FPO SHARES
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Thursday, 15 October 2015

OFFER OF GRANT OF WINCHESTER MAGNESITE MINING LEASE

KEY POINTS

- **MINERAL LEASE INITIAL TERM 25 YEARS**
- **MINERAL LEASE AREA 352 HA**
- **DISCUSSIONS WITH POTENTIAL FUNDERS AND MAGNESIUM CARBONATE BUYERS AT ADVANCED STAGE**
- **AGGREGATE EBITDA OF $395 MLN OVER QUARRY LIFE**
- **ATTRACTIVE LONG-RUN ANNUAL EBITDA OF $32 MLN/YEAR (AT 800KT/YEAR SALES)**
- **LOW PROJECTED OPERATING COST IN THE LOWEST QUARTILE OF GLOBAL MAGNESITE PROJECTS**
- **MINERAL RESOURCE 16.6 MLN TONNES OF MAGNESIUM CARBONATE**
- **QUARRY LIFE OF 14 YEARS BASED ON INDICATED RESOURCE OF 12.2 MLN TONNES**
- **EXCEPTIONALLY LOW CAPEX OF $ 4 MLN**

Korab Resources Ltd ("Korab", or "Company") (ASX: KOR) is pleased to advise that its wholly owned subsidiary AusMag Pty Ltd ("AusMag") has received an offer of grant of the mining lease covering the Winchester magnesium carbonate (magnesite) deposit. The Mineral Lease ML 30587 covers 352 hectares and will be granted for an initial period of 25 years upon payment of first year's rent. ML 30587 is located 2km from Batchelor in the Northern Territory. See Figure 1, Figure 5 and Figure 6 for details.

Korab is further pleased to advise that the discussions with various parties regarding funding for the development of the Winchester magnesite deposit at an advanced stage and were primarily slowed down by the hold ups with the grant of the mineral lease. Korab expects the progress with the funding and magnesite sales/offtakes to accelerate following the grant of the mineral lease.

On 10 March 2015 Korab reported results from the pre-feasibility study conducted by the Company on the Winchester project which included the estimates of revenues and various additional material costs such as haulage, port charges, interest, debt repayment, royalties, overheads, etc. evaluated the economics of Winchester quarry assuming its development as a direct shipping ore (DSO) operation. Inclusion of additional information allowed estimation of earnings and the projected aggregate earnings before interest tax and amortisation (EBITDA). The quarry will be a simple operation with very basic mine infrastructure thus requiring low capital input. For details see Figure 2 and Figure 3.

The results of the pre-feasibility study without inclusion of the above additional factors were first announced to the market on 13 January 2015. The Company confirms that all material assumptions underpinning the production target in that announcement continue to apply and have not materially changed.

Results of the expanded study shown that the project has very attractive economics combined with ability to potentially generate significant pre-tax earnings of $395 million over project life starting with

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the first year of operations. Estimates of potential earnings before interest, tax and amortisation but after payments for royalties, overheads etc. are shown in the following table:

Table 1 EBITDA (in $ '000) at US$80/T magnesite price and US$0.82 exchange rate

YEAR 1	*YEAR 2*	*YEAR 3*	*YEAR 4*	*YEARS 5-14*	*TOTAL*
6,235	14,185	31,997	32,251	310,378	395,046

To put these estimates into perspective, market capitalisation of Korab is currently under $5 million. At EBITDA of $6.2 million, the quarry has a potential to generate in its first year of operation annual earnings exceeding Korab's current market capitalisation. Furthermore, with the EBITDA potentially increasing to around $32 million/year, the quarry has a potential to generate in its third year of operation annual earnings which might be approximately 6 times greater than Korab's current market capitalisation.

Importantly, in addition to having high EBITDA, Winchester quarry has a potential to generate very significant Free Cash Flow of $274 million after providing for interest, income tax, repayments of debt, royalties, overheads etc.. Estimate of Free Cash Flow from the quarry after payments for interest, income tax, repayments of debt, royalties, overheads etc. is shown in the following table:

Table 2 Free Cash Flow (in $ '000) after tax, interest and debt repayments at US$80/T magnesite price and US$0.82 exchange rate

YEAR 1	*YEAR 2*	*YEAR 3*	*YEAR 4*	*YEARS 5-14*	*TOTAL*
3,050	8,041	22,519	22,697	217,992	274,298

Sensitivity study which assumes an exchange rate of US$0.82 (recent US$0.72) shows that Winchester quarry can be a very robust, high profit margin operation, with EBITDA and free cash flow remaining positive even at US$50/T magnesite price and the quarry operating at only 25% of its nominal capacity. Sensitivity of the estimated earnings (EBITDA) to variations in the magnesite sale price is shown in the table below:

Table 3 EBITDA (in $ '000) Sensitivity to magnesite selling price at US$0.82 exchange rate

Year/Volume Mag price	*YEAR 1 @200KT*	*YEAR 2 @400KT*	*YEAR 3 @800KT*	*YEAR 4 @800KT*	*YEARS 5-14 @800KT*	*TOTAL*
US$50/T	897	3,508	10,642	10,897	108,582	134,526
US$60/T	2,676	7,067	17,760	18,015	175,847	221,366
US$70/T	4,456	10,626	24,879	25,133	243,113	308,206
US$80/T	6,235	14,185	31,997	32,251	310,378	395,046
US$90/T	8,015	17,744	39,115	39,369	377,644	481,886
US$100/T	9,794	21,303	46,233	46,487	444,909	568,727
US$110/T	11,574	24,862	53,351	53,605	512,175	655,567
US$120/T	13,353	28,421	60,469	60,723	579,440	742,407

Magnesite prices over medium to long term are driven by broadly similar factors that drive magnesium metal prices. Price movements of magnesite (which is the main raw material input in production of magnesium metal) tends to reflect price movements of magnesium metal. Long term price chart showing magnesium metal prices from 2005 to 2015 (converted to Australian Dollar) is shown in Figure 4. Chart shows that magnesium prices were relatively stable ever since they came off their 2007/2008 peak.

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Study assumed a 14 year quarry life based on indicated mineral resource estimate of 12.2 million tonnes of magnesite rock (see Table 6 for detailed mineral resources estimate). Production was assumed to start at 200,000 tonnes/year of saleable magnesite rock in Year 1 and increase to 800,000 tonnes/year of saleable magnesite rock in Year 3. The study assumed a selling price of magnesite rock of US$80 per tonne FOB basis and a US$/AU$ exchange rate of US$0.82. Exchange rate at the time of writing of this report is approximately US$0.72. Government rate of 20% (after allowable deductions) and Company tax rate of 30% were used in the study. Study assumed that debt funding will be provided at an interest rate of 12% pa with repayments spread over 3 years. Material modifying factors concerning this project are provided in Table 7.

This study was completed by the Company using information collated and prepared by Golder Associates Pty Ltd, the Company, URS, Bateman Tenova and Devmin Consultants. Assumptions and inputs (mining work rates, labour costs, maintenance costs, selling prices, haulage and port loading costs, royalties, tax rates, interest costs as well as other input variables) underpinning this study which generated the estimates of revenue, capital and operating costs and the NPV were sourced from appropriate consultants and contractors and publicly available data. This is a pre-feasibility level study with estimated accuracy of +/-30% and consequently 30% contingency has been added to all capital and operating costs other than taxes, royalties and interest.

This study assessed estimated potential revenue, capital and operating costs of Winchester project supplying a direct shipping ore crushed on site to 25mm and screened to separate fines (minus 6mm). No additional processing of magnesite rock is planned. The output from the quarry would consist of crushed magnesite rock with a waste stream consisting of waste rock and fines which would be stored on site. The estimated ratio of coarse saleable magnesite rock to fines is 80%.

OPERATING COST ESTIMATES

Operating cost at 1,000,000T/y ROM output capacity (800,000T/y of saleable rock) is estimated at $21/T of saleable coarse magnesite (including 30% contingency). Estimated project operating costs at various output capacities are shown in Table 4.

Table 4 Project estimated operating costs (shovel and truck, drill and blast)

Description	250KT/Y	500KT/Y	1,000KT/Y
WATER MANAGEMENT ($/YR.)	440,000	440,000	440,000
WASTE DUMPS ($/YR.)	180,000	180,000	180,000
QUARRY AND CRUSHING ($/YR.)	3,906,452	7,137,186	12,421,015
SUBTOTAL ($/YR.)	4,526,452	7,757,186	13,041,015
CONTINGENCY (30%)	1,357,935	2,327,156	3,912,304
TOTAL ESTIMATE	5,884,387	10,084,342	16,953,319
CAPACITY OUTPUT ROM MAGNESITE (T/YR.)	250,000	500,000	1,000,000
SALEABLE COARSE MAGNESITE COST ($/T)	29	25	21
COARSE MAGNESITE/FINES	80%	80%	80%
CAPACITY OUTPUT COARSE SALEABLE MAGNESITE (T/YR.)	200,000	400,000	800,000
CAPACITY OUTPUT FINES (T/YR.)	50,000	100,000	200,000

Above variant shown in Table 4 assumed standard shovel and truck mining method with limited drill and blasting.

The Company also undertook high level assessment of alternative method relying on continuous surface miners and ancillary equipment for moving the in-situ crushed ore and for direct loading onto trucks. This option reduces the handling costs, drilling and blasting and eliminates the need for

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primary crushing (and potentially secondary crushing). Preliminary assessment of the alternative method suggests that the use of continuous miners with either an integrated loading system, or a wheel loader and conveyor would yield 20%-30% operating cost savings compared to the shovel and truck method. Consequently, the Company will undertake more detailed assessment of this method.

CAPITAL COST ESTIMATES

Capital costs of the Winchester project have been estimated at approximately $4 million (including 30% contingency). Components of the capital costs of the project are shown in Table 5. Results of the study show that main components of capital expenditure are not sensitive to output capacity and that the capacity is primarily the function of demand for the magnesite rock. Level of production from the quarry would therefore ultimately depend on volume of off-take and/or long term sale agreements in place at the time. The study assumed that contractors would be used for majority of project operating tasks thus reducing capital costs by limiting the need for owner operated equipment. Capital cost has been estimated for the development of open pit operations with required access roads, diversion channels, waste and water management and site infrastructure etc. Two variants were evaluated, bench-bench and staged development. The study was based on a conceptual quarry that could operate at various capacity levels, 250,000T/y ROM capacity, 500,000T/y ROM capacity and 1,000,000T/y ROM capacity. Capital cost estimates shown in Table 5 assume bench-by-bench development scenario. Under the staged development variant the capital costs will be slightly reduced but the operating costs will not change. The difference in capital costs estimates between the two development variants (bench-by-bench and staged development) is negligible and can be disregarded for the purposes of this study.

Layout of the project under bench-by-bench operating scenario with quarry and dewatering infrastructure is shown in Figure 2 and Figure 3.

Table 5 Project estimated capital costs

SUMMARY	
WATER MANAGEMENT	626,810
SITE INFRASTRUCTURE	1,079,310
WASTE DUMPS	108,925
QUARRY	1,293,290
SUBTOTAL	3,108,335
CONTINGENCY (30%)	932,501
TOTAL ESTIMATE	4,040,836

MINING PLAN

Results of the study show that average waste rock to ore ratio for the entire mining operation is 0.5 to 1 T/T. The average ratio of all waste (overburden plus waste rock) to ore for the entire mining operation was 0.6 to 1 T/T.

Over the life of the project the ratio will fluctuate. Initially, the waste rock to ore ratio would be about 1 to 1, while towards the end of quarry-life the ratio would be less than 0.2 to 1.

The study shows that variable costs of mining and the waste/ore ratio would have little impact upon the size and shape of the open pit excavation over the quarry life examined in this study. The design criteria for the open pit and slope design parameters used in this study were summarised in the ASX report released on 13 January 2015. Link to this report appears below:

http://www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=01590863

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A thin layer (up to 5m) of unconsolidated soil and unconsolidated alluvium overlies the massive magnesite at the Winchester deposit. This overburden would require progressive removal to expose the hard, consolidated magnesite. It is expected that the unconsolidated, overburden could be removed by tractor scraper. Under shovel and drill/blast option, conventional open pit mining methods using rubber-tyred trucks and either a hydraulic excavator or rubber-tyred, front end loader were proposed for excavation of the open pit materials. The second alternative is to use continuous miners with wheel loaders and/or conveyors. This option would reduce the mining costs by removing the need for blasting and possibly crushing of ore as well. Preliminary assessment based on quotations from contractors suggests a 20%-30% reduction in mining/crushing costs per tonne over the life of quarry.

MINERAL RESOURCES ESTIMATES FOR WINCHESTER MAGNESITE DEPOSIT

This pre-feasibility study was based on the indicated mineral resource only. Current estimated mineral resources at Winchester, including both indicated and inferred categories, are shown in the following table:

Table 6 Mineral resources estimates

At 40% MgO Cut-Off	MgCO Mass '000 Tonnes	MgO grade %
Indicated Resources	12,200	43.1
Inferred Resources	4,400	43.6
Total	16,600	43.2

There has been no change to the Winchester mineral resource estimate since it was last reported in the Annual Report 2014. This information was prepared and first disclosed under the JORC Code 2004 on 17 July 2007. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported. The author of this report is not aware of any new information or data that materially affects the information included in the report released on 17 July 2007 and, in the case of mineral resources that all the material assumptions and technical parameters underpinning the estimates in the report released on 17 July 2007 continue to apply and have not materially changed. The form and context in which the findings of the report released on 17 July 2007 are presented have not been materially modified.

SUPPORT FOR LOCAL ECONOMY AND BUSINESS

Winchester magnesite quarry has a potential to bring substantial economic and social benefits. Once operational, the quarry will generate significant royalties' income for the Northern Territory government. In addition to providing revenue stream for the government, the quarry will also directly benefit Territorians by supporting local businesses and providing jobs.

Whilst there is no legal requirement to utilise local contractors and labour, local businesses and labour would be given preference as long as this would not have negative impact on the viability of the project. The project will aim to utilise local contractors operating on a campaign basis. Other than contractor's staff, there would also be a number of local personnel involved in establishing and operating the quarry

BACKGROUND INFORMATION

Winchester magnesite deposit is located within the Batchelor project which consists of exploration licence EL29550 (100% Korab Resources Ltd) and a Mineral Lease ML30587 (100% AusMag Pty Ltd, a wholly owned subsidiary of Korab Resources Ltd). Batchelor project is located near town of Batchelor, some 85km south of Darwin. See Figure 1 , Figure 5 and Figure 6 for details.

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COMPETENT PERSON STATEMENT

The information in this report that relates to Mineral Resources underpinning the pre-feasibility study reported in this report is based on information compiled by the Company and reviewed by Malcolm Castle, a competent person who is a Member of the Australasian Institute of Mining and Metallurgy ("AusIMM"). Malcolm Castle is a consultant geologist employed by Agricola Mining Consultants Pty Ltd. Mr Castle has sufficient experience that is relevant to the style of mineralisation and type of deposits under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" ("JORC Code"). Malcolm Castle consents to the inclusion in this report of the matters based on his information in the form and context in which it appears. This information was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

CONTACT

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ABOUT KORAB RESOURCES

Korab Resources Ltd is an international mining and exploration company with operations in Australia and Europe. Korab's projects include gold and silver deposit at Bobrikovo in eastern Ukraine, Geolsec phosphate rock deposit and Winchester magnesite deposit at Batchelor in the Northern Territory of Australia. The Company also explores for gold and copper at Ashburton Downs in Western Australia and for polymetallic deposits at Batchelor in the Northern Territory. More information about Korab's projects can be sourced from Korab's website at www.korab.com.au. Korab's shares are traded on Australian Securities Exchange (ASX) and on the Berlin Stock Exchange (Berliner Börse) through Equiduct electronic trading platform.

LIST OF TABLES

LIST OF FIGURES

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Table 7 Material modifying factors

MODIFYING FACTOR	COMMENTS
Legal	Winchester deposit is located within exploration licence EL29550 held by Korab. The exploration licence has an area of 17,172 ha. Korab's wholly owned subsidiary AusMag Pty Ltd has received from the Northern Territory Department of Mines and Energy an offer of grant of Mineral Lease (mining licence) ML30587 which covers 352 ha (approximately 2% of the area of EL29550). The lease will be granted for 25 years following payment of the first year rent of $7,040. East Africa Resources Limited (ASX: EAF) is entitled to a royalty of 5% of net profits achieved after deduction of all operating costs, transportation and sales costs and all taxes, government charges, royalties and fees on sales of magnesite rock mined from Winchester deposit.
Infrastructure	The deposit is located 2km east from the town of Batchelor along Batchelor road and 93km from Port of Darwin along Stuart Highway. Darwin to Adelaide rail line runs approximately 5km from the deposit. High voltage power runs along the Batchelor road next to the deposit. Additional high voltage power lines run across the project 2 km to the east of the deposit. Gas pipeline runs approximately 3 km east of the deposit. Potable water is available on site. Accommodation is available at Batchelor with alternative accommodation available in Darwin.
Transportation	Sea transport is available from Darwin Port's East Arm which is located 93km to the north of the project. Bulk materials handling facility at East Arm includes a 850m rail spur, 1,500T/H rail bottom dump station, stockpiles, haul roads and a 2,000T/H travelling gantry shiploader. The shiploader is designed for Panamax class ships. Road transport by haulage trucks is available to the Darwin port and to South Australia, Victoria, New South Wales and Queensland via Batchelor road and then via Stuart Highway. Darwin to Adelaide railway line runs along Stuart Highway and is transected by Batchelor road approximately 5km from the deposit. Currently there are no rail loading facilities either at Batchelor or near the point where Batchelor road transects the railway line.
Mineral Resources Classification	The mineral resources estimates that were used to underpin this report are classified as indicated mineral resources.
Marketing (Off-take or Sale Agreements)	Development of Winchester depends on one or more long-term sale, or off-take agreements being completed. AusMag P/L ("AusMag"), the wholly owned subsidiary of Korab Resources Ltd and the owner of the Winchester magnesite project. Korab and AusMag are currently negotiating sale agreements and offtakes for the ore from Winchester.
Mine Permitting	Winchester deposit is located on exploration licence EL29550. AusMag has received an offer of grant of this mineral lease. Lease will be granted following payment of rent of $7,040. Before the quarry can be established, an appropriate Mine Management Plan (MMP) will need to be submitted to the Northern Territory Department of Mines and Energy and AusMag will need to receive the authorisation to implement this MMP.
Environmental studies	Environmental impact studies have been undertaken for the Winchester magnesite project and the assessment shows that the magnesite quarry will have a minimal impact. This is primarily because the project would be developed as a magnesite rock quarry with no processing of the rock other than crushing and screening. The quarry and associated infrastructure will have a very small footprint. Mobile equipment, including crushers will

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	utilised were possible. There are several rock quarries in the vicinity of the town of Batchelor, some abandoned and some in operation.
Native Title	Winchester deposit and the mineral lease application are located wholly on freehold land and no native title approvals would be required to establish a quarry. However, any sacred sites and sites of anthropological or historical significance that may be located within the project area will be protected.
Social	Winchester magnesite quarry has a potential to generate significant royalties income for the Northern Territory government over the 14-year life of the project. In addition to providing revenue stream for the government, the quarry would also directly benefit Territorians by supporting local businesses and providing jobs. Whilst there is no legal requirement to utilise local contractors and labour, local businesses and labour would be given preference as long as this would not have negative impact on the viability of the project. The project will aim to utilise local contractors operating on a campaign basis. Other than contractor's staff, there would be a number of local staff involved in establishing and operating the quarry.

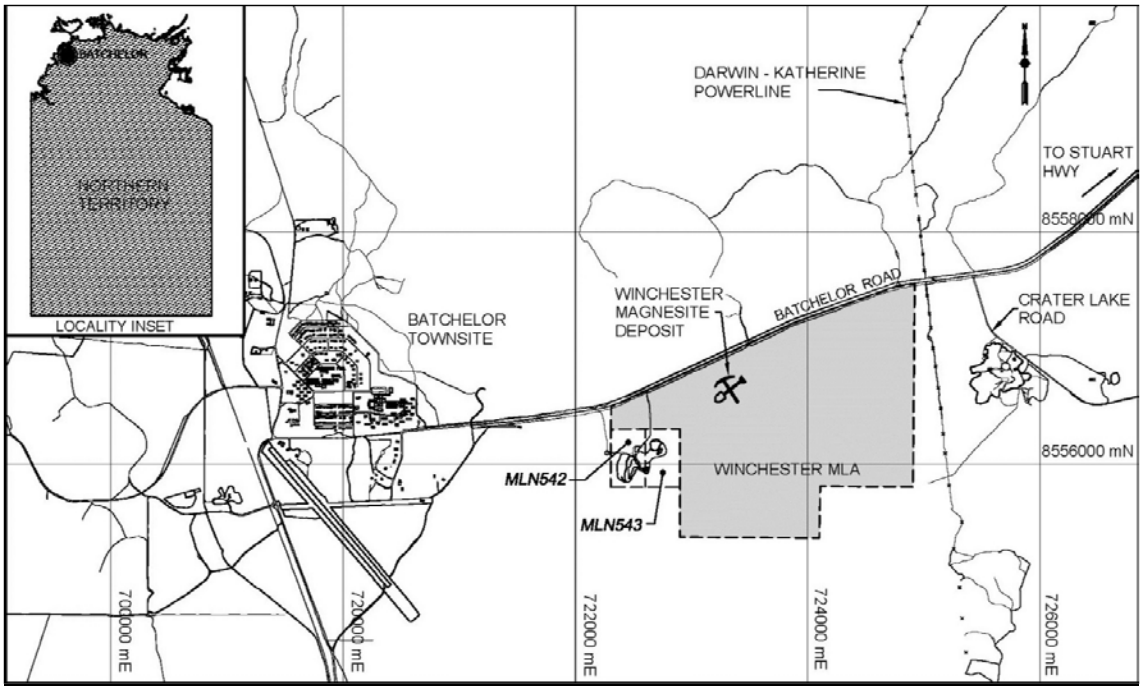

Figure 1 Site locality plan

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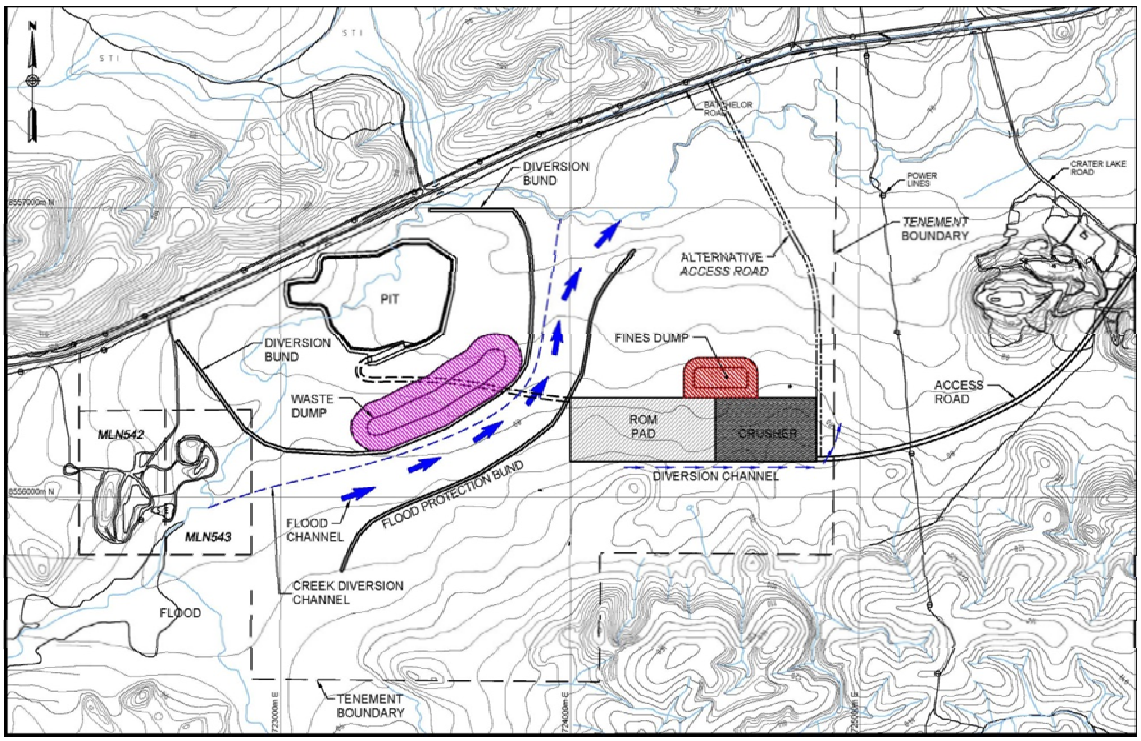

Figure 2 Conceptual layout at end of year 3 – bench-by-bench development variant

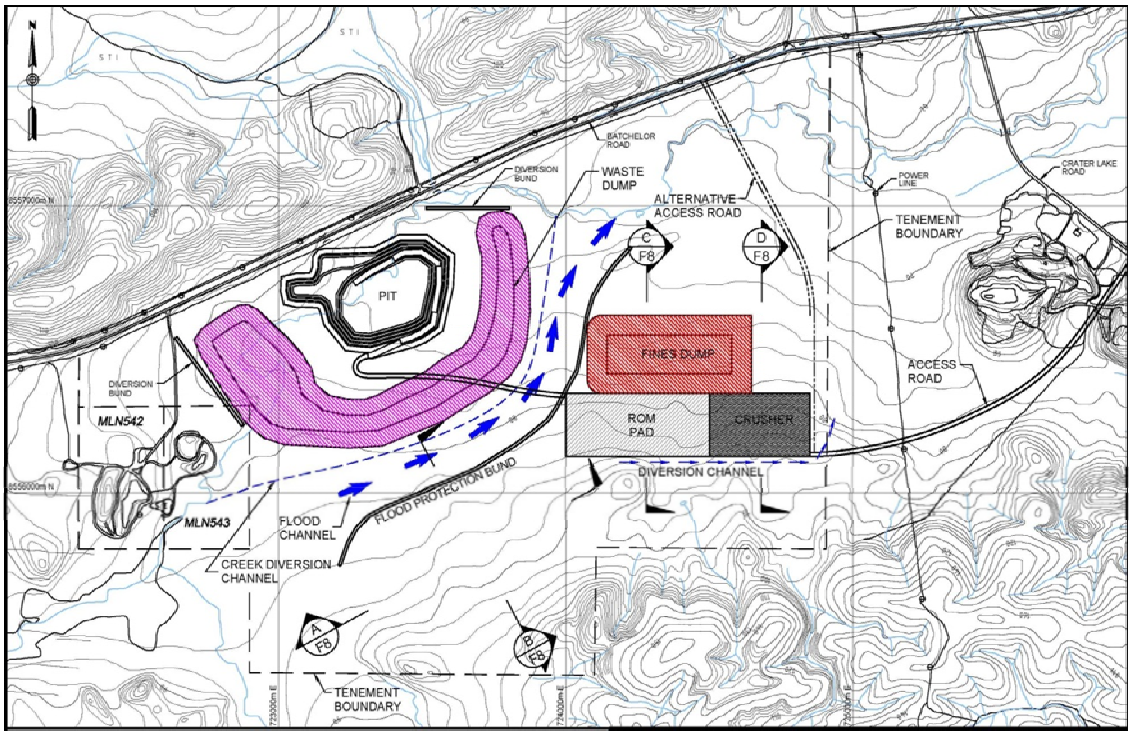

Figure 3 Conceptual layout at end of mine life – bench-by-bench development variant

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Figure 4 Magnesium metal price in Australian Dollars

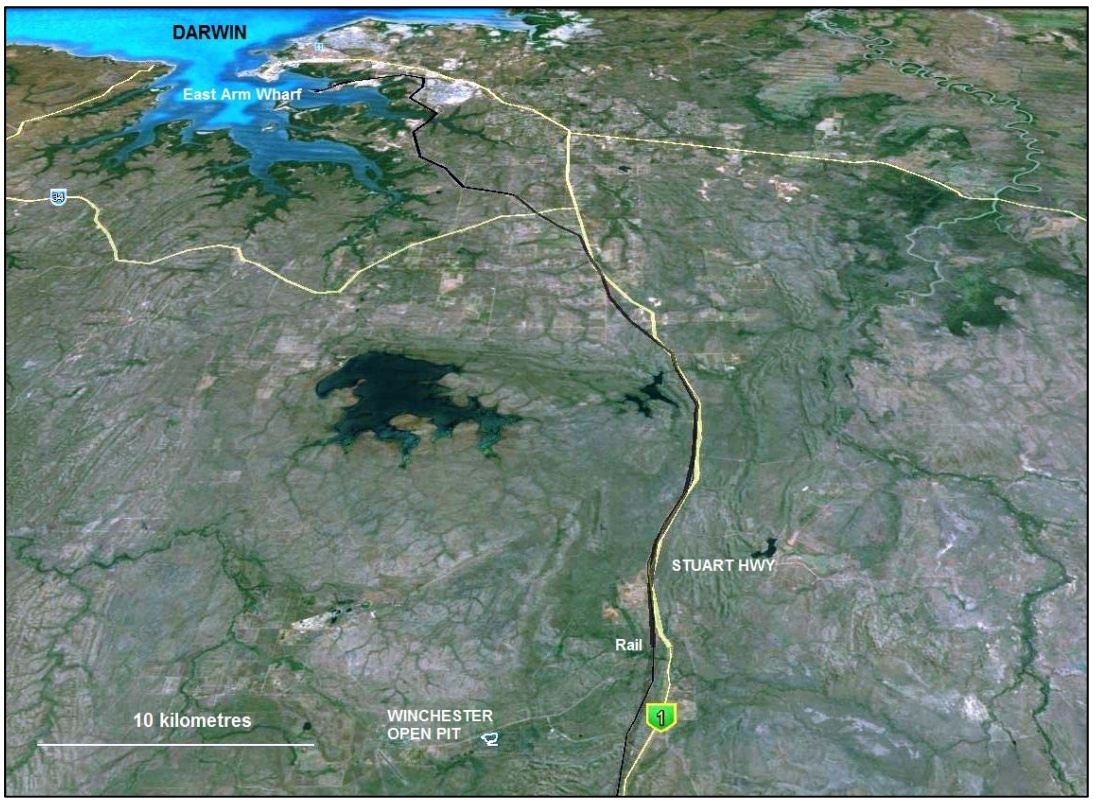

Figure 5 Location of Winchester quarry relative to Darwin

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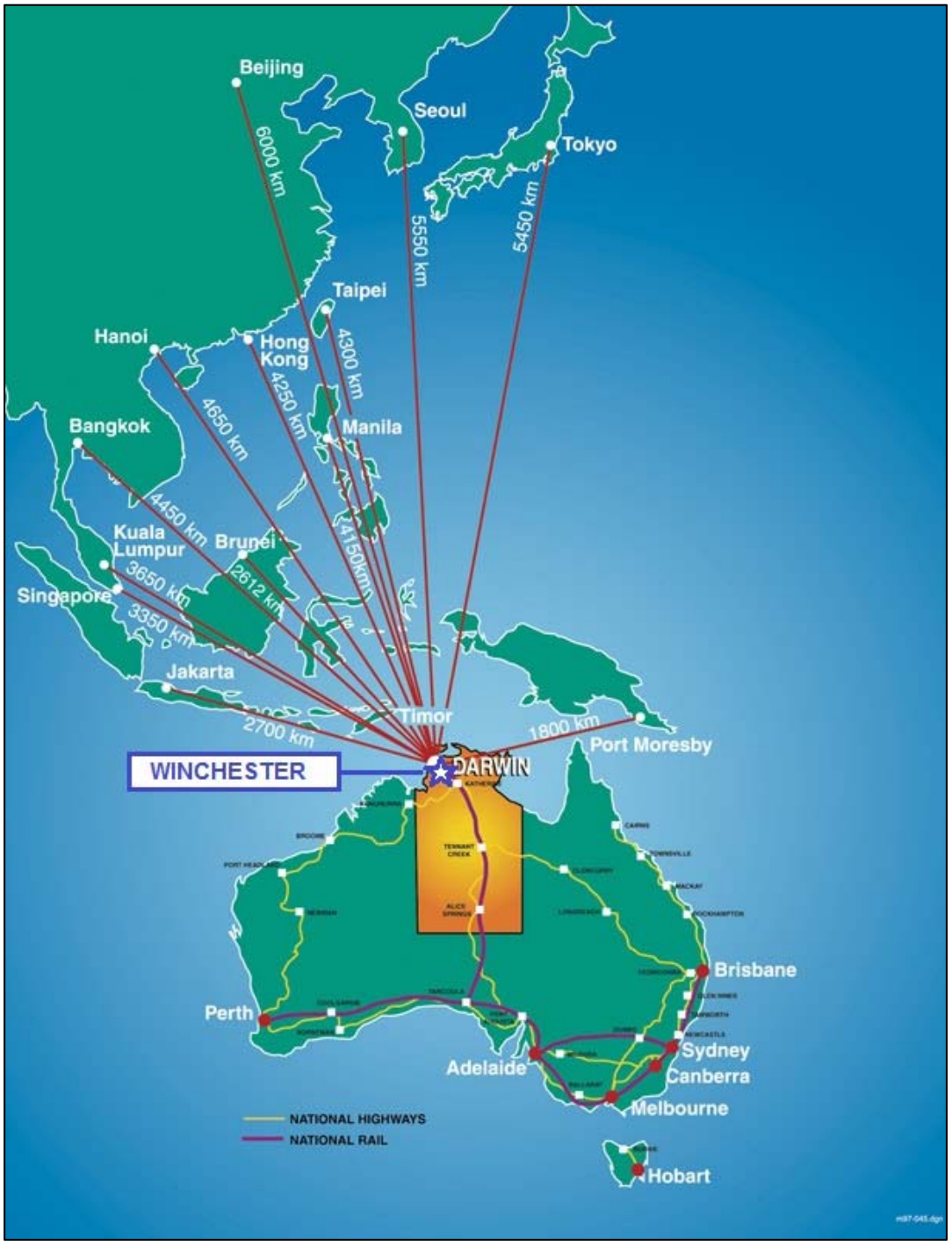

Figure 6 Winchester Magnesite deposit relative to road, rail and sea freight transportation