

During the half year, Kagara completed its acquisition of the Einasleigh Project. As part of the acquisition, Kagara sold back its 22.6 million shares in Copper Strike Limited, valued at A$3.6 million. A balancing A$16.0 million cash payment was made to complete the acquisition.

EXPLORATION

Consolidated exploration expenditure for the half year totalled A$41.3 million (31 December 2010: A$12.3 million), which is inclusive of A$19.6 million for the Einasleigh Project acquisition, A$1.9 million at Lounge Lizard, A$5.2 million at Walsh River, $A4.6 million at Red Dome, A$0.3 million at Admiral Bay, A$7.5 million by Mungana Goldmines, and A$2.2 million on other North Queensland projects.

DEVELOPMENT

Kagara is continuing negotiations to allow work to commence on the $185 million Bankable Feasibility Study for the Admiral Bay Project.

EVENTS SUBSEQUENT TO HALF YEAR END

For details of significant events subsequent to balance date please refer to Note 7 on page 17 of this Half Year Financial Report.

AUDITORS INDEPENDENCE DECLARATION

The auditor's independence declaration forms part of the Directors Report for the half year ended 31 December 2011.

ROUNDING

The amounts contained in this report and in the half year financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Consolidated Entity under ASIC Class Order 98/0100. The Consolidated Entity is an entity to which the Class Order applies.

This report is signed in accordance with a resolution of Directors.

Geoff Day
MANAGING DIRECTOR & CEO

Perth, Western Australia
5 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half year ended 31 December 2011

	Note	HALF YEAR **31 Dec 11** **A$'000**	 31 Dec 10 A$'000
Revenue	2(a)	**130,458**	90,932
Cost of sales	3(a)	**(186,686)**	(82,415)
Gross profit		**(56,228)**	8,517
Other revenues	2(b)	**3,121**	1,703
Other expenses	3(b)	**(10,293)**	(4,242)
Share based payment expenses		**(1,806)**	(1,499)
Finance costs	3(c)	**(2,232)**	(973)
Profit/(Loss) before income tax		**(67,438)**	3,506
Income tax benefit /(expense)		**17,653**	(1,279)
Profit/ (Loss) after income tax		**(49,785)**	2,227
Profit/ (Loss) attributable to:			
Equity holders of Kagara Ltd		**(48,931)**	2,461
Non-controlling interest		**(854)**	(234)
		(49,785)	2,227

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)
for the half year ended 31 December 2011

	HALF YEAR	
	31 Dec 11 A$'000	31 Dec 10 A$'000
Profit /(Loss) for the period	**(49,785)**	2,227
Other comprehensive income/(loss)		
Cash flow hedges, net of tax	**925**	(2,188)
Available for sale financial assets	**-**	21
Gain/Loss on sale of financial assets	**961**	-
Other comprehensive loss	**1,886**	(2,167)
Total comprehensive loss attributable to members of Kagara Ltd	**(47,899)**	60
Total comprehensive loss attributable to:		
Equity holders of Kagara Ltd	**(47,045)**	294
Non-controlling interest	**(854)**	(234)
	(47,899)	60
	Cents	Cents
Basic earnings per share (cents per share)	**(6.87)**	0.35
Diluted earnings per share (cents per share)	**(6.87)**	0.35

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2011

	Note	**31 Dec 2011 A$'000**	30 Jun 2011 A$'000
Current Assets			
Cash and cash equivalents		**36,635**	56,540
Trade and other receivables		**23,841**	23,256
Inventories		**42,761**	53,457
Derivative financial instruments		**203**	445
Other current assets		**1,267**	2,270
Asset classified as held for sale		**67,392**	-
Total Current Assets		**172,099**	135,968
Non-Current Assets			
Trade and other receivables		**431**	272
Available for sale assets		**-**	2,713
Plant and equipment		**120,847**	118,510
Mine properties		**187,022**	225,694
Capitalised exploration and evaluation		**138,776**	132,288
Development		**4,095**	1,699
Deferred tax assets		**81,198**	60,637
Other non-current assets		**1,050**	1,050
Total Non-Current Assets		**533,419**	542,863
TOTAL ASSETS		**705,518**	678,831
Current Liabilities			
Trade and other payables		**53,624**	51,502
Interest-bearing liabilities		**66,311**	28,298
Derivative financial instruments		**369**	1,156
Provisions		**5,184**	4,739
Other current liabilities		**708**	650
Total Current Liabilities		**126,196**	86,345
Non-Current Liabilities			
Interest-bearing liabilities		**2,776**	2,965
Deferred tax liabilities		**80,968**	75,484
Provisions		**17,355**	17,215
Other non-current liabilities		**280**	260
Total Non-Current Liabilities		**101,379**	95,924
TOTAL LIABILITIES		**227,575**	182,269
NET ASSETS		**477,944**	496,562
Equity			
Contributed equity	4	**417,251**	387,452
Reserves		**12,845**	9,431
Retained profits		**(6,482)**	45,239
Total Parent Entity Interest		**423,614**	442,122
Non-controlling interest		**54,330**	54,440
TOTAL EQUITY		**477,944**	496,562

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year ended 31 December 2011

	Attributable to owners of Kagara Ltd					
	Contributed Equity A$'000	Reserves A$'000	Retained Earnings A$'000	Total Equity A$'000	Non - controlling Interests A$'000	Total Equity A$'000
Balance at 1 July 2011	387,452	9,431	45,239	442,122	54,440	496,562
Total comprehensive income	-	1,886	(48,931)	(47,045)	(854)	(47,899)
Transactions with owners in their capacity as owners:						
Contributed equity (net of costs)	29,799	-	-	29,799	744	30,543
Employee share options	-	1,528	(2,790)	(1,262)	-	(1,262)
Total transactions with owners in their capacity as owners	29,799	1,528	(2,790)	28,537	744	29,281
Balance at 31 December 2011	**417,251**	**12,845**	**(6,482)**	**423,614**	**54,330**	**477,944**
Balance at 1 July 2010	367,916	8,398	77,239	453,553	54,608	508,161
Total comprehensive income	-	(2,167)	2,461	294	(234)	60
Transactions with owners in their capacity as owners:						
Contributed equity (net of costs)	19,487	-	-	19,487	(23)	19,464
Employee share options	-	1,396	104	1,500	-	1,500
Total transactions with owners in their capacity as owners	19,487	1,396	104	20,987	(23)	20,964
Balance at 31 December 2010	**387,403**	**7,627**	**79,804**	**474,834**	**54,351**	**529,185**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS
for the half year ended 31 December 2011

	HALF YEAR	
	31 Dec 2011 A$'000	31 Dec 2010 A$'000
Cash flows from operating activities		
Cash receipts in the course of operations	**129,440**	89,382
Cash payments in the course of operations	**(165,027)**	(99,117)
Interest received	**1,149**	1,101
Borrowing costs	**(1,589)**	(966)
Net cash from operating activities	**(36,026)**	(9,600)
Cash flows from investing activities		
Payments for plant and equipment	**(8,027)**	(11,060)
Proceeds from sale of plant and equipment	**-**	285
Payment for exploration and evaluation	**(16,280)**	(11,497)
Acquisition of exploration properties	**(16,000)**	-
Payment for development	**(2,572)**	(3,859)
Payment for other investing activities	**-**	(113)
Net cash used in investing activities	**(42,879)**	(26,244)
Cash flows from financing activities		
Proceeds from issues of ordinary shares	**24,636**	16,657
Proceeds from borrowings	**40,000**	-
Repayment of borrowings	**(5,636)**	(3,543)
Net cash used in financing activities	**59,000**	(13,114)
Net increase/(decrease) in cash held	**(19,905)**	(22,730)
Cash at the beginning of the half year	**56,540**	82,694
Cash at the end of the half year	**36,635**	59,964

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS
for the half year ended 31 December 2011

1. Basis of preparation of half year report

(a) Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

(b) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Consolidated Entity is of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2011 annual financial report for the financial year ended 30 June 2011, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

The adoption of these amendments have not resulted in any changes to the Consolidated Entity's accounting policies and have no effect on the amounts reported for the current or prior periods.

(c) Material Uncertainty in relation to Going Concern

The consolidated statement of financial position at 31 December 2011 has been prepared on a going concern basis which contemplates the realisation of assets and extinguishment of liabilities in the ordinary course of business. The Group's ability to continue as a going concern is reliant upon cash flows from current and new finance facilities and the sale of non-core assets.

Since 31 December 2011 the Group has extended its finance facility to 30 April 2012, and announced the sale of its nickel assets, with settlement anticipated prior to 31 March 2012. All asset carrying values have been reviewed and adjusted for impairment where necessary. The Directors are confident in the ability of the Group to successfully secure sufficient funding and to realize further non-core assets to continue as a going concern and continue to pay its debts as and when they fall due.

If the Group is not able to secure additional finance or realize sufficient funds from the sale of further non-core assets, the going concern basis may not be appropriate, and as a result the Group may have to realize its assets and extinguish its liabilities other than in the ordinary course of business. No allowance for such circumstances has been made in the financial report

(d) Operating Segments

Operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Consolidated Entities' chief operating decision maker which, for the Consolidated Entities, is the board of directors. The financial information presented in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position are the same as that presented to the chief operating decision maker.

NOTES TO THE FINANCIAL STATEMENTS
for the half year ended 31 December 2011 – continued

2. Revenue

	HALF YEAR	
	31 Dec 2011 A$'000	31 Dec 2010 A$'000
(a) Revenues		
Revenue from sale of goods (net of hedging)	**130,458**	90,932
Total revenues	**130,458**	90,932
(b) Other revenue		
Interest received from other corporations	**999**	1,643
Foreign exchange gains	**2,122**	-
Other revenue	**-**	60
Total other revenues	**3,121**	1,703
Total revenues	**133,579**	92,635

3. Expenses

(a) Cost of sales		
Production costs	**139,362**	65,004
Depreciation - plant & equipment	**10,726**	9,555
Amortisation of mining properties	**30,160**	4,217
Royalties	**6,438**	3,639
Total cost of sales	**186,686**	82,415
(b) Other expenses		
Administration (i)	**10,131**	3,428
Depreciation - plant & equipment	**162**	97
Foreign exchange losses	**-**	632
Write down of exploration expenditure	**-**	85
Total other expenses	**10,293**	4,242

(i) Administration expenses include one off expenses associated with organizational restructure and business improvement.

(c) Finance costs		
Interest expense	**2,232**	973
Total finance costs	**2,232**	973

NOTES TO THE FINANCIAL STATEMENTS
for the half year ended 31 December 2010 – continued

4. Equity securities issued

	31 Dec 2011		30 Jun 2011	
	Number of Shares	**A$'000**	**Number of Shares**	**A$'000**
Beginning of the financial year	708,583,836	387,452	674,489,717	367,916
Issue of ordinary shares • shares issued (net of cost)	90,369,281	29,799	34,094,119	19,536
	798,953,117	**417,251**	708,583,836	387,452

5. Statement of Operations by Segments

Identification of reportable segment

The Consolidated Entity identifies its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Consolidated Entity operates in one segment, being mining, in Australia.

6. Contingent Liabilities

There has been no change in contingent liabilities since the last annual reporting date.

7. Events Subsequent to Half Year End

On 12th January 2012 Kagara announced a temporary suspension of mining activities at the Mungana underground mine during the wet season (when ore is normally stockpiled on the surface due to road closures). Staff have been redeployed to other operations wherever possible.

On 4th January 2012 Kagara advised the following resignations and appointments to the Company;

- Resignation of Flavio Garofalo as an executive of the Company, effective 23 January 2012.
- Appointment of Mark Hands to its Executive Committee as Executive General Manager Corporate. The role incorporates the roles of Company Secretary and General Counsel. Mr Hands replaces David Peterson, who retired on December 31, 2011.

On 14th February 2012 Kagara advised the following appointments to the Company;

- Appointment of Paul Warme to its Executive Committee as Executive General Manager, Finance.
- Appointment of Cameron McLean to General Manager Commercial and Joint Company Secretary.

On 24th February 2012 Kagara extended the ANZ loan facility which was due to expire on 28th February 2012.

On 5th March 2012 Kagara announced the sale of Lounge Lizard to Western Areas for NL for $68 million cash plus a reconciliation of inventories.

On 6th March 2012 Kagara briefed the market on further plans to restructure the business.

DIRECTORS' DECLARATION

In the Director's opinion:

(a) The financial statements and notes of the Consolidated Entity are in accordance with the Corporations Act 2001, including:

(i) Complying with accounting standards, and other mandatory professional reporting requirements; and

(ii) Give a fair and true view of the Consolidated Entity's financial position as at 31 December 2011 and of its performance for the half year ended on that date; and

(b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Geoff Day
MANAGING DIRECTOR & CEO

Perth, Western Australia
5 March 2012

Crowe Horwath™

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Kagara Ltd and its controlled entities for the half-year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

Crowe Horwath Perth

CROWE HORWATH PERTH

SEAN MCGURK
Partner

Signed at Perth, 5 March 2012

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF KAGARA LTD AND ITS CONTROLLED ENTITIES

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kagara Ltd and its controlled entities (the consolidated entity) which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity, the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the consolidated entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of the consolidated entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kagara Ltd and its controlled entities is not in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(ii) complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

Material Uncertainty Regarding Continuation as a Going Concern
Without qualification to the review conclusion expressed above, attention is drawn to Note 1 (c) in the half year financial report which indicates that the consolidated entity is reliant on cash flows from new finance activities and sale of non-core assets. These conditions, along with other matters as set forth in Note 1(c) indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Crowe Horwath Perth

CROWE HORWATH PERTH

SEAN MCGURK
Partner

Signed at Perth, 5 March 2012