



# KORAB RESOURCES LIMITED

## KORAB HOUSE

[www.korab.com.au](http://www.korab.com.au)

31 July 2023

### **Issued Capital**

Issued Shares: 367 Mln  
Last Price: 2.3 cents  
Capitalisation: \$8 Mln

### **Listing Code**

ASX: KOR

### **Directors**

**Andrej K. Karpinski**  
Executive Chairman  
Executive Director

**Anthony G. Wills**  
Non-executive Director  
(Independent)

**Alicja Karpinski**  
Non-executive Director

### **Projects**

**Winchester**  
(Rum Jungle, NT)  
Magnesium

**Sundance**  
(Rum Jungle, NT)  
Gold, Silver, Tin

**Batchelor & G. Alligator**  
(Rum Jungle, NT)  
Gold, Silver, Zinc, Lead, Nickel,  
Copper, Cobalt, Tin, Rare Earth  
Oxides, Scandium, Lithium,  
Manganese, Iron Ore, Uranium

**Geolsec**  
(Rum Jungle, NT)  
Phosphate  
Rare Earth Oxides, Lithium,  
Uranium, Base Metals, Iron Ore

**Mt. Elephant**  
(Ashburton, WA)  
Gold, Copper

**Bobrikovo**  
(Luhansk, UKRAINE)  
Gold, Silver, Zinc, Lead,  
Antimony

## **QUARTERLY ACTIVITIES REPORT TO 30 JUNE 2023**

This is quarterly activities report for the period from 1 April 2023 to 30 June 2023 ("Report") by Korab Resources Ltd ("Korab", or "Company") (ASX: KOR) and its subsidiaries ("Korab Group").

### **OPERATIONS – EXPLORATION, EVALUATION, AND DEVELOPMENT**

During the quarter Korab Group continued exploration and evaluation of its mineral assets, as well as the progression of the Winchester Magnesium Deposit to production.

During and following the quarter, the Company continued a scoping study into production of magnesium metal using alternative technology which does not use gas, ferrosilicon, aluminium, and grid electricity. During and following the end of the quarter Korab also continued updates of previously reported pre-feasibility studies. The results of the scoping study and updates of the pre-feasibility studies are expected to be reported to the market in 2023.

During and following the end of the quarter, the Company continued review of the lithium and Rare Earth Oxides (REO) potential of the Batchelor/Green Alligator Project, which was originally announced to the ASX on 12 September 2022. The review was commenced due to the Project's proximity to lithium-rich and REO-rich granites, Project's proximity to Finnis Lithium Project, Litchfield Lithium Project, and Bynoe Project, as well as Project's favourable geology similar to the geology of the projects held in the area by Core Lithium (ASX: CXO), Ragusa Minerals (ASX: RAS), Lithium Plus Minerals (ASX: LPM), and Evergreen Lithium (ASX: EG1). REO potential of the Batchelor/Green Alligator Project stems from the Project's proximity to REO-rich granites (as reported by the Northern Territory Geological Survey (NTGS)) and favourable geology (see Figure 3 and Figure 4). Results of the lithium and REO review of the Batchelor/Green Alligator Project will be reported progressively as they become available with initial results expected to be reported in August 2023.

### **WINCHESTER MAGNESIUM PROJECT (RUM JUNGLE MINERAL FIELD, NT)**

#### **SCOPING STUDY AND UPDATE OF PRE-FEASIBILITY STUDIES**

During and following end of the quarter Korab continued a scoping study which is evaluating economics of an environmentally friendly production method to produce sustainable, "zero-carbon", "green" magnesium metal and hydrogen with several additional sellable "bonus" products.

The production method being evaluated as part of this second scoping study does not utilise aluminium and ferrosilicon but instead relies on the more modern technologies developed in recent years. This production method aims to avoid calcination of magnesite (converting  $MgCO_3$  into  $MgO + CO_2$ ). This in turn would remove the need to use gas and would eliminate  $CO_2$  emissions that would otherwise result from calcination and gas burning.

As part of this scoping study, the Company is assessing the use of two solar farms (Batchelor 1, and Batchelor 2) adjacent to the Winchester Project (see Figure 11) that have a combined capacity of 22MW-24MW to supply renewable electric power to the Project (crushers, screens, sorters and process plant).

Grid electricity, ferrosilicon, aluminium and gas contribute significantly to the cost of production forming approximately 76% of the cost base (see Figure 10). The cost of solar power is significantly lower than the grid electricity. Consequently, a method which dispenses with ferrosilicon, aluminium and gas, and allows for the use of solar power instead of grid electricity has a potential to reduce the production cost of magnesium metal. The work on this study assessing the economics of producing "zero-carbon",



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“green” magnesium metal using the alternative method is continuing. Results of this study are expected to be available for release to the market in 2023.

During the prior reporting periods, on 9 March 2022, Korab reported in a report titled “WINCHESTER MAGNESIUM SCOPING STUDY” the results of a scoping study which assessed the economics of a tested and proven magnesium production method relying on electric arc furnace which uses as feed magnesium oxide, aluminium, and ferrosilicon to produce magnesium metal (the Study). The Study has shown that the Winchester Project is capable of producing 50,000 tonnes of magnesium metal per year for 14 years at a cost of between A\$5,300 and A\$5,400 per tonne. For the composition of the production cost components by input category see Figure 10. The Company confirms that all the material assumptions underpinning the production target and other scoping study results initially reported to the public on 9 March 2022 continue to apply and have not materially changed. The Company further confirms that all the material assumptions underpinning the forecast financial information derived from a production target in the initial public report released on 9 March 2022 continue to apply and have not materially changed.

The “WINCHESTER MAGNESIUM SCOPING STUDY” report can be downloaded directly from the ASX website by either following the link below or by cutting and pasting this link into your browser:

[https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02497261-6A1080972?access\\_token=83ff96335c2d45a094df02a206a39ff4](https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02497261-6A1080972?access_token=83ff96335c2d45a094df02a206a39ff4)

During the quarter, Korab Group continued an update of the previously reported pre-feasibility studies:

1. The pre-feasibility study into the production and sales of DSO magnesium carbonate rock (magnesite) from Winchester quarry, which was originally reported to the market on 21 March 2018;
2. The pre-feasibility study into the processing and sales of magnesium oxides (Caustic Calcined Magnesia and Dead Burned Magnesia), which was originally reported to the market on 12 September 2018; and
3. The pre-feasibility study into the sales of waste products from Winchester, which was originally reported to the market on 5 April 2019.

These updated pre-feasibility studies will form the basis for the selection of the general development strategy for the Winchester Magnesium Project. One of the scenarios being evaluated for the Winchester development is a 3-stage development of Winchester, where:

- Stage 1 Korab Group would initially develop quarrying and sales of magnesium carbonate DSO product;
- Stage 2 After the Winchester magnesium carbonate (magnesite) quarry became fully operational and a sufficient amount of suitable raw material was stockpiled, Korab Group would expand Winchester into production of various magnesium oxides (Dead Burned Magnesia, and Caustic Calcined Magnesia) using kilns owned and operated by third parties on a toll-treatment basis;
- Stage 3 Finally, after implementation of Stage 1 and Stage 2, and subject to future:
1. Financial position of Korab Group;
  2. Funding sources available to the Company;
  3. Legislative framework (including any new legislation relating to climate change and/or emissions reduction goals); and
  4. Market conditions;

Korab Group would proceed to construct own kilns and other facilities to enable in-house production of magnesium oxides and magnesium metal.



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### **DISCUSSIONS REGARDING POTENTIAL JOINT VENTURES, OFFTAKES, AND FUNDING**

During prior reporting period, on 2 May 2022, Korab Group received a Letter of Intent (LOI) from Speira GmbH (Speira) regarding supply of magnesium metal from the Winchester Magnesium Project to Speira.

Speira is a leading global manufacturer of advanced rolled aluminium/magnesium products, producing approximately one million tonnes of aluminium alloys per year. Speira supplies some of the best-known global companies in the automotive, packaging, printing, engineering, building and construction industries.

Speira's production base, with locations across Germany and Norway, includes JV Alunorf, the world's largest plant for casting and rolling of aluminium, and Grevenbroich, the world's largest rolled aluminium finishing mill. Speira employs around 5,000 people mainly in Germany and Norway. Speira closely collaborates with their value chain partners to better understand and improve the lifecycle effects of their aluminium products. The LOI confirmed Speira's interest (on a non-binding basis) in negotiating the procurement of various magnesium products to be used in production of aluminium/magnesium alloys subject to:

1. Korab Group commencing production of primary magnesium metal from Winchester Project;
2. Korab Group meeting Speira's quality and sustainability standards; and
3. Speira and Korab agreeing the commercial terms.

The LOI acknowledged Speira's appreciation of Korab's efforts to develop the Winchester Magnesium Project as a sustainable primary magnesium source to the market and Korab's approach to build a business model integrating the most innovative production technologies, recycling, and renewable electricity generation.

Discussions with Speira are incomplete and confidential. No commercial terms have been agreed between the parties and there can be no certainty that an agreement can be reached. Accordingly, no investment decision should be made on the basis of this information.

During the prior quarters, Korab Group has been approached by unrelated parties with an unsolicited proposal to enter into an agreement to jointly develop the Winchester quarry where the other party will fully fund the development in exchange for sharing the future profits from the quarry. No commercial terms have been agreed between the parties. There can be no certainty that any agreement or agreements can be reached with the other party or that any transaction will eventuate. Accordingly, no investment decision should be made on the basis of this information.

During the prior reporting periods Korab received unsolicited approaches from two separate Japanese conglomerates regarding potential supply of DSO magnesium carbonate rock from Winchester Project. During the prior quarter, one of these parties has sent a representative to meet with Korab directors and to visit the Winchester Magnesium Project and the port of Darwin. The Company is actively engaged in negotiations and discussions with the interested potential buyers but thus far no commercial terms have been agreed between Korab and these parties. There can be no certainty that any agreement or agreements can be reached with either of these parties or that any transaction will eventuate. Accordingly, no investment decision should be made on the basis of this information.

During and following the end of the quarter Korab also continued discussions with other potential buyers and representatives of potential buyers of magnesium carbonate rock (DSO) and of various magnesium oxides and potential project funders. No commercial terms have been agreed between the parties. There can be no certainty that any agreement or agreements can be reached with the other party or that any transaction will eventuate. Accordingly, no investment decision should be made on the basis of this information. As the discussions mentioned above are at an early stage and are incomplete any announcement of the details of these discussions would be premature and speculative.



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During the quarter, Korab continued discussions with various magnesium metal users and magnesium buyers, including aluminium/magnesium alloy producers supplying all major car makers (including Fiat and Daimler) regarding potential supply of magnesium metal from Winchester. No commercial terms have been agreed between the parties. There can be no certainty that any agreement or agreements can be reached with the other party or that any transaction will eventuate. Accordingly, no investment decision should be made on the basis of this information. As the discussions mentioned above are at an early stage and are incomplete any announcement of the details of these discussions would be premature and speculative.

### **PERMITTING**

During the quarter, Korab Group continued to work on the MMP for the Winchester quarry with the aim of completing it as soon as possible. The work on the Mine Management Plan for the Winchester magnesite quarry has continued through the quarter and is progressing well.

This MMP for quarrying is still being worked on in parallel with work on other matters, projects, and initiatives covered in this report. There is still a considerable amount of work to be completed before this MMP can be submitted to NT DITT. As a result of this, Korab Group is not in a position at this point in time to provide temporal guidance regarding the anticipated timing of the completion and the lodgment of this MMP. Korab Group will advise the market once the MMP for the Winchester quarry has been completed and lodged.

The process of MMP preparations is complex and in addition to the design of the start-up quarry, requires addressing issues relating to potential future expansion of the Project into production of magnesium metal and its related logistics and infrastructure. This also includes provisions for potential use of the alternative technology and process to produce magnesium metal and hydrogen. In essence, the mine, site infrastructure, and plant layout would be very simple and rudimentary if Winchester Project was to be operated as a direct shipping ore (DSO) quarry which does not require any on-site mineral processing (other than crushing, screening, and sorting).

The mine, mining schedule, site infrastructure, and plant layout would be quite different and much more complex if Winchester Project was expanded to include a kiln and a smelter based on the original, tested and proven production method to produce magnesium metal, or the infrastructure and equipment necessary to produce magnesium metal and hydrogen using the alternative technology and process. For the Winchester Magnesium Project layout based on the original tested technology see Figure 9. The layout would be more complex if the alternative technology and process were to be used to produce magnesium metal and hydrogen.

The MMP, which we are working on, should allow for this potential expansion to be accomplished with a minimum disruption to the ongoing DSO quarry operation and without the necessity to relocate the mine infrastructure including the pit access ramps, ROM pads, stockpiles, waste dumps, internal roads, plant site, etc. MMP development also includes "quarantining" of certain zones of the Project area to ensure that the infrastructure does not end up on top of the potential valuable mineral resource.

### **ABOUT WINCHESTER MAGNESIUM CARBONATE PROJECT**

The proposed Winchester magnesium mine is located 2 km from the regional centre of Batchelor some 70 km south of Darwin along Stuart Highway. Please refer to Figure 4 and Figure 5 for details of the location of the proposed Winchester Magnesium Plant, and Korab Group's various mineral tenements in the area. Winchester Magnesium Deposit is covered by 3-6 meters of overburden consisting of loose clay and gravel. Massive magnesite mineralisation of high-grade magnesite commences immediately below the overburden (Figure 7 and Figure 8).

For the mineral resource statement and the Competent Person statement in respect of the Winchester Project please refer to page 59 of "KORAB RESOURCES LIMITED AND CONTROLLED ENTITIES



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ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2022”, copy of which is available from the ASX announcement platform and from Korab’s website.

Magnesite rock (after it has been converted to magnesium oxide) is primarily used in the making of refractory linings necessary for the production of steel, cement, and glass. Other main uses of magnesium oxides and other magnesium compounds are in production of magnesium metal which is then used in production of aluminium/magnesium high-strength light-weight alloys used in car making (especially electric vehicles), aerospace, and packaging.

Other uses are in green hydrogen production, rechargeable and single-use magnesium-ion batteries, new-chemistry lithium-ion batteries (where magnesium alloy is used to replace much more expensive nickel and cobalt), betavoltaic batteries (where nuclear waste is converted directly to electricity), water purification, cattle feed, and nickel and cobalt metallurgy.

China plans to increase the use of magnesium metal in cars from 8.5 Kg/car to 45 Kg/car in the near term. Between 2000 and 2021, China’s control over global magnesium production increased from 12% of the global supply to 87% of global magnesium supply, creating an effective international monopoly on a 1.2 million tonnes per annum market. The situation is even more dramatic in Europe where China supplies over 95% of magnesium metal.

Magnesium prices in US are significantly higher than Chinese or European magnesium prices because US imposes approximately 140% anti-dumping import duty on Chinese magnesium (Figure 1). Consequently, exporting magnesium metal to US is a very attractive proposition for Korab Resources due to potentially much higher profit margin resulting from high local US prices and an exemption of Australian magnesium from import duties pursuant to the Australia–United States Free Trade Agreement.

### WORLD PRIMARY MG PRICES

(2001-2022, US\$/t)

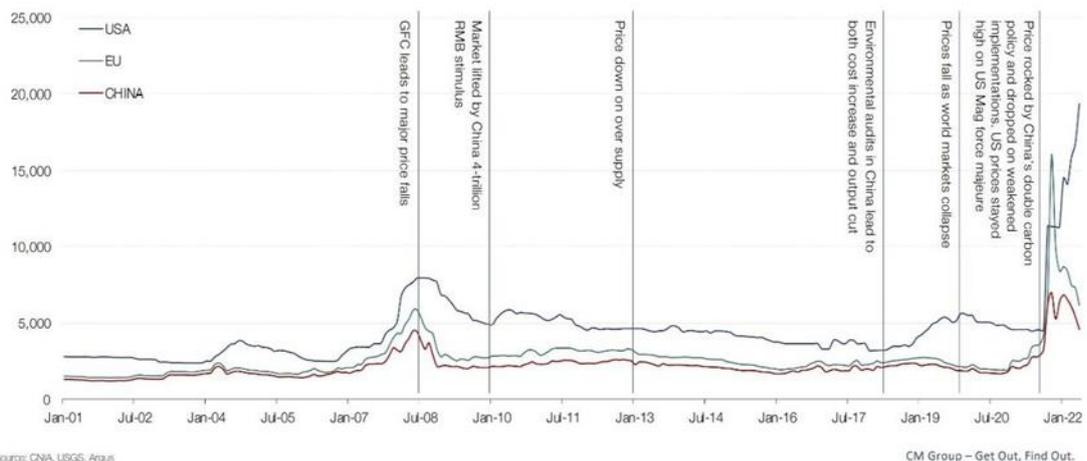


Figure 1 Global primary magnesium metal prices 2001 to 2022

Initial test mining of magnesite at Winchester project, construction of the pilot plant, and successful production of magnesium metal using magnesite from Winchester Project took place between 2000 and 2003 (see Figure 7, Figure 8). Winchester Project then waited for development for 2 decades primarily because of low magnesium prices prevailing between 2001 and 2020 (between \$1,300/t and \$2,000/t) and low magnesium oxide prices (CCM and DBM) during this period. These depressed prices were caused by rapid growth in Chinese production capacity of both magnesium metal and magnesium oxides, with supply growth outstripping the growth in demand. This made the development of Winchester not commercially feasible until few years ago when prices of magnesite and magnesium



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oxides have markedly improved due to increased demand driven by greater use of magnesium alloys in car making and more stringent environmental regulations having been introduced in China.

### **DRILLING CAMPAIGN**

Korab plans to undertake a drilling campaign aimed at: aggressive resource expansion at Korab Group's Winchester magnesium deposit; drill testing of potential lithium and Rare Earth Oxides (REO) targets generated by the first systematic in-depth review of lithium and REO potential of the Batchelor/Green Alligator Project currently being undertaken; and following up multiple zinc, lead, gold, silver, nickel, copper and cobalt targets generated by prior drilling programs.

This drilling program will consist of 110-145 reverse circulation and diamond core drill holes for a total of up to 11,000- 14,000 meters. This drilling campaign will target:

1. Areas within the current magnesium open pit envelope to increase the drilling density with the aim of providing data for updated mineral resource estimate;
2. Areas outside the current magnesium open pit envelope with the aim of in-filling the space between the multiple lines of historical RC, diamond core, and RAB drillholes completed in the past which that were not included in the estimation of the Winchester mineral resource due to the distance between the collars (see Figure 6);
3. Potential lithium and REO targets generated by the current review of Korab's exploration database;
4. Nickel, silver, gold, copper, scandium, zinc, lead, and cobalt targets generated by the prior drilling programs undertaken by Korab and the current review of Korab's exploration database.

Planning of the drilling program targeting massive magnesite and nickel, copper, and cobalt targets has been completed. Planning of the drilling program targeting potential lithium and REO, silver, gold, zinc, lead, and scandium targets generated by the ongoing review of Korab's exploration database is still continuing.

In parallel with the work on the Lithium and REO Review, Korab is making amendments to the Mine Management Plan for drilling to incorporate the new drill holes.

Korab has a pre-existing MMP for drilling already approved by NT DITT covering some of the drill locations. This MMP is being expanded to cover additional drill hole locations. Once Korab finishes putting through the changes, the amended MMP for drilling will be submitted to NT DITT for approval. Korab has already secured a field geologist, and a local drilling contractor with a drilling rig.

### **BATCHELOR/GREEN ALLIGATOR POLYMETALLIC PROJECT (RUM JUNGLE MINERAL FIELD, NT)**

During the quarter Korab continued exploration and evaluation of Batchelor/Green Alligator Project with particular focus on gold, silver, cobalt, nickel, lead, scandium, rare earth oxides (REO), lithium, and base metals. No reportable exploration results (as the term is defined in the section 18 of the 2012 JORC code) were generated.

Korab has also continued discussions with third parties regarding potential JVs to explore the project for various commodities.

Batchelor/Green Alligator Project comprises 2 granted exploration licences (EL29550 and EL31341) and 8 granted mining leases (ML27362, ML30587, MLN512, MLN513, MLN514, MLN515, MLN542 and MLN543) covering an area of approximately 240 square kilometres of the highly prospective Pine Creek Orogen (PCO).



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Portion of the Batchelor/Green Alligator Project is underlain by the Burrell Creek Formation, a part of the Finnis River Group. Other areas of the Project are underlain by Mount Bonnie Formation, Wildman Siltstone, Koolpin Formation, and Gerowie Tuff (see Figure 4).

Gold prospectivity of the Batchelor/Green Alligator Project stems from discovery of several large gold deposits in similar geological and structural settings elsewhere within the Pine Creek Orogen. According to NTGS records, Gerowie Tuff, Koolpin Formation, Mount Bonnie Formation, Burrell Creek Formation, and Wildman Siltstone are the host rocks of 11 of the 12 largest gold deposits historically mined in the PCO, including the 3 largest gold deposits discovered and mined within the PCO (each deposit greater than 1 Mln oz. Au): 3.6 Mln oz Au Mount Todd deposit, 2.4 Mln oz Au Union Reefs deposit, and 1.6 Mln oz Au Rustlers Roost deposit (see Table 1). Other notable deposits with geological and structural setting similar to Batchelor/Green Alligator Project include 932,000 oz Au Cosmo Hawley deposit, and 610,000 oz Au Enterprise deposit.

**Table 1 Twelve largest gold deposits within the Pine Creek Orogen arranged in alphabetical order (after Sener A.K. 2004)**

Deposit	Resources	Tonnes Au	Formation	Host	Structural Style
<i>Brocks Creek Group</i>	7.9Mt @ 2.0g/t	16	Gerowie Tuff	Siltstone, carbonaceous siltstone, greywacke, tuff, chert & BIF	Fold
<i>Chinese Howley</i>	9.4Mt @ 1.5g/t	14	Gerowie Tuff	Greywacke, siltstone, shale, mudstone & tuff	Fold
<i>Cosmo Howley</i>	10.4Mt @ 2.8g/t	29	Koolpin Formation	Chert nodular BIF & iron-rich/partially carbonaceous mudstone	Fold
<i>Enterprise</i>	7.2Mt @ 2.7g/t	19	Mount Bonnie Formation	Greywacke, siltstone, shale & chert	Fold
<i>Goodall</i>	4.3Mt @ 2.4g/t	10	Burrell Creek Formation	Greywacke, shale & siltstone	Fold
<i>Maud Creek</i>	1.7Mt @ 7.4g/t	13	Tollis Formation	Mafic tuff, greywacke, mudstone & siltstone	Fault
<i>Mount Todd</i>	109.2Mt @ 1.0g/t	111	Burrell Creek Formation	Greywacke, shale & tuff	Fault
<i>Rustlers Roost</i>	51.0Mt @ 1.0g/t	51	Mount Bonnie Formation	Greywacke, siltstone, chert & dolomitic/carbonaceous shale	Fold
<i>Spring Hill</i>	11.9Mt @ 1.0g/t	12	Mount Bonnie Formation	Greywacke, mudstone, siltstone, chert, BIF & carbonaceous mudstone	Fold
<i>Toms Gully</i>	1.5Mt @ 9.6g/t	15	Wildman Siltstone	Carbonaceous siltstone & mudstone	Fault
<i>Union Reefs</i>	38.1Mt @ 2.0g/t	76	Burrell Creek Formation	Greywacke, shale & siltstone	Fault
<i>Woolwonga</i>	5.0Mt @ 2.8g/t	14	Mount Bonnie Formation	Greywacke & partly carbonaceous siltstone/mudstone	Fold



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# KORAB RESOURCES LIMITED

## KORAB HOUSE

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### Issued Capital

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Last Price: 2.3 cents  
Capitalisation: \$8 Mln

### Listing Code

ASX: KOR

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Executive Chairman  
Executive Director

**Anthony G. Wills**  
Non-executive Director  
(Independent)

**Alicja Karpinski**  
Non-executive Director

### Projects

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(Rum Jungle, NT)  
Magnesium

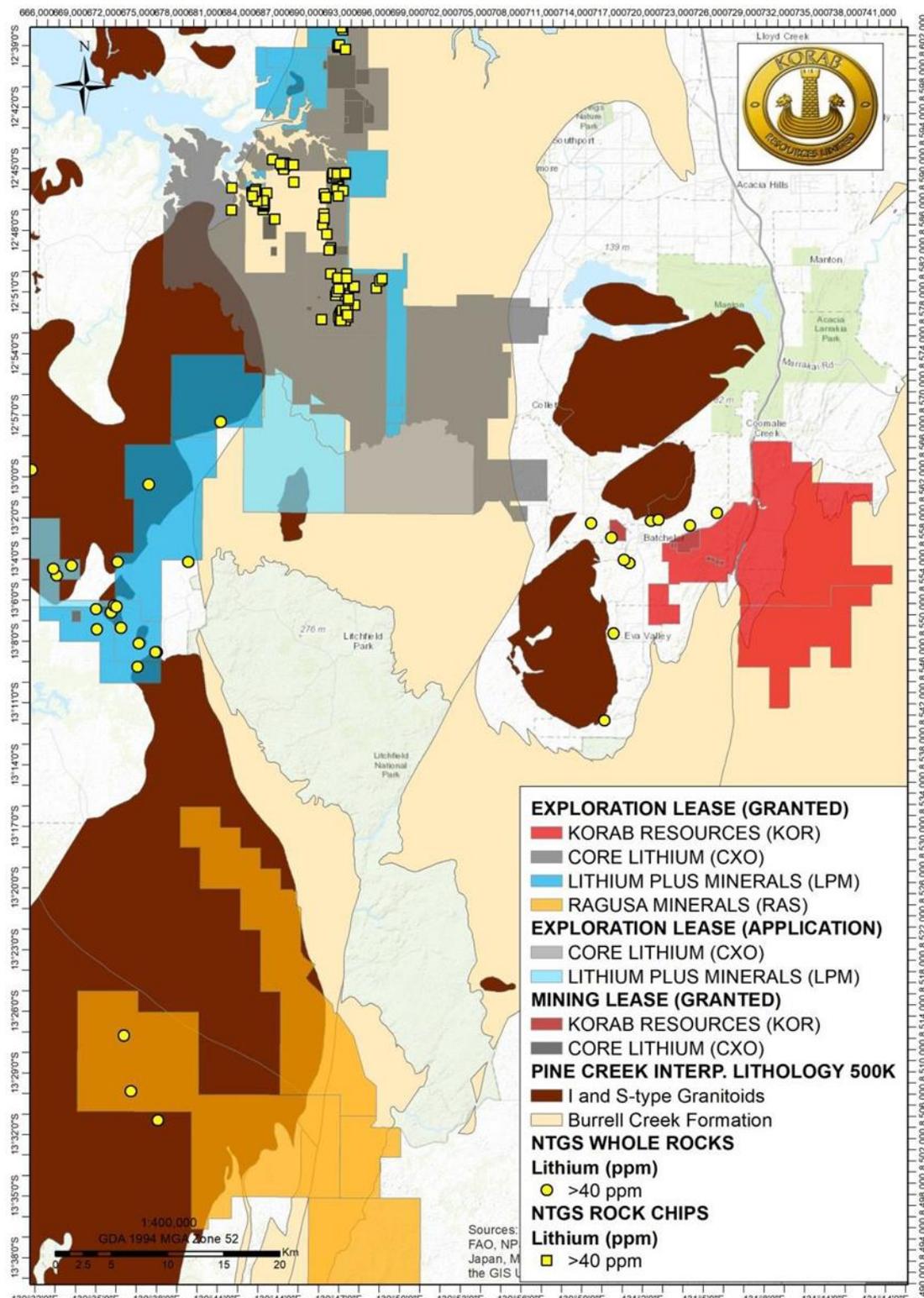
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Gold, Silver, Tin

**Batchelor & G. Alligator**  
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Copper, Cobalt, Tin, Rare Earth  
Oxides, Scandium, Lithium,  
Manganese, Iron Ore, Uranium

**Geolsec**  
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Phosphate  
Rare Earth Oxides, Lithium,  
Uranium, Base Metals, Iron Ore

**Mt. Elephant**  
(Ashburton, WA)  
Gold, Copper

**Bobrikovo**  
(Luhansk, UKRAINE)  
Gold, Silver, Zinc, Lead,  
Antimony



**Figure 2** Core Lithium, Lithium Plus, and Ragusa projects relative to Korab projects showing lithium-rich samples, Burrell Creek Formation and source granites.

Lithium prospectivity of Batchelor/Green Alligator Project stems from the fact that Burrell Creek Formation hosts lithium mineralisation within nearby tenements owned or operated by Core Lithium (ASX: CXO), Ragusa Minerals (ASX: RAS), Lithium Plus Minerals (ASX: LPM), and Evergreen Lithium



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(ASX: EG1) (see Figure 2). At the nearby Litchfield Pegmatite Belt, the Finniss Lithium Project, and Bynoe project lithium-bearing pegmatites are found within the same Burrell Creek Formation adjacent to and within aureole of I-type and S-type granites as the source of LCT pegmatites. The geological setting of the Batchelor/Green Alligator Project is broadly similar. The Batchelor/Green Alligator Project is proximal to I-type and S-type granites as the source of LCT pegmatites (see Figure 2 and Figure 4).

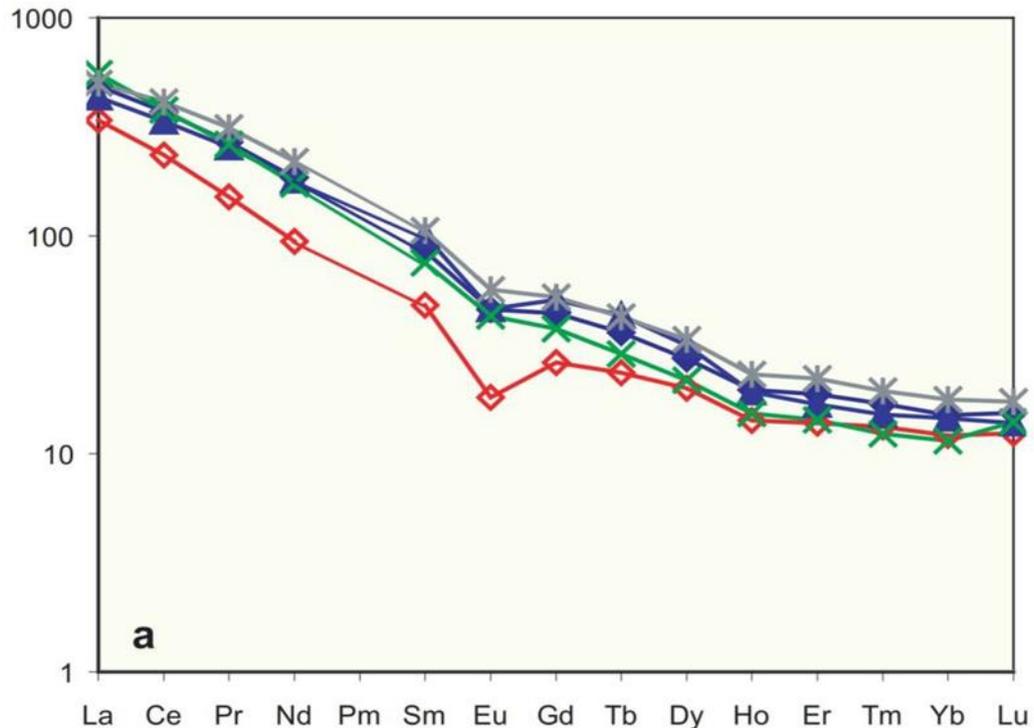


Figure 3 Rare Earth Elements (REE) spidergram for Rum Jungle Complex granites; after Ahmad et al (2006), data from McCready et al (2004).

Northern Territory Geological Survey (NTGS) database confirms elevated lithium in whole-rock samples collected in close proximity to the Project, between the tenements forming Korab's Projects and the I-type and S-type granites to the north and west, as well as the presence of pegmatites and carbonatite rocks (including monazite) at numerous locations within Korab's Project (see Figure 2 and Figure 4). Furthermore, NTGS reports show that the Rum Jungle Complex granites immediately to the north of Batchelor/Green Alligator Project are enriched with REO, and are particularly rich in Praseodymium and Neodymium (see Figure 3).

Given the potential of Batchelor/Green Alligator Project to host lithium and rare earth oxides mineralisation, Korab Group is conducting first in-depth systematic review of the Group's exploration database consisting of results from Korab's previously reported historical exploration programs, as well as various closed file, and open file reports targeting lithium and REO.

According to U.S. Geological Survey, Lithium-caesium-tantalum (LCT) pegmatites comprise a compositionally defined subset of granitic pegmatites. The major minerals are quartz, potassium feldspar, albite, and muscovite; typical accessory minerals include biotite, garnet, tourmaline, and apatite. The principal lithium ore minerals are spodumene, petalite, and lepidolite; caesium mostly comes from pollucite; and tantalum mostly comes from columbite-tantalite. Tin ore as cassiterite and beryllium ore as beryl also occur in LCT pegmatites. Individual crystals in LCT pegmatites can be enormous: the largest spodumene was 14 meters long, the largest beryl was 18 meters long, and the largest potassium feldspar was 49 meters long. Most LCT pegmatites are hosted in metamorphosed supracrustal rocks in the upper greenschist to lower amphibolite facies. Lithium-caesium-tantalum



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pegmatite intrusions generally are emplaced late during orogeny, with emplacement being controlled by pre-existing structures. Typically, they crop out near evolved, peraluminous granites and leucogranites from which they are inferred to be derived by fractional crystallization. In cases where a parental granite pluton is not exposed, one is inferred to lie at depth. Lithium-caesium-tantalum LCT pegmatite melts are enriched in fluxing components including H<sub>2</sub>O, F, P, and B, which depress the solidus temperature, lower the density, and increase rates of ionic diffusion. This, in turn, enables pegmatites to form thin dikes and massive crystals despite having a felsic composition and temperatures that are significantly lower than ordinary granitic melts. Lithium-caesium-tantalum pegmatites crystallized at remarkably low temperatures (about 350–550 °C) in a remarkably short time (days to years). Lithium-caesium-tantalum pegmatites form in orogenic hinterlands as products of plate convergence. Most formed during collisional orogeny (for example, Kings Mountain district, North Carolina). Specific causes of LCT pegmatite-related magmatism could include: ordinary arc processes; over thickening of continental crust during collision or subduction; slab breakoff during or after collision; slab delamination before, during, or after collision; and late collisional extensional collapse and consequent decompression melting. Lithium-caesium-tantalum pegmatite deposits are present in all continents including Antarctica and in rocks spanning 3 billion years. The global age distribution of LCT pegmatites is similar to those of common pegmatites, orogenic granites, and detrital zircons. Peak times of LCT pegmatite genesis at about 2640, 1800, 960, 485, and 310 Ma (million years before present) correspond to times of collisional orogeny and supercontinent assembly. Between these pulses were long intervals when few or no LCT pegmatites formed. These minima overlap with supercontinent tenures at ca. 2450–2225, 1625–1000, 875–725, and 250–200 Ma. Exploration and assessment for LCT pegmatites are guided by a number of observations. In frontier areas where exploration has been minimal at best, the key first-order criteria are an orogenic hinterland setting, appropriate regional metamorphic grades, and the presence of evolved granites and common granitic pegmatites. New LCT pegmatites are most likely to be found near known deposits. Pegmatites tend to show a regional mineralogical and geochemical zoning pattern with respect to the inferred parental granite, with the greatest enrichment in the more distal pegmatites. Mineral-chemical trends in common pegmatites that can point toward an evolved LCT pegmatite include: increasing rubidium in potassium feldspar, increasing lithium in white mica, increasing manganese in garnet, and increasing tantalum and manganese in columbite-tantalite. Most LCT pegmatite bodies show a distinctive internal zonation featuring four zones: border, wall, intermediate (where lithium, caesium, and tantalum are generally concentrated), and core. This zonation is expressed both in cross section and map view; thus, what may appear to be a common pegmatite may instead be the edge of a mineralized body.

### **SUNDANCE GOLD MINE (RUM JUNGLE MINERAL FIELD, NT)**

The Company has continued the work on re-opening of the Sundance gold mine located south of Darwin in the Northern Territory and on treating the rock (which has been stockpiled on the mining leases) at the processing plant owned by a third party. Discussions with third parties are ongoing but are incomplete and details are confidential. There can be no certainty that any agreement or agreements can be reached or that any agreement will eventuate from these discussions. Accordingly, no investment decision should be made on the basis of this information. The Sundance gold mine is located on granted mining leases MLN542 and MLN543 (100% owned by Korab). In addition to the planned Batchelor reverse circulation and diamond core drilling campaign, the Company also plans an auger drilling program at Sundance gold mine to test the grade of the remaining stockpiles of previously mined rock located at Sundance, and a 12-hole reverse circulation drilling program for 1,000 meters aimed at testing several anomalies missed by previous exploration programs.

### **GEOSEC PHOSPHATE PROJECT (RUM JUNGLE MINERAL FIELD, NT)**

During the quarter Korab Group focused on other mineral assets and consequently exploration work at the Geolsec Project was limited. On 26 June 2023, Korab Group reported that it has terminated the agreement under which a third party was sub-leasing the Geolsec Phosphate Project from Korab Group. During the prior reporting periods, Korab received several unsolicited expressions of interest from



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unrelated third parties seeking potential deals involving the Geolsec phosphate project. Korab's discussions with these parties regarding the Geolsec Project are incomplete and confidential and there can be no certainty that any agreement or agreements can be reached or that any transaction (or transactions) will eventuate. No commercial terms have been agreed between the parties. Third parties' interest in Geolsec Phosphate Project stems from relatively high current rock phosphate price which is currently trading around AU\$500 per metric tonne (see Figure 12), and a very attractive location of the Geolsec Project. The project is located on a granted mining lease (ML27362 on the Castlemaine Hill, just 2 km west of Batchelor. It has an easy access to transport infrastructure, and is located a short distance (approximately 1-hour drive) from Darwin Port (see Figure 4 and Figure 5).

As reported to the market on 29 February 2016 in a report titled "MARKETING AND DEVELOPMENT PROGRESS UPDATE FOR GEOLSEC PHOSPHATE MINE", extensive tests on multiple samples of Geolsec phosphate rock conducted by independent third party have shown that Geolsec phosphate is suitable for production of Double Super Phosphate (SP36) and NPK. These tests have also shown that Geolsec phosphate is highly reactive and therefore is also suitable for use as a direct application phosphate fertiliser. Direct application phosphates are very sought-after by sustainable agriculture sector.

### **BOBRIKOV GOLD AND SILVER MINE (UKRAINE)**

During the prior quarter, Korab paused the discussions with parties interested in acquiring mineral assets located in eastern Ukraine regarding a potential sale, or a joint venture development of the Bobrikovo Project. The discussions regarding the Bobrikovo Project may be resumed at any time. These discussions are incomplete and confidential and there can be no certainty that any agreement or agreements can be reached or that any transaction will eventuate. No commercial terms have been agreed between the parties. Accordingly, no investment decision should be made on the basis of this information. For the mineral resource statement and the Competent Person statement in respect of the Bobrikovo Project please refer to pages 59 and 60 of "KORAB RESOURCES LIMITED AND CONTROLLED ENTITIES ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2022", copy of which is available from the ASX announcement platform and from Korab's website. Current situation in Ukraine is well known to the market from extensive media coverage. Accumulated capitalised exploration expenditure and acquisition costs of Bobrikovo Project have been written down to NIL at consolidation level in 2014.

### **MT. ELEPHANT PROJECT (ASHBURTON MINERAL FIELD, WA)**

During the quarter, Korab Group continued the exploration and evaluation of the Mt. Elephant Project, focusing primarily on its gold, iron ore, and base metals potential. No reportable exploration results (as the term is defined in the section 18 of the 2012 JORC code) were generated. Following the end of the quarter, Korab Group surrendered exploration licences E08/2307 and E52/2724. Mt. Elephant Project now consists of two granted exploration licences and two exploration licence applications (for details refer to Appendix A). During the quarter, Korab Group terminated the discussions with Great Fingall Mining Company NL (GFMC) regarding a potential option for GFMC to acquire the four exploration licences and two exploration licence applications. During the prior quarter, Korab received unsolicited expression of interest from another unrelated party to establish a JV regarding the Project. These discussions are incomplete and confidential and there can be no certainty that any agreement or agreements can be reached or that any transaction will eventuate. No commercial terms have been agreed between the parties. Accordingly, no investment decision should be made on the basis of this information.

### **CASH PAYMENTS TO RELATED PARTIES**

During the quarter, Korab repaid \$60,500 of the debt owed to Rheingold Investments Corporation Pty Ltd, a company controlled by Korab's Executive Chairman, Andrej K. Karpinski. This amount forms part



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of (and is included in) cashflow movements disclosed in Item 3 of the "Appendix 5B - Quarterly Cashflow Report", which is appended to this Quarterly Activities Report.

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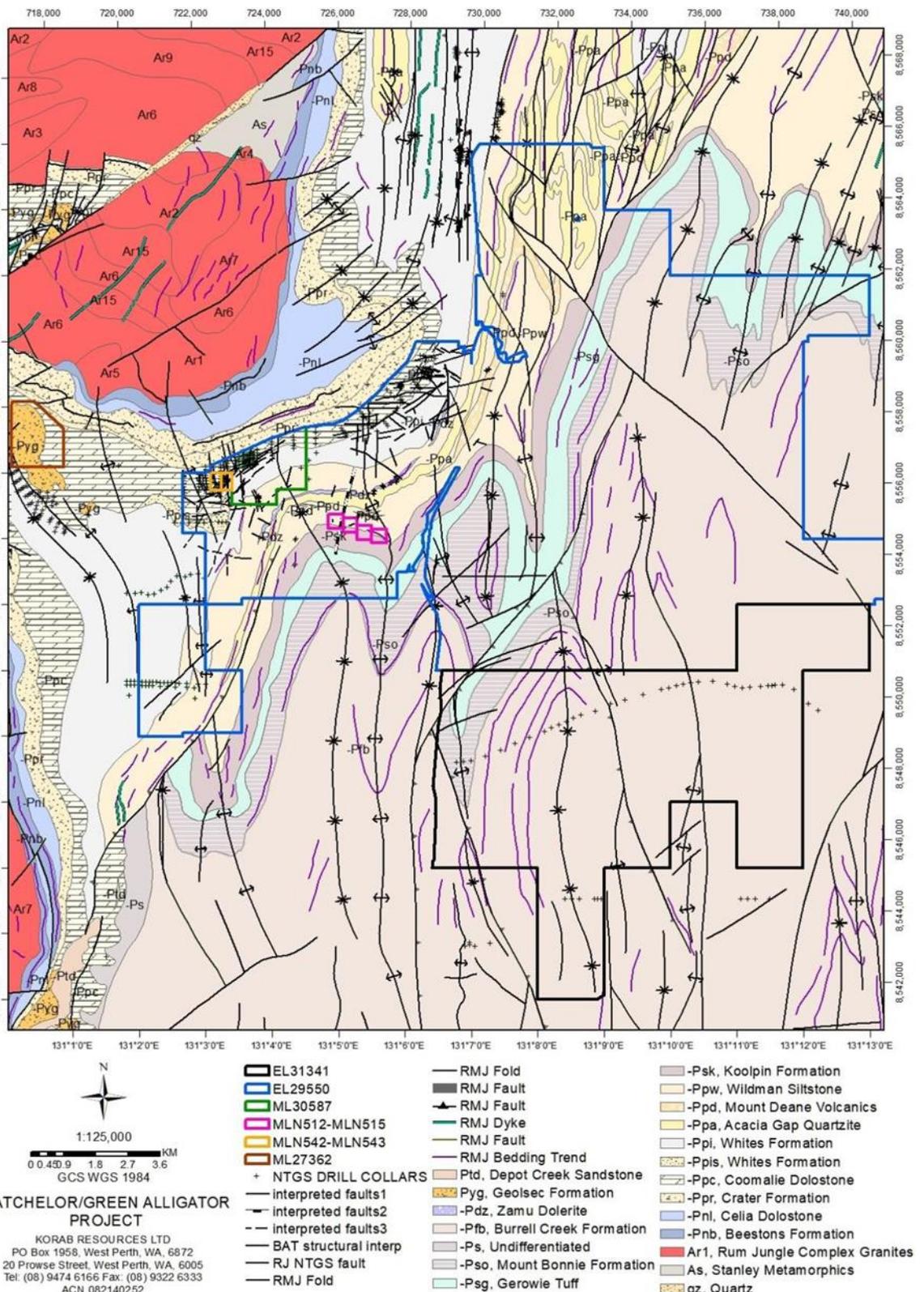


Figure 4 Korab Projects' location showing local geology, lithium-rich and REO-rich Rum Jungle Complex granites, potential conduits for lithium and/or REO accumulation, and historical drilling (after NTGS).



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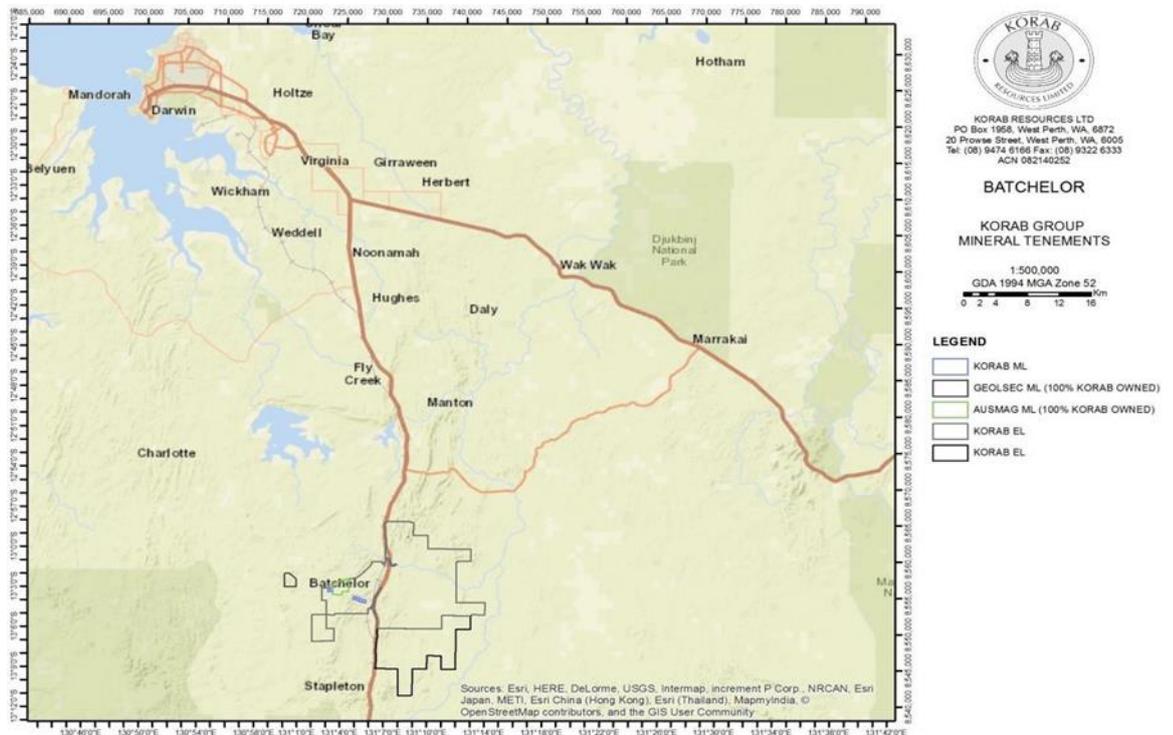


Figure 5 Location of Korab Group's mineral assets in the Northern territory relative to Darwin Port.

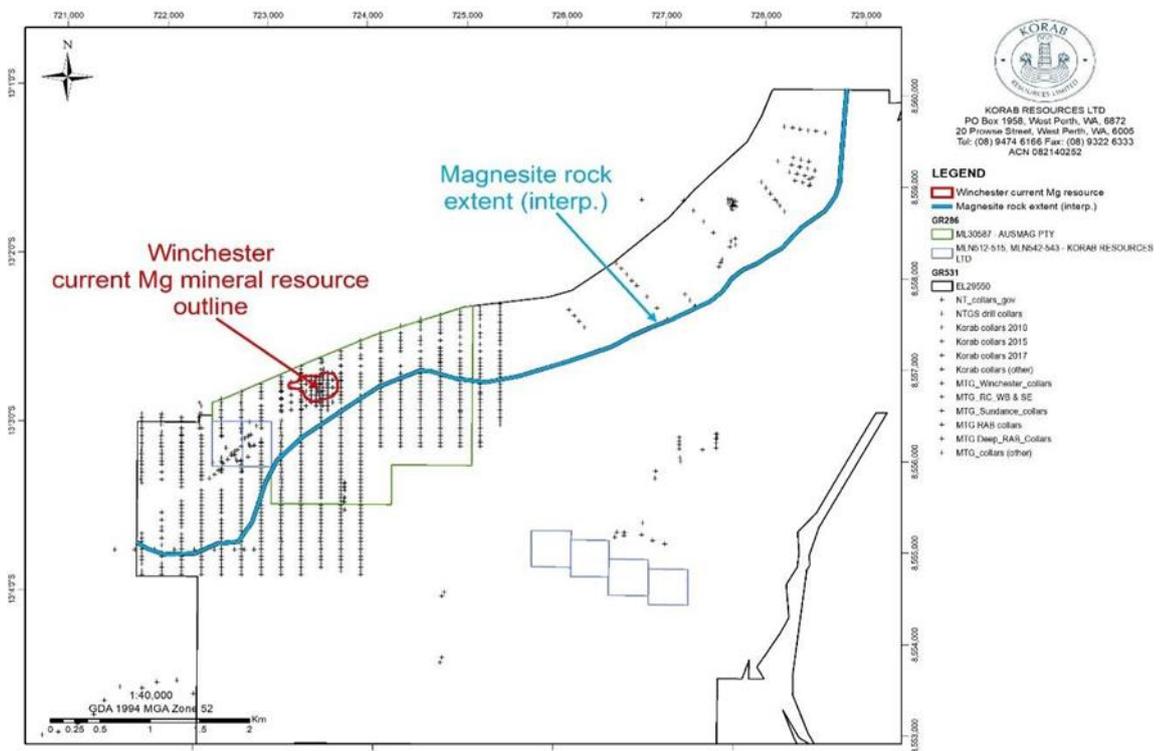


Figure 6 Historical drilling, current resource and extent of interpreted magnesite within Korab tenements.



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Figure 7 Test mining of magnesium at Winchester during the wet season (after blasting Level 0).



Figure 8 Test mining of magnesium at Winchester during the wet season (preparing to blast Level -1).



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Antimony

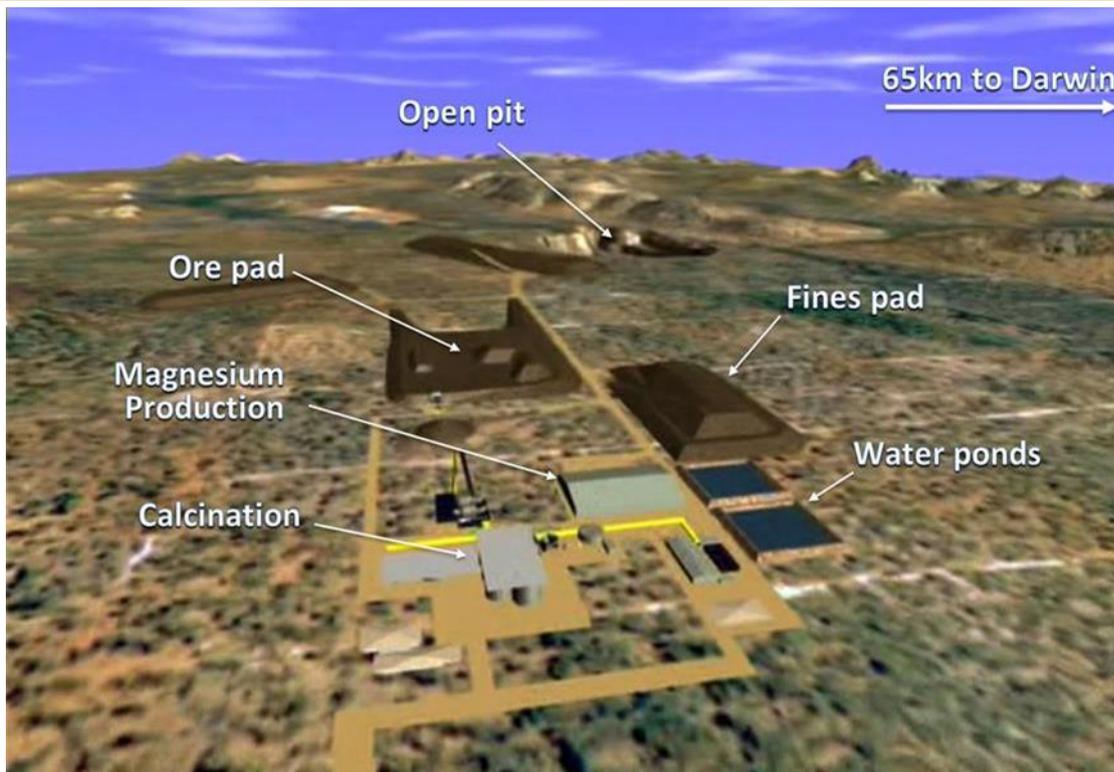


Figure 9 Layout of the Winchester magnesium plant and mine based on the technology using electric arc furnace and magnesium oxide, aluminium and ferrosilicon as feedstock.

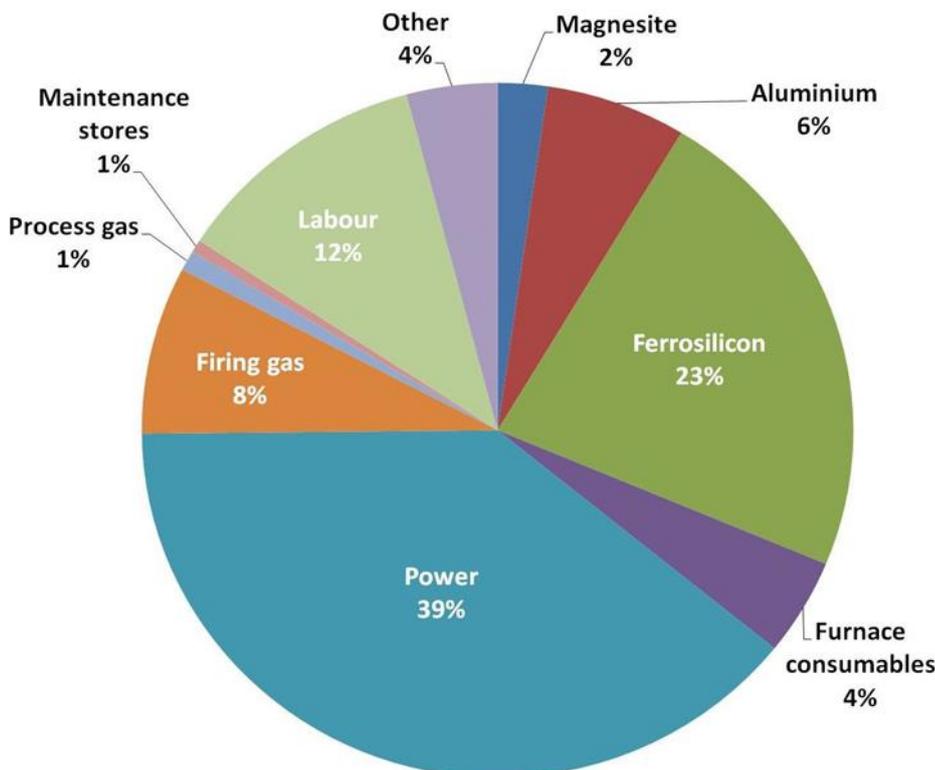


Figure 10 Production cost components by input category based on the technology using electric arc furnace and magnesium oxide, aluminium and ferrosilicon as feedstock.



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 ACN 082 140 252





# KORAB RESOURCES LIMITED

## KORAB HOUSE

[www.korab.com.au](http://www.korab.com.au)

### Issued Capital

Issued Shares: 367 Mln  
Last Price: 2.3 cents  
Capitalisation: \$8 Mln

### Listing Code

ASX: KOR

### Directors

**Andrej K. Karpinski**  
Executive Chairman  
Executive Director

**Anthony G. Wills**  
Non-executive Director  
(Independent)

**Alicja Karpinski**  
Non-executive Director



Figure 11 Solar farms at Batchelor (Batchelor 1 and Batchelor 2) adjacent to the Winchester Project.

### Projects

**Winchester**  
(Rum Jungle, NT)  
Magnesium

**Sundance**  
(Rum Jungle, NT)  
Gold, Silver, Tin

**Batchelor & G. Alligator**  
(Rum Jungle, NT)  
Gold, Silver, Zinc, Lead, Nickel,  
Copper, Cobalt, Tin, Rare Earth  
Oxides, Scandium, Lithium,  
Manganese, Iron Ore, Uranium

**Geolsec**  
(Rum Jungle, NT)  
Phosphate  
Rare Earth Oxides, Lithium,  
Uranium, Base Metals, Iron Ore

**Mt. Elephant**  
(Ashburton, WA)  
Gold, Copper

**Bobrikovo**  
(Luhansk, UKRAINE)  
Gold, Silver, Zinc, Lead,  
Antimony

### Rock Phosphate Monthly Price - Australian Dollar per Metric Ton

Range 6m 1y 5y 10y 15y 20y

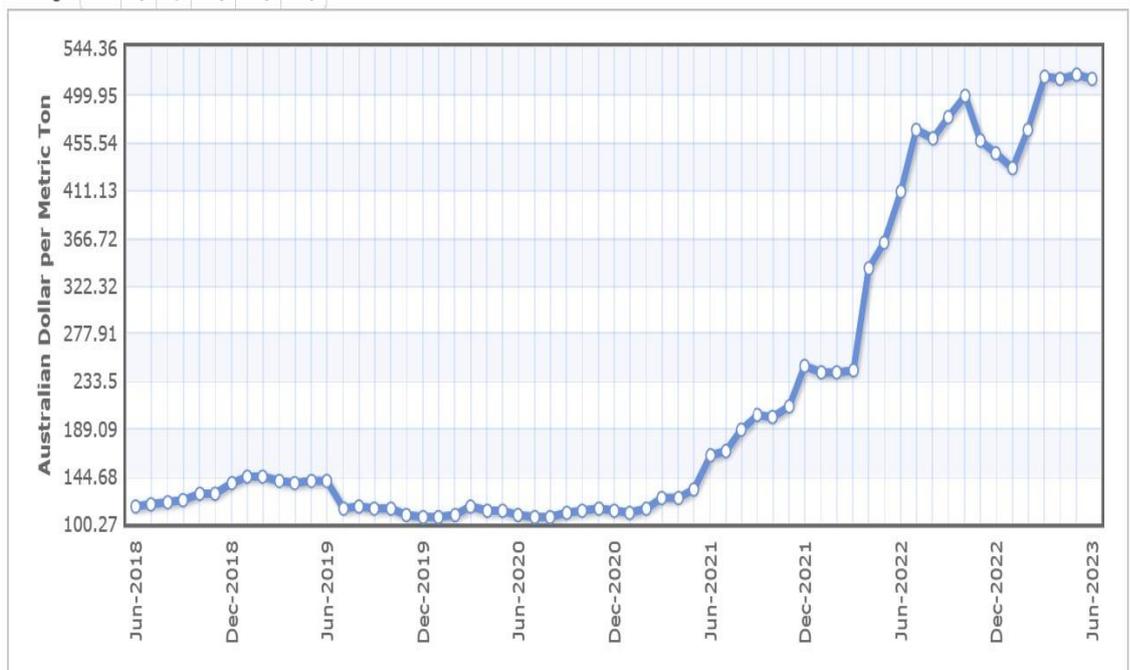


Figure 12 Rock phosphate prices in AUD per tonne from June 2018 to June 2023.



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Gold, Copper

**Bobrikovo**  
(Luhansk, UKRAINE)  
Gold, Silver, Zinc, Lead,  
Antimony

## APPENDIX A

### INTERESTS IN MINING TENEMENTS AS OF THE END OF THE REPORTING PERIOD

Project/Tenements	Location	Held at end of quarter	Acquired during quarter	Disposed during quarter
Batchelor/Green Alligator Project EL29550 MLN512 MLN513 MLN514 MLN515 MLN542 MLN543 EL31341	Northern Territory, Australia	100% 100% 100% 100% 100% 100% 100% 100%		
Winchester Project ML30587	Northern Territory, Australia	100%		
Geolsec Project ML27362	Northern Territory, Australia	100%		
Bobrikovo Project <sup>1</sup>  BKB169 4420381100646545 1589	Ukraine Luhansk Region	  100% 100% 100%		
Mt. Elephant Project:  E08/2307 <sup>2</sup> E52/2724 <sup>3</sup> E08/2756 E08/2757 ELA08/3561 ELA52/4223	Western Australia, Australia	  100% 100% 100% 100% 100%		
<b>Farm-in agreements/Tenements</b>	<b>Location</b>	<b>Held at end of quarter</b>	<b>Acquired during quarter</b>	<b>Disposed during quarter</b>
none				
<b>Farm-out agreements/Tenements</b>	<b>Location</b>	<b>Held at end of quarter</b>	<b>Acquired during quarter</b>	<b>Disposed during quarter</b>
none				

- END -

This report has been authorised by the Board.

### INVESTOR RELATIONS CONTACT

Andrej K. Karpinski - Executive Chairman  
Australia: (08) 9474 6166  
International: +61 8 9474 6166

### ABOUT KORAB RESOURCES

Korab Resources Ltd is an international mining and exploration company with operations in Australia and Europe. Korab's projects include Winchester Magnesium Deposit at Batchelor in the Northern Territory of Australia, Geolsec phosphate and rare earth elements deposit also at Batchelor, and

<sup>1</sup> Bobrikovo Project is located in eastern Ukraine in the Donbas region. The accumulated capitalised expenditure on this Project was written-off in full in the 2014 Annual Report at the consolidated entity level.

<sup>2</sup> This Tenement was surrendered following the end of the quarter.

<sup>3</sup> This Tenement was surrendered following the end of the quarter.



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Non-executive Director

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(Rum Jungle, NT)  
Magnesium

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Rare Earth Oxides, Lithium,  
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**Mt. Elephant**  
(Ashburton, WA)  
Gold, Copper

**Bobrikovo**  
(Luhansk, UKRAINE)  
Gold, Silver, Zinc, Lead,  
Antimony

projects in Australia and overseas where gold, silver, copper, cobalt, nickel, lithium, scandium, lead, zinc, tin, manganese, uranium and other elements have been discovered. More information about Korab's projects can be sourced from Korab's website at [www.korab.com.au](http://www.korab.com.au). Korab's shares are traded on Australian Securities Exchange (ASX).

### **DISCLAIMER AND CAUTIONARY STATEMENT**

Forward-looking statements are statements that are not historical facts. Words such as "expect(s)", "expected", "feel(s)", "believe(s)", "will", "may", "anticipate(s)", "should", "envisage(s)" and similar expressions are intended to identify such forward-looking information. This information includes, but is not limited to statements regarding future exploration results, resources, or reserves, and production. Anyone reading this report is cautioned not to place undue reliance on these forward-looking statements. All of such statements are subject to risks and uncertainties (many of which are difficult to predict and which generally are beyond the control of the Company) that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include, but are not limited to: those relating to the interpretation of exploration results (including drill results), the geology, grade and continuity of mineral deposits and conclusions of economic evaluations; risks relating to possible variations in reserves, grade, mining dilution, ore loss, and recovery rates; risks relating to changes in project financial and technical parameters; risks relating to the potential for delays in exploration programs, project evaluation/review, completion of feasibility studies and project development; risks related to commodity prices and foreign exchange rate fluctuations; risks related to failure to secure adequate financing on a timely basis and on acceptable terms; risks related to delays in obtaining governmental, or other permits and approvals; risks related to security of tenure; and other risks and uncertainties related to the Company's prospects, properties and business strategy. Any forward-looking information contained in this report is provided as of the date of this report. Except as required under applicable listing rules and securities laws, the Company does not intend, and does not assume any obligation, to update this forward-looking information.



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## Appendix 5B

### Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

KORAB RESOURCES LIMITED

ABN

17082140252

Quarter ended ("current quarter")

30 June 2023

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation (expensed)		(5)
(b) development		
(c) production		
(d) staff costs		
(e) administration and corporate costs	(45)	(198)
1.3 Dividends received (see note 3)		
1.4 Interest received	1	4
1.5 Interest and other costs of finance paid		
1.6 Taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(44)</b>	<b>(199)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities		
(b) tenements		(83)
(c) property, plant and equipment		
(d) exploration & evaluation (capitalised)	(7)	(108)
(e) investments		
(f) other non-current assets		

## Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities		
	(b) tenements		58
	(c) property, plant and equipment		
	(d) investments		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities	12	12
2.4	Dividends received (see note 3)		
2.5	Other (rounding error)	(1)	
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>4</b>	<b>(121)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings	43	3,778
3.6	Repayment of borrowings	(109)	(4,159)
3.7	Transaction costs related to loans and borrowings		(12)
3.8	Dividends paid		
3.9	Other (reimbursed MT Elephant expenses)		10
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(66)</b>	<b>(383)</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	218	815
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(44)	(199)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	4	(121)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(66)	(383)

## Mining exploration entity or oil and gas exploration entity quarterly cash flow report

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held		
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>112</b>	<b>112</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	99	205
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (term deposits and refundable prepayments)	13	13
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>112</b>	<b>218</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

*Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.*

## Mining exploration entity or oil and gas exploration entity quarterly cash flow report

<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	144	72
7.2 Credit standby arrangements	600	590
7.3 Other		
7.4 <b>Total financing facilities</b>	<b>744</b>	<b>662</b>
7.5 <b>Unused financing facilities available at quarter end</b>		<b>82</b>
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	
	<p>Loan facility – lender: Alicja Karpinski, interest: 12% pa, unsecured. Not due prior to 31 March 2024 but can be repaid early at Korab's discretion without penalties. Due and payable immediately upon change of control.</p> <p>Credit standby arrangements – lender: Rheingold Investments Corporation Pty Ltd, interest: 12% pa, unsecured. Not due prior to 31 March 2024 but can be repaid early at Korab's discretion without penalties. Due and payable immediately upon change of control.</p>	

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	(44)
8.2 (Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(7)
8.3 Total relevant outgoings (item 8.1 + item 8.2)	(51)
8.4 Cash and cash equivalents at quarter end (item 4.6)	112
8.5 Unused finance facilities available at quarter end (item 7.5)	82
8.6 Total available funding (item 8.4 + item 8.5)	194
8.7 <b>Estimated quarters of funding available (item 8.6 divided by item 8.3)</b>	<b>3.8</b>
<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	
8.8 If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
8.8.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A.	
8.8.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	

**Mining exploration entity or oil and gas exploration entity quarterly cash flow report**

8.8.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

*Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.*

**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

31 July 2023

Date: .....

By the Board of Directors of the Company

Authorised by: .....  
(Name of body or officer authorising release – see note 4)

**Notes**

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.