



KORAB RESOURCES LIMITED

KORAB HOUSE

www.korab.com.au

FPO SHARES

Issued: 202 mln

Market Cap: \$9 mln

ASX: KOR

Last Price: AU¢ 4.5

BERLIN: C6S.BE

Last Price: € 0.02

Wednesday, 23 March 2016

\$6 MLN FUNDING FOR WINCHESTER MAGNESITE PROJECT AND STRATEGIC INVESTOR

- \$6 million funding to be provided for AusMag to develop Winchester project into a raw magnesium carbonate mine (Tranche 1 Funding).
- New strategic investor to take placement of 10 million shares in Korab at 5c each.
- Provider of Tranche 1 Funding has a right of first refusal to fund the construction and commissioning of calcination and processing facilities should AusMag decide to add production of calcined, dead burned and fused magnesia to the production of raw magnesium carbonate rock (Tranche 2 Funding).

We refer to the ASX reports dated 8 December 2015, 12 January 2016, 29 January 2016, 12 February 2016, and 16 March 2016 which discussed collaboration between Korab Resources Ltd ("Korab", or "Company") (ASX: KOR), its wholly owned subsidiary AusMag Pty Ltd ("AusMag") and interests associated with Chinese steel industry regarding the funding and the development of Winchester magnesium carbonate mine located near Darwin in the Northern Territory.

Korab and AusMag are very pleased to advise that they have entered into a binding agreement with Mr. Hong Wang, who represents interests associated with Chinese steel industry, banking and finance, construction and building materials to invest \$6 million into new shares of AusMag (Tranche 1 Funding).

AusMag will use these funds to develop the mine and commence production of magnesite. This investment transaction will leave Korab with between 70% and 75% equity in AusMag (on a fully diluted basis) thus providing Korab with solid, long-term earnings potential.

The development cost of the Winchester magnesium carbonate mine has been estimated at \$4 million (see below), with the remaining \$2 million to be used for mine working capital and other project and development related expenditure.

The agreement is binding on both parties and the investment is conditional only on one requisite - that Ausmag arranges agreements for sales of at least 500,000 tonnes (in aggregate) of raw magnesite rock per year for at least 3 years.

Ausmag (which has already arranged for an agreement to sell 300,000 tonnes of raw magnesite rock for 5 years, as reported to the ASX on 4 November 2015) has now 12 months to arrange the sales of remaining 200,000 tonnes per year. In the event that Ausmag is not successful in arranging these additional sales within 12 months to bring the total annual production of magnesium carbonate to 500,000 tonnes, either party may terminate this agreement by a notice in writing.

In addition to the above transaction Mr. Wang will also become a new strategic investor in Korab by subscribing for 10,000,000 new Korab shares at a price of 5c per share for a total of \$500,000. Korab has already received the subscription application from this new strategic investor.

Mr Wang will also have a right of first refusal to provide, or to arrange the provision of funding for the construction and commissioning of calcination and processing facilities to allow AusMag to add production of calcined, dead burned and fused magnesia to the production of raw magnesium



20 PROWSE STREET, WEST PERTH, WA, 6005, AUSTRALIA
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carbonate rock, should AusMag and Korab decided to develop this side of the business (Tranche 2 Funding). Provision of Tranche 2 Funding is also conditional on having sales agreements for 500,000 tonnes per year of raw magnesium carbonate rock, although there is no time limitation, or other temporal constraints with regard to Tranche 2 Funding.

Korab believes that this agreement, which is a culmination of a long process of discussions and negotiations with multiple parties and continued evaluation of the Winchester magnesium carbonate project, has the potential to transform Korab into a midcap mining and processing entity. Indian Ocean Group, a boutique corporate advisory firm was involved in arranging the transaction.

Winchester mine is being developed to initially produce high grade DSO magnesite to supply producers of magnesium oxide, refractories and other users (to be funded by Tranche 1 Funding). There are also plans to produce at the second stage of operations which could be funded from Tranche 2 Funding high grade magnesium oxide in the form of calcined magnesia, dead burned magnesia and fused magnesia in addition to raw magnesium carbonate.

Location, grade, logistics and other characteristics of this deposit offer unparalleled advantages compared to other magnesite sources (see Figure 1, Figure 2, Figure 3, Figure 4, and Figure 7). The Winchester magnesite mine has very attractive economics with \$395 mln in aggregate earnings before tax over mine life and long-run annual earnings of \$32 mln/year (at 800kt/year of magnesite rock sales). The capital and start-up costs of magnesite production are estimated at around \$4 mln (including mine costs of approximately \$1.2 mln and a contingency of just under \$1mln).

INFORMATION ABOUT MAGNESITE MARKET AND WINCHESTER MAGNESITE DEPOSIT

Market for magnesium carbonate (magnesite) has been growing at a strong historical trend rate over several decades with the trend pointing to yet higher consumption over coming years (see Figure 9). The main uses for magnesite is in production of various types of magnesium oxides. Magnesite is also used to produce magnesium metal which is the lightest of all metals, being about two-thirds lighter than aluminium but stronger than steel. Magnesium is non-toxic, non-magnetic, has high-impact strength and is resistant to denting.

The main sectors where magnesium oxide is used include refractory bricks which are used to line steel and iron furnaces; production of flame retardants; production of fire resistant and moisture resistant building materials like mag wall, MgO board and mag cement; production of magnesium alloys used extensively in cars, airplanes, tanks, APC-s and other defence uses; hydrometallurgy, primarily for nickel and cobalt production; water purification and soil treatment and feedstock.

Experts expect that the market for magnesium carbonate will continue to expand due to the growth in all these sectors, however the potential game changer is the recent development of magnesium-ion batteries which have 8 to 12 times greater capacity than lithium-ion batteries and can be charged in as little as 36 minutes. Magnesium-ion battery's charge/discharge efficiency is 5 times higher than a lithium-ion battery. Another advantage of magnesium-ion batteries is their ability to perform at temperatures as low as -30°C and as high as +55°C whereas lithium-ion batteries cease to function at around -15°C. Additional benefit of magnesium-ion batteries is that they do not use graphite and consequently are not dependant on supply of this relatively expensive material.

The variety of uses and the relative size of the magnesite, magnesium oxide and magnesium alloys markets are of obvious benefit to magnesite producers. By way of comparison, the magnesium oxide market is approximately 40 times bigger than the lithium carbonate market and approximately 22 times bigger than the graphite market (see Figure 10).

The key determinant of the success of a magnesite project is the quality of its magnesium carbonate rock and its proximity to transport infrastructure. Winchester magnesite project has the advantage of



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being one of the highest grade magnesium carbonate deposits and also being located in close proximity to rail, roads, and a major deep sea port.

The deposit is a shallow, flat lying ore body which can be mined using open cut method, essentially as a quarry (see Figure 5, Figure 6, and Figure 7). On 10 March 2015, Korab released the results of the expanded study into Winchester magnesite quarry and its potential earnings, costs, free cashflow, and net present value. The Company confirms that all material assumptions underpinning the production target in that announcement continue to apply and have not materially changed. This expanded study included the estimates of revenues and various additional material costs such as haulage, port charges, interest, debt repayment, royalties, overheads, etc. and evaluated the economics of Winchester quarry assuming its development as a direct shipping ore (DSO) operation.

Results of the expanded study have shown that the project has very attractive economics with an aggregate EBITDA of \$395 mln over quarry life and attractive long-run annual EBITDA of \$32 mln/year (at 800kt/year of rock sales). The capital and start-up costs were estimated at around \$4 mln (including quarry costs of approximately \$1.2 mln and a contingency of just under \$1mln). Full text of the report can be accessed through the link below:

<http://www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=01606646>

This study assessed estimated potential of Winchester project supplying a direct shipping ore. 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 was 80%. This study showed that there may be a market for magnesite fines in agriculture and feedstock production; however any potential revenue from sale of fines has not been included in this study.

Deposit is located approximately 85km south of the port of Darwin in the Northern Territory. It is less than a hundred meters from sealed road, and less than 5km from railway line. The deposit is a shallow, flat laying body covered by up to 5 meters of soil overburden (see Figure 2, Figure 5, and Figure 7). It can be quarried at a low cost by open cut method.

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 1 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 2015. 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.



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CONTACT:

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

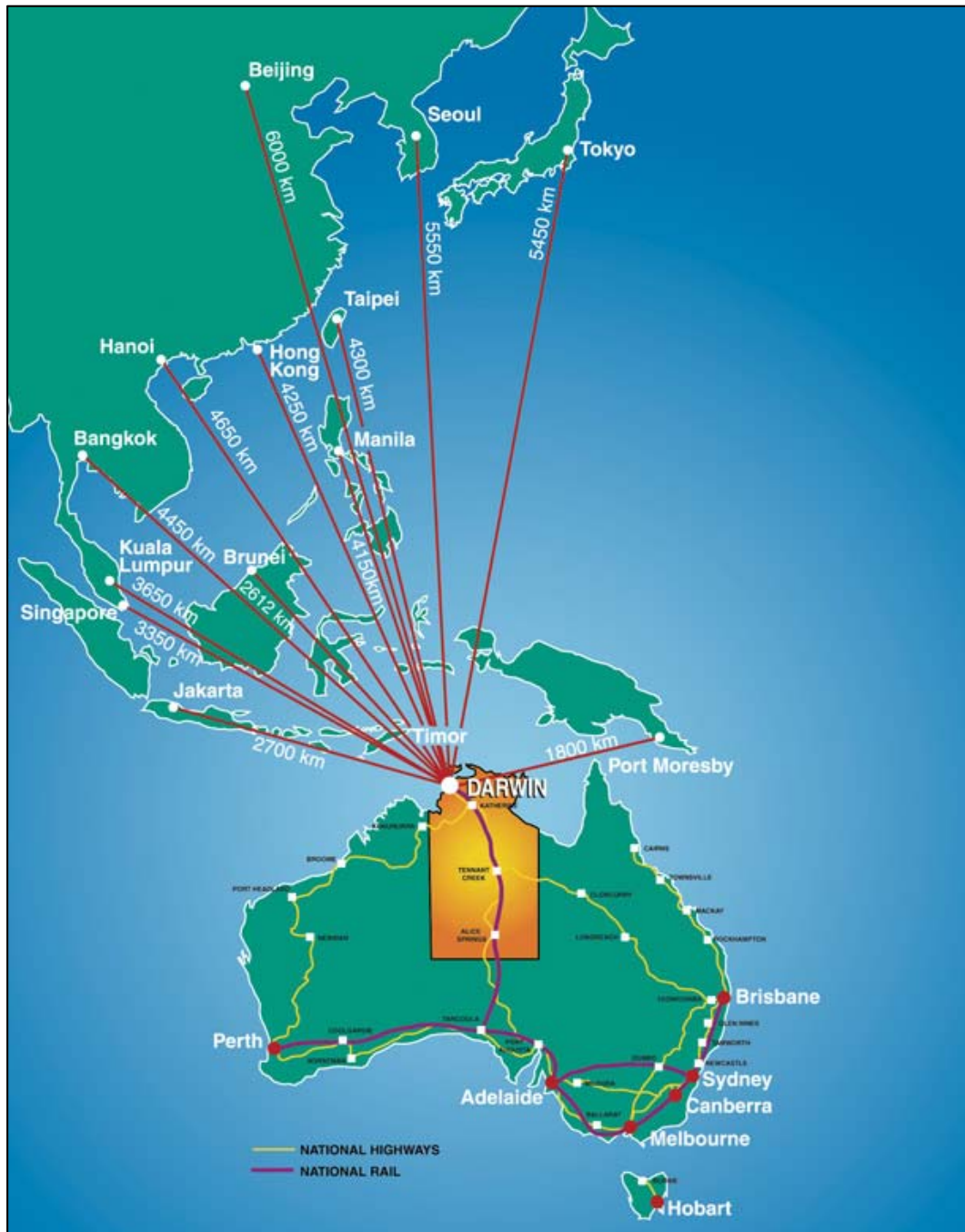


Figure 1 Strategic location of Darwin port. Winchester is located 30 minute drive from Darwin suburbs.



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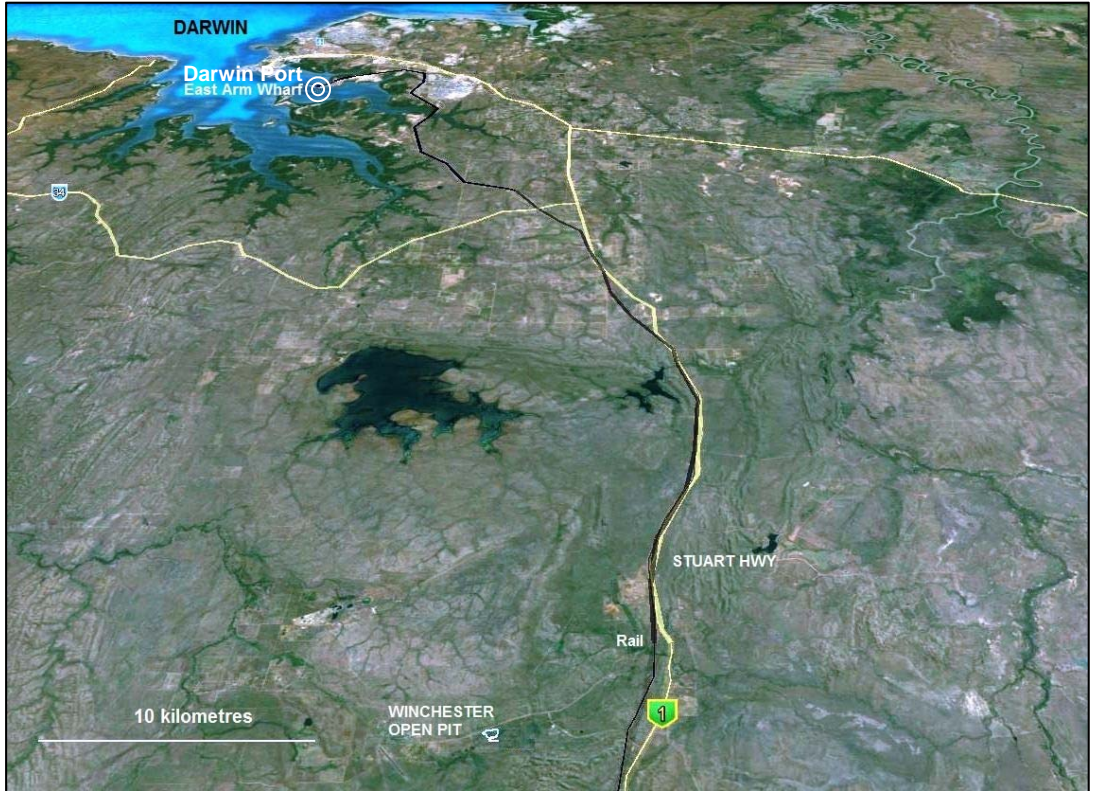


Figure 2 Location of Winchester proposed quarry relative to East Arm Wharf at Darwin Port

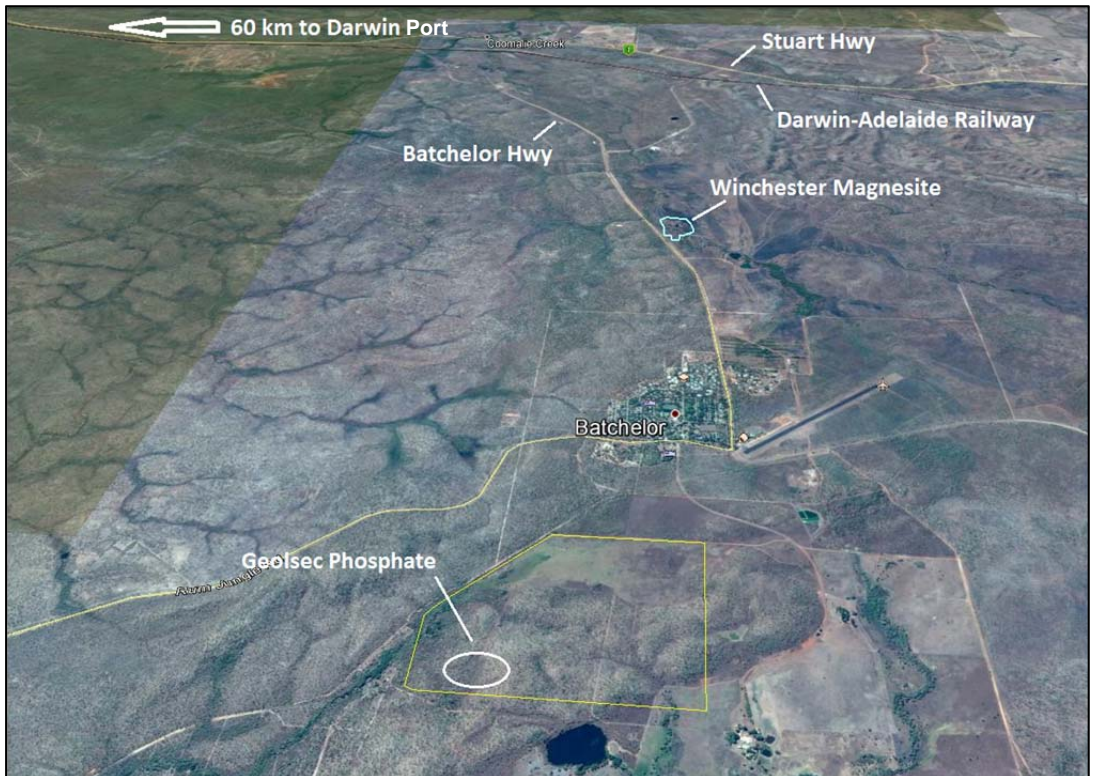


Figure 3 Location of Geolsec and Winchester relative to local infrastructure, roads and rail



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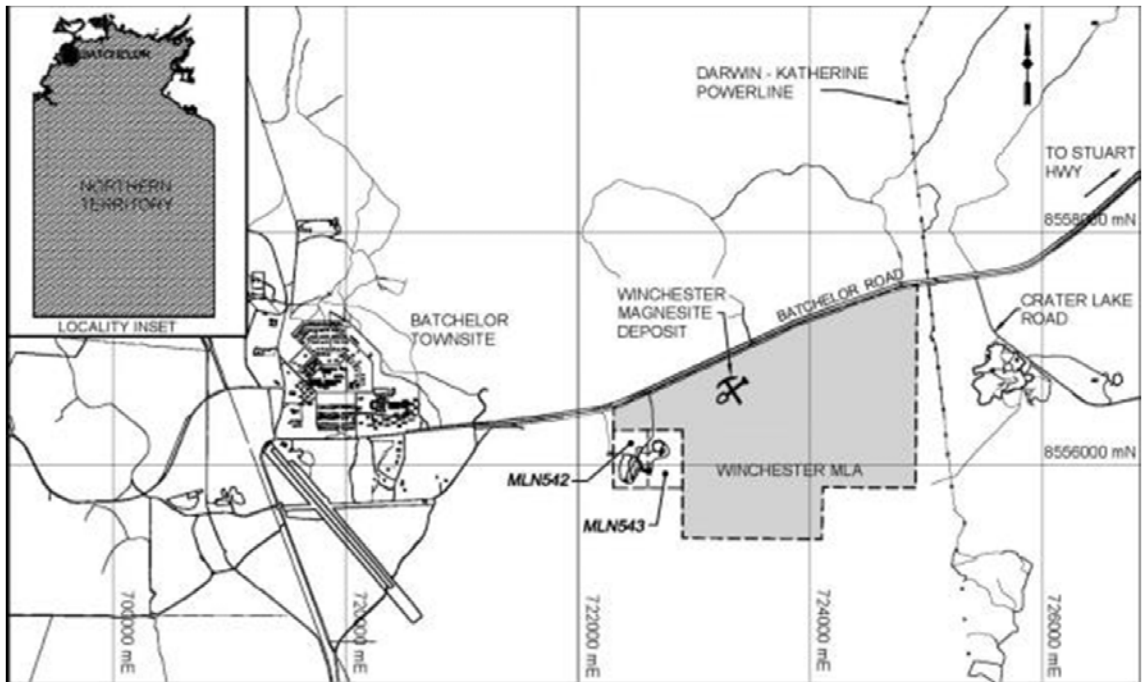


Figure 4 Site locality plan

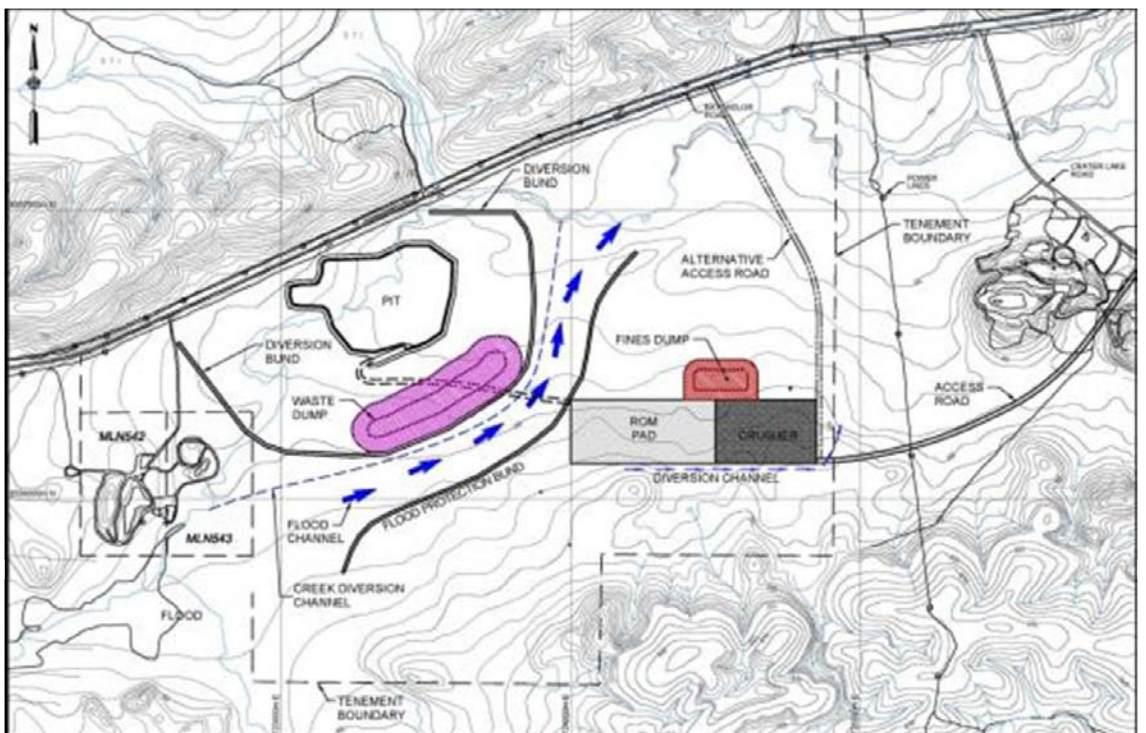


Figure 5 Conceptual layout at end of year 3 – bench-by-bench development variant



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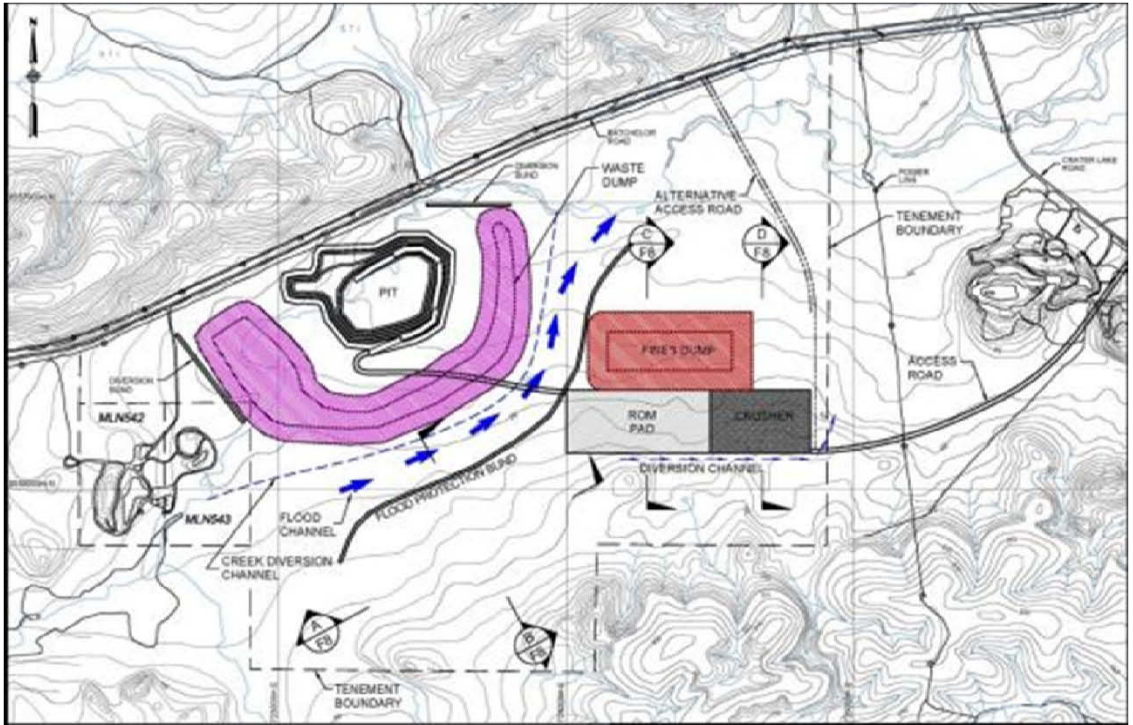


Figure 6 Conceptual layout at end of mine life – bench-by-bench development variant

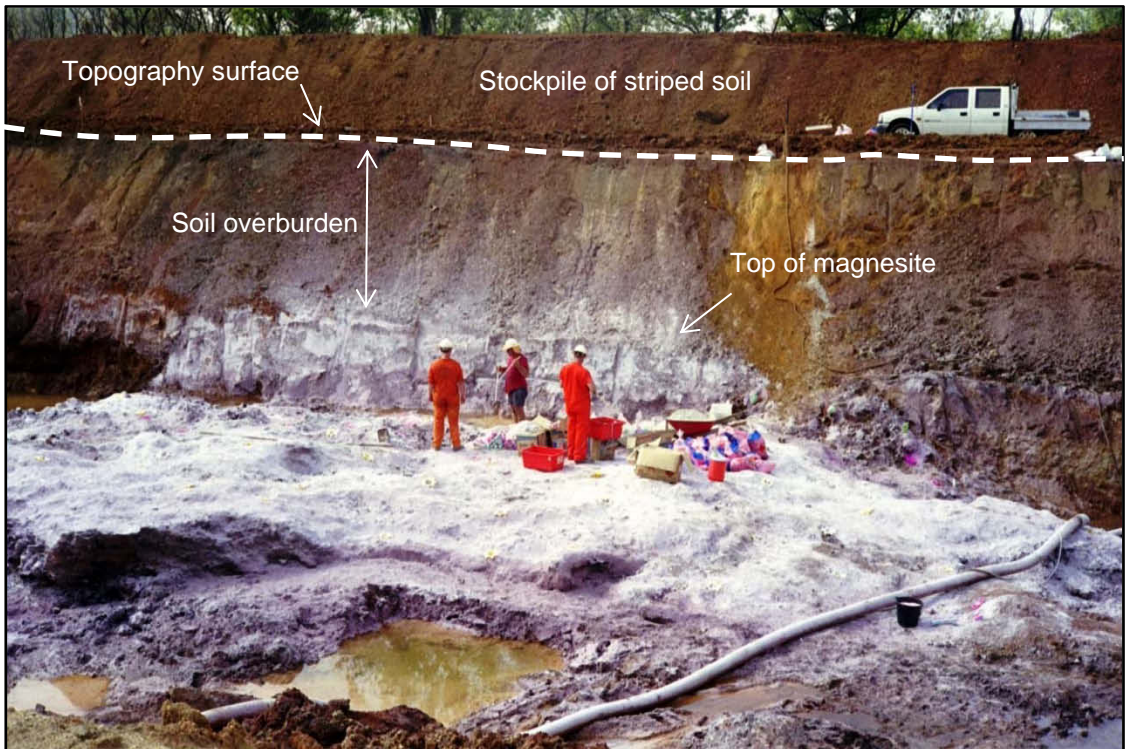


Figure 7 Drill-blasting of exposed magnesite rock in the test pit during the wet season – notice very thin soil overburden



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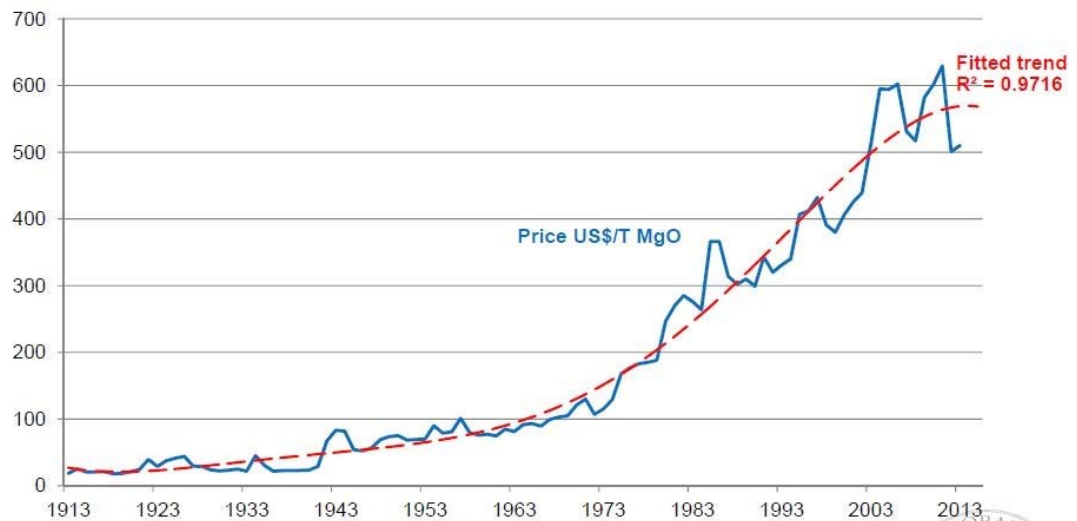
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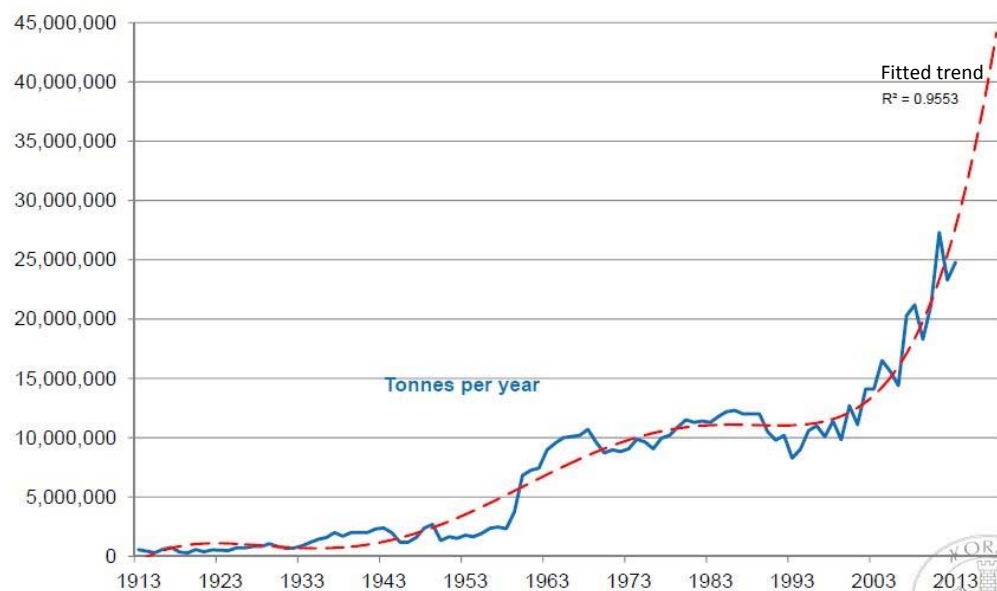
MgO pricing (1913 - 2013)



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Figure 8 Magnesium oxide price in US\$

World consumption of MgO (1913 - 2013)



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Figure 9 World consumption of magnesium oxide



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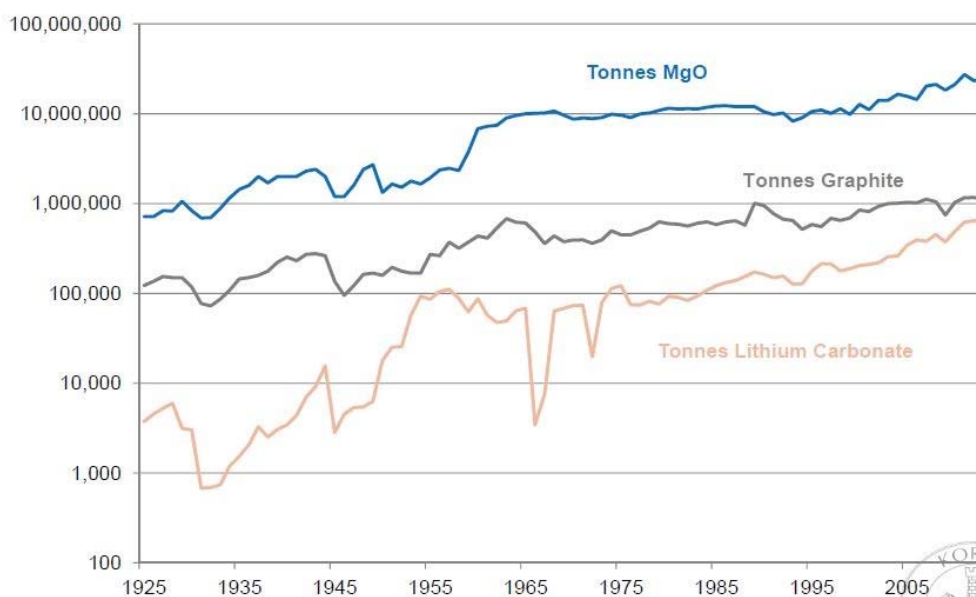
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Magnesite, lithium, graphite consumption



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Figure 10 Magnesite market vs lithium and graphite on logarithmic scale (each line represents 10-fold increase)

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 near Darwin 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.



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