

# Goldletter INTERNATIONAL

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Special Situation – March 2010 Update

www.korabresources.com.au



## Korab Resources Ltd. (A\$ 0.34)

ASX	: KOR
H+L prices (12 months)	: A\$ 0.40 – 0.04
Net shares issued	: 78.5 million shares
Fully diluted shares	: 79.0 million shares
Market Capitalization	: A\$ 26.7 million

**Next price target: A\$ 0.60**

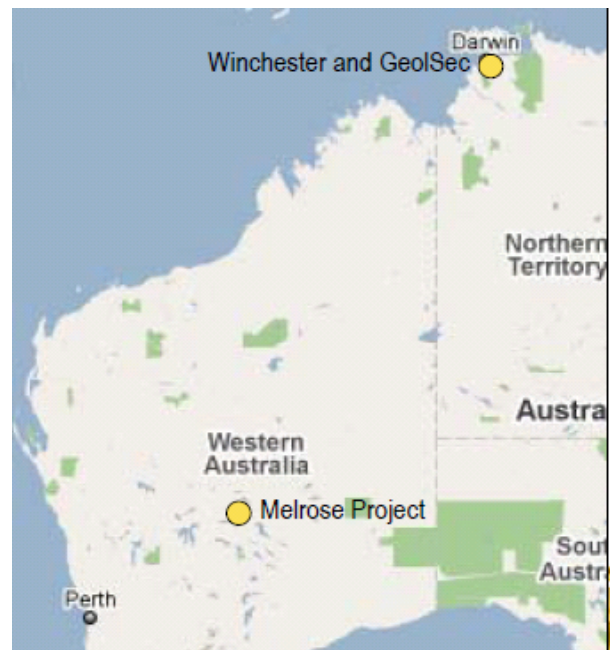
### Company profile

Korab Resources ("Korab") is an Australian mining and exploration Company with 4 mining projects in Australia and Ukraine. The Company's mining projects include rock phosphate, gold, silver and magnesium.

The Batchelor Project in Australia's Northern Territory covers the same stratigraphic horizon that hosts a number of nearby uranium polymetallic and gold mines and resources.

It contains the GeolSec Organic Phosphate Rock Deposit and Winchester Magnesium Deposit.

At GeolSec, Korab is targeting first year production from 2010 of 15,000 tonnes of environmentally friendly organic phosphate rock fertilised for a pre-tax profit of A\$ 5.5 million, subject to receiving all permits and approvals. There is a potential for the Project to operate for at least 5 years at a rate of 30,000 tonnes per annum and a targeted gross profit of A\$ 26-27 million over 3 years. GeolSec has a book value of just A\$ 100,000.



The **Winchester Magnesium Deposit** has an outlined JORC Code compliant resource of 16.6 million tonnes of 91%-pure magnesite. The Project has been progressed to feasibility study stage. Test mining and processing has shown the Project can be developed as a supplier of 50,000 tonnes per annum of magnesium metal at an operating cost of US\$ 0.85 per pound.

The Deposit has 17 million tons of 91% pure magnesite (MgCO<sub>3</sub>) which has been valued by Salomon Smith Barney at A\$ 372 million (NPV at magnesium price of US\$ 1.20 per pound) and has a book value of A\$ 300,000.

Additional analysis of magnesium oxide drill examples from the Winchester Deposit produced gold intercepts of 12.3 metres at 2.98 g/t, 7 metres at 2.56 g/t and 11 metres at 6.4 g/t.

The **Batchelor Project** area also includes the Sundance Gold Mine, which was a recent, relatively high-grade open-pit operation (mined grade of 10.7 g/t gold).

At Korab's **Melrose Gold Project** in Western Australia mine design and mine permitting process is expected to commence shortly. Melrose has 300,000 ounces of gold in a shallow easily mined deposit. The resource is undergoing an update to incorporate drilling results previously not included. Early indications suggest an upgrade to both the tonnage and grade of ore.

The Melrose Project is being spun-off into a new listed company Melrose Gold Mines whereby Korab shareholders will receive between 1 and 1.5 shares in the new company.

The book value is around A\$ 700,000.

The **Bobrikovo Gold Project** held through Korab's fully-owned subsidiary Lugansk Gold in the **Ukraine**, has a maiden JORC Code compliant resource of 960,000 ounces of gold. The Deposit is ready for mining to recommence in March 2010 and to commence production of gold and silver in the second quarter of 2011. Initial production is estimated at 60,000 ounces of gold per year.

Lugansk Gold will be spun off into a publicly listed company with Korab shareholders receiving between 1 and 1.5 shares in the new company for each share held in Korab. This will be in addition to the shares which Korab shareholders will receive from the spin-off of the Melrose Gold Project.

Korab's uranium assets have been separated under **Uranium Australia** (UAU).

In October 2009 Korab shareholders have received 1.37 free shares in UAU for each Korab share held.

UAU has world class uranium projects in the Northern Territory and Western Australia, including the multi-metal Batchelor Project within the Rum Jungle Mineral Field which is the location of several high-grade uranium deposits and mines and is the oldest uranium producing region in Australia.

The listing of UAU accompanied by an IPO is scheduled for April 2010.

## **Overview of Projects**

### ➤ **GeolSec Rock Phosphate Deposit**

Being part of its Batchelor Project, Korab's wholly-owned subsidiary GeolSec Phosphate Operations (GeolSec) is developing the GeolSec Rock Phosphate Deposit.

GeolSec has commenced marketing of GeolSec Bio+, a bio-activated version of its organic fertiliser designed to be used in locations which are cooler and drier than the tropical regions of Australia.

Subject to receiving all permits and regulatory approvals, GeolSec is aiming to commence production in 2010 with a targeted first year output of approximately 15,000 tonnes per annum to generate a projected pre-tax gross profit of A\$ 5-6 million, or between A\$ 0.073 and A\$ 0.088 a share.

It will be targeting a second year profit of A\$ 9 million, and A\$ 12 million in the third year of operation.

This represents a targeted gross profit of A\$ 26-27 million over 3 years commencing 2010 subject to there being no capital dilution and to meeting the targeted sales revenue and operating expenses, the revenue stream represents a potential gross profit between A\$ 0.33 and A\$ 0.34 per share on a fully diluted basis.

## Phosphate rock as organic fertiliser



GeolSec location and Korab tenements

Phosphate rock (PR) is a natural mineral, requiring minimum metallurgical processing. The direct application of PR avoids the production of polluting wastes such as phosphate-gypsum and greenhouse gases, thus resulting in energy conservation and protection of environment from industrial pollution.

Being a natural compound, PR can be used in organic agriculture. Direct application enables the use of PR sources that are unlikely to be used for production of artificial fertilisers and phosphoric acid. PR for direct application can be more efficient than artificial fertilisers in terms of phosphorus recovery by plants under certain conditions.

PR is a source of several nutrients other than phosphorus and is usually applied to replenish the soil phosphorus status, but it also provides other nutrients present in the PR.

Application of PR to tropical acid soil has a potential trigger effect on plant growth and crop yields. The resulting plants have a better nutritional quality.

The incorporation of organic residues enhances biological activity and soil carbon accumulation, leading to improved soil physical and chemical properties.

PR has an important role in contributing to improving soil fertility and soil degradation control.

## Organic farming market potential

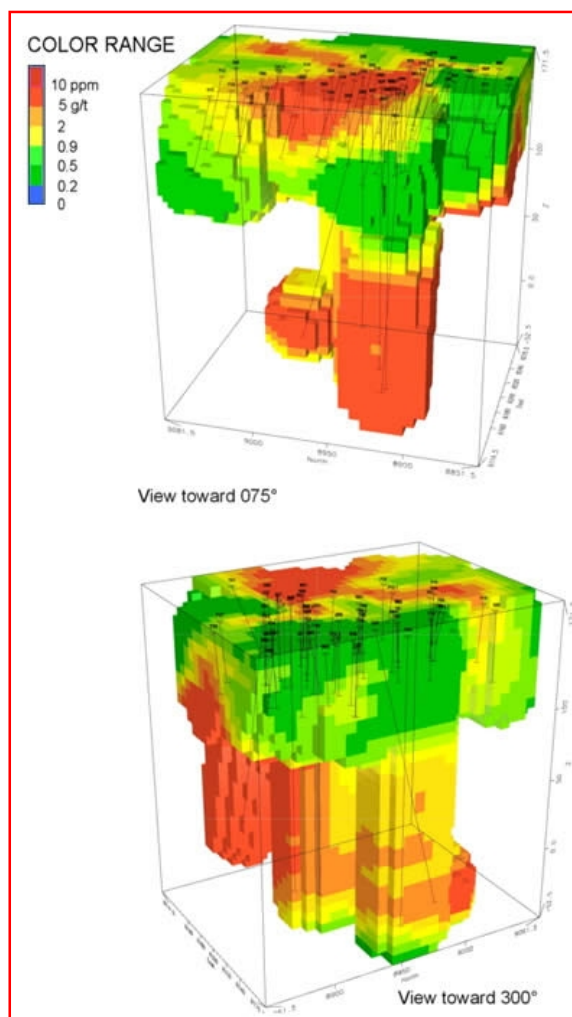
Organic farming is the fastest growing sector of agriculture. It also has shown to be immune for the recent economic and financial crisis.

The organic farming sector in the United States has grown at an annual rate of 17% while the economy has suffered the worst recession in 70 years.

Australia is the world leader in organic farming. In 2006, Australia had 12.3 million hectares of land (or 42% of the total world organic farmland) being used for organic farming.

Although Korab is initially focusing on the pastoralist and organic farms in the Northern Territory and several niche segments of the West Australian market, the general Australian organic farming sector offers the Company a very substantial marketing opportunity and a potential for strong economic growth.

To put this opportunity into perspective, Korab's targeted first year production of GeolSec phosphate is sufficient to treat approximately 40,000 hectares or less than 0.5% of the land currently being used for organic farming in Australia.



## ➤ Bobrikovo Gold Project - Ukraine

Korab commenced development of the Bobrikovo Gold Mine in June 2008 through the Company's 74%-owned subsidiary Donetsky Kryazh Ltd (DKL). The remaining 26% interest in DKL is held by Ukrainian investors. DKL is registered under Ukrainian law and is subject to local corporate tax at a rate of 25%.

All funding requirements for DKL's Bobrikovo Gold Mine are provided by Korab. Loans provided by the Company will be repaid from Project pre-tax cash flows.

Ukraine has no restrictions on repatriation of capital or profits and is a major investment destination for European Union's institutional investors.

The Bobrikovo Gold Mine is located in eastern Ukraine in the Lugansk Region within Nagolny Ridge. Nagolny Ridge is part of a large intra-continental Phanerozoic structure that extends from southern Europe to central Asia, which hosts several world-class gold mining operations including Muruntau, Vysokovoltnoe and Bakirchic.

The tenor and style of mineralization at Bobrikovo is similar to the 170 million ounce gold deposit at Muruntau in Uzbekistan and to the 57 million ounces Sukhoi Log Gold Deposit in Russia.

The structure of the Bobrikovo Gold Project strikes 11 kilometres by 2.5 kilometres. The Deposit occurs on the intersection of deep fault zones.

Mineralization is controlled by northwest-northwest trending anticline hinge, and occurs as concordant quartz-carbonate tension veins and stock works.

Host rocks of Nagolny Kryazh comprise two structural states: the lower, Precambrian, and the upper, Phanerozoic.

The ore zone is 2.5-3 km long and 0.9-1.0 km wide. Initial sulphide ore occur from the depth of 30-40 metres down to 3,200 metres. Veins are easily recognised and suitable for selective extraction.

Gold reserves in oxide ore (C2 by Russian classification corresponding to Probable reserves of JORC code) include 220,000 tonnes of ore grading 7.2 g/t gold containing 52,600 ounces of gold; 1.8 million tonnes of ore containing 51,700 ounces of gold; 226,000 tonnes of ore grading 45.2 g/t silver containing 328,000 ounces of silver.

On March 1, 2010, Korab announced a maiden JORC Code compliant mineral resource for the Bobrikovo Mine of 960,000 ounces of gold and the potential for substantial additional gold mineralization.

The Deposit is ready for mining to recommence in March 2010 and to commence production of gold and silver in the second quarter of 2011.

### **BOBRIKOVO MINE MINERAL RESOURCE**

<b>Measured resource at 1 g/t cut-off, indicated and inferred resource at 0.5 g/t cut-off</b>					
<b>Category</b>	<b>Zone</b>	<b>Ore Mass (t)</b>	<b>Grade (g/t)</b>	<b>Gold (t)</b>	<b>Ounces</b>
Measured	Oxide	939,039	3.06	2.87	92,403
	Fresh	-	-	-	-
	Subtotal	939,039	3.06	2.87	92,403
Indicated	Oxide	896,470	1.2	1.13	36,389
	Fresh	<u>3,979,825</u>	2.64	10.51	<u>337,820</u>
	Subtotal	4,876,295	2.38	11.64	374,209
Inferred	Oxide	-	-	-	-
	Fresh	<u>13,459,844</u>	1.14	15.33	<u>492,985</u>
	Subtotal	13,459,844	1.14	15.33	492,985
<b>Grand total</b>		<b>19,275,178</b>	<b>1.55</b>	<b>29.84</b>	<b>955,597</b>

<b>Aggregate mineral resource at other cut-off grades</b>				
<b>Cut-off grade</b>	<b>Ore Mass (t)</b>	<b>Grade (g/t)</b>	<b>Gold (t)</b>	<b>Ounces</b>
0.5	19,275,178	1.55	29.84	959,597
1.0	9,051,334	2.50	22.7	730,025
1.5	5,357,920	3.39	18.21	585,296
2.0	3,473,110	4.29	14.95	480,962

It is the intention of Lugansk Gold to achieve initial production of 60,000 ounces of gold per year from the Bobrikovo Mine and to continue exploration while mining and processing of the resource classified as Measured category is taking place.

This exploration program will aim to increase the JORC Code compliant resource to over 2 million ounces within the next 2 years.

Gold production in 2011-2012 was targeted at 15,300 ounces of gold in concentrate for a pre-tax profit of US\$ 4.7 million at a 70% recovery grade of gold to concentrate and based on a gold price of US\$ 900. The anticipated capital costs of the Project were in the range from US\$ 2.2 million to US\$ 2.8 million. The estimated operating costs including mining processing and overheads are US\$ 280 per ounce. Korab's share of the profit was to be US\$ 3.36 million (A\$ 4 million). These projections have now been amended to 60,000 ounces of gold per year at an operating cost of \$280 per ounce. The new anticipated capital cost are around US\$ 5 million which will be covered from the funds raised during the upcoming IPO following the spin-off.

Korab's share of the profit (at US\$1000/oz) will be approximately US\$ 16-19 million (AU\$ 17-21 million) depending on recovery rates of gold to concentrate.

Korab's equity in the Bobrikovo Project is being held through its subsidiary Lugansk Gold, in which the Company holds 100 million shares.

The Company has decided to seek separate public listing on the ASX and overseas for Lugansk. Through an IPO, Korab will seek to raise (in aggregate) between US\$ 40 and US\$ 50 million in new equity to fast-track the development of the Bobrikovo Mine.

In an Extraordinary General Meeting (EGM) planned for April 2010, Korab's shareholders will be asked to approve the demerger and the in-specific distribution of free shares Lugansk Gold to Korab shareholders at a pro-rate ratio of between 1 and 1.5 free Lugansk Gold shares for each Korab share held on the record date, which is likely 7-10 days after the EGM.

Following the spin-off of its gold projects, Korab will concentrate on developing its phosphate and magnesium deposits and on exploration for nickel, iron ore and copper,

### ➤ **Ashburton Downs Copper Project , Mt Elephant Gossan, Western Australia**

The Ashburton Downs Copper Project consists of a single exploration licence application covering an area of 380 km<sup>2</sup> which is held by Australian Copper P/L, a wholly-owned subsidiary of Korab. Korab's interest in the Ashburton Downs Project stems from the presence of extensive copper and gold mineralization within the project area, as evidenced by mining and exploration work completed to date.

Previous work identified extensive VMS-style copper and gold mineralization. Diamond drilling samples grade up to 1.32% copper. Rock chip samples grade up to 10.1% copper and 29 g/t gold. The project includes several historical small-scale but high-grade copper mines.



## ➤ Uranium Australia Ltd.

Uranium Australia (UAU) is a uranium exploration company with world-class uranium projects in the Northern Territory and Western Australia, including the Batchelor Project within the Rum Jungle Mineral Field near Darwin.

The Rum Jungle Mineral Field is the location of several high-grade uranium deposits and mines and is the oldest uranium producing region in Australia. It is considered by experts to be the most prospective area for near surface high-grade unconformity style uranium deposits.

Uranium Australia's Batchelor Project extends for 20 km from the pit wall of the largest uranium mine within Rum Jungle Mineral Field along the uranium bearing contact between Coomalie Dolostone and the Whites Formation, which hosts all major uranium mineralization within the Rum Jungle Mineral Field.

These deposits tend to occur at shallow depths and historically had grades of between 0.2% and 0.5% of uranium.

The largest of the uranium deposits, Rum Jungle Creek South, which is located on the boundary of UAU's ground, occurred at a very shallow depth and was mined at a grade of 0.48% U<sub>3</sub>O<sub>8</sub> for approximately 9 million pounds of U<sub>3</sub>O<sub>8</sub>.

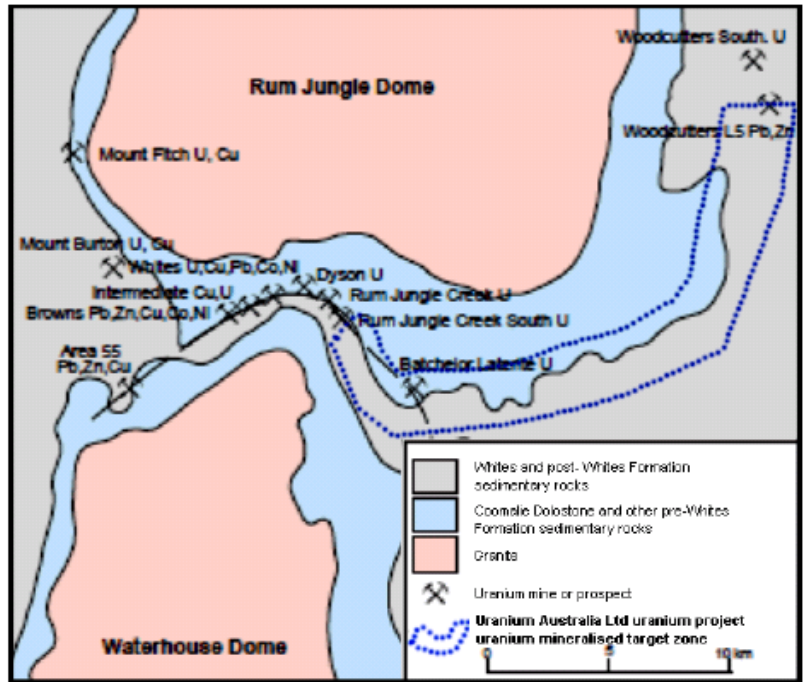


Figure 1 Uranium Australia Ltd uranium targets

UAU has been spun off into a publicly listed company, thereby offering Korab shareholders 1.37 free shares in UAU for each Korab share held on October 14, 2009. In total, 107.84 million UAU shares have been returned to shareholders and reduce the Company's share capital accordingly.

The UAU IPO offer is scheduled to open in March 2010.

### **Finance**

On October 1, 2009, Korab announced the closing of an A\$ 2 million capital raising (10 million new shares at A\$ 0.20 each).

The proceeds of the capital raising will be used to fund start-up costs and working capital requirements for GeolSec, re-commencement of mining and stockpiling at the Bobrikovo Gold Mine and mine design and commencement of mine permitting process at the Melrose Gold Project.

## **Management**

### **Board of Directors**

**Andrej K. Karpinski - Executive Chairman**, has a back ground in resources financing, commodities trading and funds management. He brings to the Company his network of Australian and international contacts, his administrative skills and his expertise in financial risk and treasury management, project financing and resources banking and has been a Director of Korab since its formation in March 1998. Mr. Karpinski is a Fellow of the Australian Institute of Company Directors, a Fellow of Financial Services Institute of Australasia and a Member of the Society of Petroleum Engineers.

**Rodney H. Skeet - Non Executive Director**, has a background in commodities financing and investment banking. He brings to the Company his broad network of international contacts within resources and securities sectors and his expertise in resources financing

**John M. McKenzie - Non Executive Director**, has a back ground is in resources investments, land development and construction. He is a founding shareholder of Korab Resources. He brings to the Company his general business experience gained over many years as a director of BGC, one of the largest private companies in Western Australia.

### **Management and Exploration Team**

Dr. Julia Didenko - *Senior Geologist*

Dr. Maxim Dyshchuk - *Consulting Geologist*

Karl Lindsay-Park - *Consulting Geologist*

John Earthrowl - *Consulting Geologist*

### **Investment recommendation:**

Korab is focusing its activities on four mining projects of which three are in Australia and one in the Ukraine.

In Australia's Northern Territory, the Batchelor Project hosts a number of nearby uranium polymetallic and gold mines and resources, which include the Company's GeolSec Phosphate Rock Deposit, Winchester Magnesium Deposit and the Sundance Gold Mine.

In addition, Korab's uranium assets within the Rum Jungle Mineral Field, host to several high-grade uranium deposits and mines and being part of the Batchelor Project, have been be spun-off into publicly listed **Uranium Australia**, thereby offering substantial added value to Korab shareholders.

GeolSec alone has the potential to operate for at least 5 years at a rate of 30,000 tonnes of environmentally friendly organic phosphate rock fertilised and a targeted gross profit of A\$ 26-27 million over 3 years. Its net profit would exceed Korab's total current market capitalization.

The Bobrikovo Gold Project held through Korab's subsidiary Lugansk Gold in the Ukraine has a maiden JORC Code compliant mineral resource of 960,000 ounces of gold. The Deposit is ready for mining to recommence in March 2010 and to commence production of gold and silver in the second quarter of 2011. Initial production is estimated at 60,000 ounces of gold per year.

Lugansk Gold will be spun off into a publicly listed company.

Based on a current market valuation of just A\$ 26.7 million and having created substantial added value to shareholders through the spin-off of Uranium Australia and to be followed by the spin-off of the Brobikovo Gold Project and the Melrose Gold Project, in our view, the shares of Korab are strongly undervalued.

We have upgraded our price objective to: A\$ 0.60.