

31 October 2011

Company Announcements Office
ASX Limited
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

Dear Sirs,

SALE OF NICKEL ASSETS – CLARIFICATION REGARDING PROJECT AGREEMENT

Kagara Limited (ASX:KZL) refers to its recent announcements regarding the proposed sale of its nickel assets, and the related announcement made by Western Areas NL (ASX & TSX: WSA) on 13-October-2011 (the **WSA Announcement**).

As the market is aware, Kagara and Western Areas are parties to the Lounge Lizard Project Agreement pursuant to which Western Areas mines Kagara's Lounge Lizard nickel deposit (and blends the resultant concentrate with its own for sale under Western Areas' offtake agreements). Kagara wishes to clarify the operation of the Project Agreement in light of certain statements in the WSA Announcement, and notes the following:

- The Project Agreement provides scale and financial benefit to both Kagara and Western Areas.
- Consistent with this commercial driver, the Project Agreement contemplates both a reasonable endeavours minimum commitment of 50,000tpa, and potential future expansion of production from Lounge Lizard. Western Areas can increase production from Lounge Lizard in units of 25,000tpa ore over and above the minimum commitment subject to approval by Kagara and payment by Kagara of further contributions towards capital costs (at the rate of \$10M for each additional unit of 25,000tpa ore mined).
- While Western Areas has not proposed to Kagara any change to the existing production rate of 50,000tpa ore from Lounge Lizard, previous public announcements and presentations by Western Areas suggest increased future production at a later stage from Lounge Lizard (for example, see the WSA Investor Presentation dated October 2010, available from Western Areas' website).
- If Western Areas permanently ceases production from Flying Fox and has no further use for the decline and related infrastructure, and Kagara wishes to continue to mine Lounge Lizard, the Project Agreement provides that title to and risk in the decline and related infrastructure will pass from Western Areas to Kagara (upon payment by Kagara of any outstanding pro rata capital contribution). On the other hand, if Kagara permanently ceases production from Lounge Lizard then title to the Lounge Lizard nickel rights will pass to Western Areas.
- The current mining rate has the Flying Fox deposit being mined at seven times that of the Lounge Lizard deposit. Kagara anticipates Western Areas will seek to ensure production from Lounge Lizard at a rate that will result in its depletion at the same time as, or before, Flying Fox. This outcome would require an increase in current levels of production from Lounge Lizard.

- The Project Agreement with Western Areas relates only to 300 metres being that part of Mining Lease 77/545 located north of grid 27,800N. Kagara also holds the nickel rights to the balance of that Mining Lease, in addition to its other tenement holdings and nickel interests in the Forrestania greenstone belt (representing, in aggregate, some 300km²). .

Following the WSA Announcement, Kagara and its adviser Goldman Sachs & Partners Australia have commenced discussions with potential purchasers of Kagara's nickel assets. Kagara expects to finalise the sale process during the first quarter of 2012.

Yours Sincerely,



Joe Treacy
Executive Director

COMPETENT PERSON'S STATEMENT:

This report, so far as it pertains to resources and mineralisation, is based on information compiled by and as reported upon by Mr Joe Treacy, an employee of Kagara Ltd, and who is a member of the Australian Institute of Geoscientists and has over five years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Treacy consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.