

# Goldletter INTERNATIONAL

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Special Situation – October 2009 Update

www.korabresources.com.au



**Korab Resources Ltd. (A\$ 0.27)**

ASX : KOR  
H+L prices (12 months) : A\$ 0.28 – 0.04  
Net shares issued : 68.0 million shares  
Fully diluted : 68.5 million shares  
Market Capitalization : A\$ 18.4 million

**Next price target: A\$ 0.50**

## **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.



Winchester has an outlined JORC Code compliant resource of 16.6 million tonnes of 91%-pure magnetite. 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 book value is around A\$ 700,000.

Korab's uranium assets have been separated under **Uranium Australia (UAU)**, which company will be spun-off and Korab shareholders to receive 1.37 free shares in UAU for each Korab share held on the record date.

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 at an indicated share price of A\$ 0.20 per share is scheduled for January 2010.

## Overview of Projects

### GeolSec Rock Phosphate Deposit

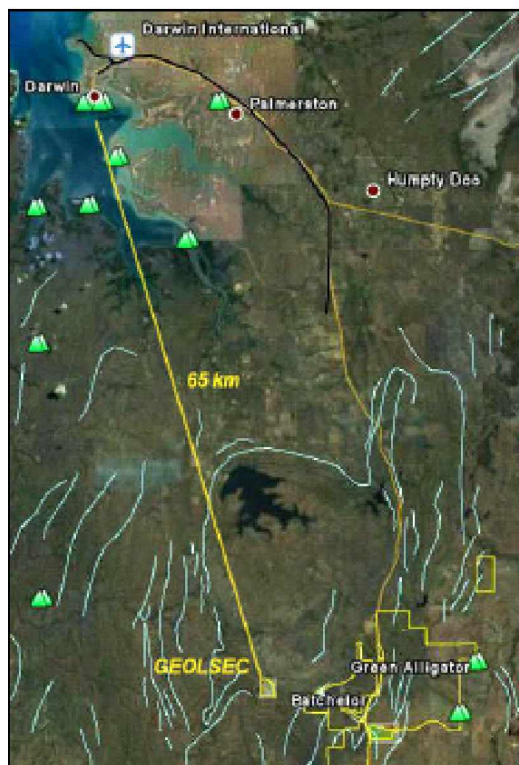
Being part of its Batchelor Project, Korab's wholly-owned subsidiary GeolSec Phosphate Operations (GeolSec) is developing the GeolSec Rock Phosphate Deposit.

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\$ 0.38 and A\$ 0.40 per share.



GeolSec location and Korab tenements

## Phosphate rock as organic fertiliser

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.

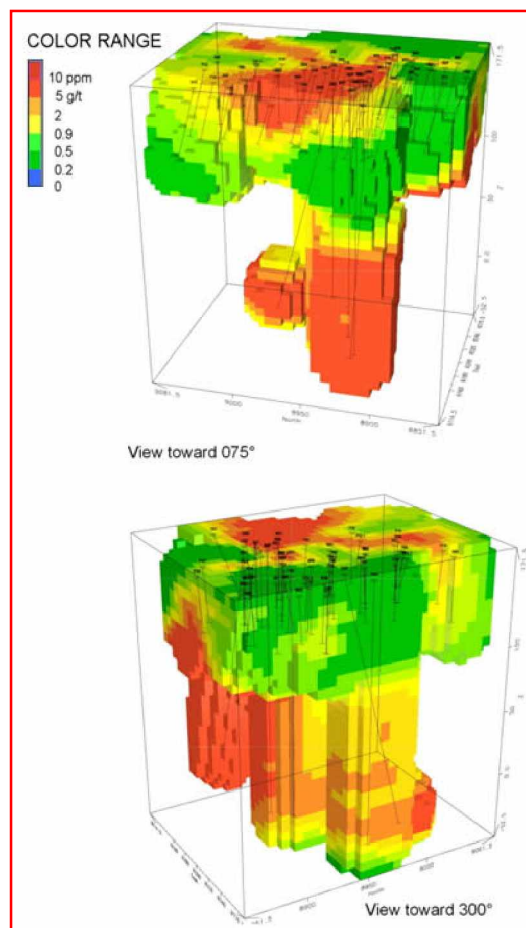
To put this opportunity into perspective, Korab's targeted first year production of GeolSec phosphate is sufficient to treat approximately 40,000 hectares or less than 0.5% of the land currently being used for organic farming in Australia.

### Ø 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.

During the quarter ending June 30, 2009 revisions to the definitive Feasibility Study have been completed for the production of gold from the oxide ores from surface to 35 metres depth. The results of the revised study indicate a very profitable, robust project with low start-up and operating costs and high profit margin.

The pit is located for hundreds metres from the ore-storage pad and the site for the processing planned. It is planned that mining operation will utilise scrapers for low grade ores and truck and shovel for high grade ore.

The processing circuit will use gravity tables, which have shown a recovery rate of over 63%-76% of contained ore to concentrate in bulk tests completed on high grade ores.

The oxidised zone of the Bobrikovo Deposit begins at the surface and extends down to 35 metres depth and the sulphide zone continues to a depth of 3,200 metres. Veins are easily recognisable and suitable for selective extraction.

Korab plans to recommence mining of ores in 2009, while processing of gold to concentrate is scheduled to commence in late 2010 or early 2011 subject to funding.

The processing plant will have the capacity to process 120,000 tonnes per annum and will initially process high-grade ore with an average grade of 4.18 g/t gold from the oxide zone between surface and 35 metres depth.

Gold production in 2011-2012 is 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 are 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.

It is planned that the revenue from this initial phase of project operation will be used to expand the processing capacity of the plant from 120,000 tonnes per annum to 300,000 tonnes per annum the following year and to modify the processing circuit to increase gold recovery grade.

Korab's share of the profit will be US\$ 3.36 million (A\$ 4 million).

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 is currently evaluating various financing options to cover the capital costs and the working capital requirements of Lugansk Gold, including a spin-off followed by an IPO and Korab shareholders to receive free shares in Lugansk Gold.



## Ø 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>.

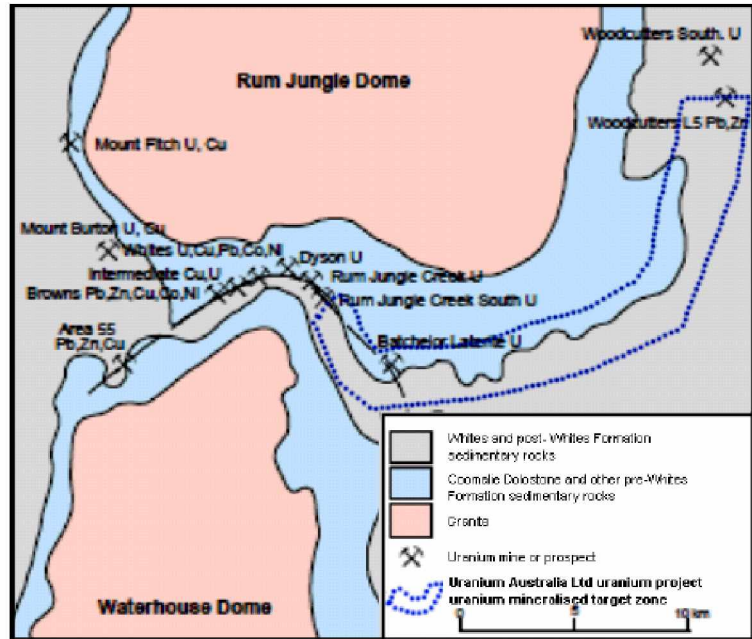


Figure 1 Uranium Australia Ltd uranium targets

UAU will be 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 will be returned to shareholders and reduce the Company's share capital accordingly.

The UAU IPO offer is scheduled to open at October 26, 2009 and close at December 18, 2009. Trading of UAU shares is expected to commence on January 7, 2010.

## Finance

On September 28, 2009, Korab announced that an A\$ 2 million capital raising (10 million new shares at A\$ 0.20 each) by way of a share purchase was substantially oversubscribed.

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*

Maxim Dyshchuk - *Consulting Geologist*

Karl Lindsay-Park - *Consulting Geologist*

John Earthowl - *Consulting Geologist*

### **Investment recommendation:**

Korab is focusing its activities on four mining projects of which three 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, will be spinned-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 Brobikovo Gold Project in Ukraine is targeted to produce 15,300 ounces of gold in concentrate for a pre-tax profit of US\$ 3.36 million (Korab's share of profit).

Based on a current market valuation of just A\$ 18.4 million, not including the proceeds of the A\$ 2 million capital raising, and creating 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 in a later stage, in our view, the shares of Korab are strongly undervalued.

We have upgraded our price objective to: A\$ 0.50.