



# KORAB RESOURCES LIMITED

KORAB HOUSE

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

Monday, 17 May 2010

## GOLD SPIN-OFFS UPDATE

### HIGHLIGHTS

- Following the receipt of an advice from ASX, Melrose and Lugansk spin-offs will no longer require shareholder approvals under the ASX Listing Rule 11.4.1 (a)
- Korab to spin-off Melrose Gold Mines P/L (Melrose) and Lugansk Gold Ltd (Lugansk) into new gold companies that will seek listing on ASX
- Extraordinary General Meeting (EGM) will be called to approve the distribution of free shares in Melrose and Lugansk to Korab Shareholders.
- Lugansk Gold indicative IPO issue price has been set at 26-34 cents per share
- Korab shareholders to receive 1 - 1.3 free shares in Lugansk Gold <sup>1</sup>
- Melrose Gold Mines indicative IPO issue price has been set at 20-24 cents per share
- Korab shareholders to receive 1 - 1.3 free shares in Melrose Gold Mines <sup>1</sup>
- EGM notice is being finalised and will be despatched to Korab shareholders once all regulatory approvals have been received
- In addition to the free shares Korab shareholders will be offered priority in the IPOs to apply for additional shares under the Melrose and Lugansk prospectuses.

Following the receipt of advice from ASX, Melrose and Lugansk spin-offs will no longer require shareholder approvals under the ASX Listing Rule 11.4.1 (a). This means that the Extraordinary General Meeting (EGM) - which will be called shortly - will only seek to approve the distribution of free shares in Melrose and Lugansk to Korab Shareholders. Consequently, the spin-offs and IPO's can now be fast-tracked to take advantage of the strong gold price and positive gold sector sentiment.

### IPO PRIORITY OFFER

One of the conditions for not having to seek shareholder approval for the spin-offs and IPO's is that Korab shareholders will be given a priority in the IPO's in addition to receiving free shares through the distribution. Consequently, Korab shareholders who hold Korab shares on the record date will be given priority ahead of non-Korab retail and institutional applicants during the IPO's of Melrose and Lugansk. The record date to qualify for the priority IPO offer will be a date in the future and will be announced shortly. The priority entitlement will be as follows:

<sup>1</sup> *Subject to shareholder, regulatory and ASX approval*

ASX  
KOR  
Last price  
AU¢ 38

BERLIN  
C6S.BE  
Last price  
€ 0.23

Issued capital  
78.5 million shares

Market capitalisation  
AU\$ 30 million  
€ 18 million



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### IPO of Lugansk Gold Ltd

In addition to receiving between 1 and 1.3 free shares in Lugansk for each Korab share, Korab shareholders will be given priority entitlement to apply for 1 IPO share for each 3 Korab shares.

### IPO of Melrose Gold Mines Ltd

In addition to receiving between 1 and 1.3 free shares in Melrose for each Korab share, Korab shareholders will be given priority entitlement to apply for 1 IPO share for each 7 Korab shares.

## BACKGROUND

As previously announced to the market Korab's gold mining projects will be demerged into two independent companies, one (Melrose Gold Mines) operating in Australia and the other (Lugansk Gold) operating in Europe. Following the demerger of the gold mining operations, Korab will concentrate on developing its organic phosphate rock (GeolSec) and its magnesium oxide (Winchester) businesses in the Northern Territory. It will also continue to explore for base metals within its Northern Territory and Western Australian projects.

The demerger of the gold assets into two independent entities will serve a number of purposes. It will:

- maximise the returns to Korab shareholders
- allow shareholders to optimise their portfolios by providing them with tradeable equity in the projects
- allow each project to be evaluated by investors and analysts on its own merits
- allow the market to more accurately value Korab's gold and non-gold assets
- provide CAPEX and working capital required to fast-track development of the gold projects without diluting shareholders equity in non-gold assets
- simplify the Company's structure and its operations

## LUGANSK GOLD LTD

Lugansk Gold is developing a 1 million ounce Bobrikovo gold mine in Ukraine through its 74% owned subsidiary Donetsky Kryazh Ltd (DKL). The remaining 26% interest in DKL is held by Ukrainian investors. DKL is registered under Ukrainian laws and is subject to local corporate tax at a rate of 25%. All funding requirements for DKL's Bobrikovo gold mine are provided by Korab through Lugansk Gold Ltd. Loans provided by Korab will be repaid from project's pre-tax cash flows. Ukraine has no restrictions on repatriation of capital or profits and is a major investment destination for European Union's institutional investors. Korab board has decided to demerge Lugansk Gold Ltd (LUG) from Korab and to seek an initial listing of LUG in Australia by way of an IPO which will seek to raise between AU\$45 million and AU\$55 million to fast track the development of the deposit to become a mid size gold producer focused on European gold and silver projects.

Bobrikovo bankable feasibility study indicates that the mine has a potential to be a very low cost producer at around US\$250 per ounce. The deposit starts at the surface and ore is suitable for low cost processing using gravity circuit. A separate capital rising tied to the Bobrikovo gold mine will enable Korab shareholders to take better advantage of the current strong gold price by fast tracking the expansion of gold production at Bobrikovo to an annual rate of around 60,000 ounces of gold

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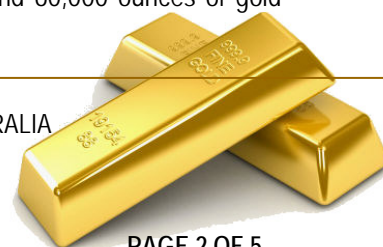
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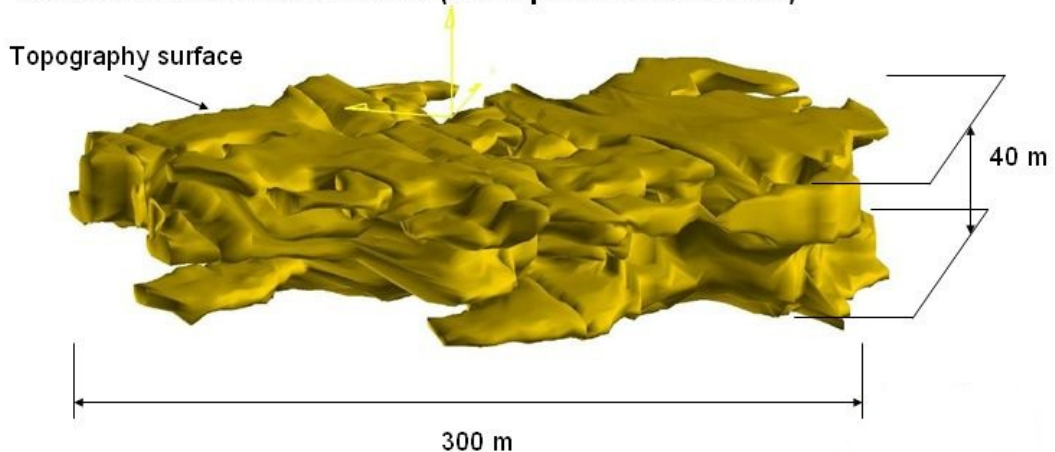
without diluting shareholder's interest in other Korab projects. A separate listing in Australia with secondary listings in UK and Canada would also ensure that the capitalisation of the new listed entity holding the Bobrikovo project more adequately reflects the value of this substantial gold asset and consequently generates better return for Korab shareholders.

The operations at Bobrikovo are conducted and co-ordinated by a separate management team based in Ukraine. The primary role of Korab is to provide the financial management and corporate support. The mine is fully permitted and currently is mining and stockpiling oxide ore which corresponds to the measured resource under the JORC code. The processing plant is being redesigned by the supplier to increase its annual processing capacity and the construction of the plant is expected to commence shortly after the successful completion of the IPO. Gold production is expected to start within 12 months following the commencement of construction of the plant.

The indicative price for the IPO has been set at between 26 and 34 cents per share. This would value the 74% of the JORC code compliant mineral resource at Bobrikovo at between US\$35 and US\$45 per ounce. Listed companies which own producing or near-production projects of similar size and in comparable locations trade at market capitalisations equivalent to US\$60-US\$100 per ounce of their JORC compliant resources.. Given the significant discount of the proposed Lugansk IPO issue price relative to its peers, and the near term gold production, Lugansk's IPO shares have a potential for considerable appreciation upon listing. Korab shareholders who will hold Korab shares on the record date will receive between 1 and 1.3 free shares in Lugansk Gold, subject to approval by shareholders at Extraordinary General Meeting (EGM).

Bobrikovo mine is located in Eastern Ukraine in the Lugansk Region within Nagolny Ridge. Nagolny Ridge is part of a large intra-continental Phanerozoic structure that extends from southern Europe extending east to Central Asia which hosts several world-class gold mining operations including Muruntau, Vysokovoltnoe, and Bakirchic. The tenor and style of mineralisation at Bobrikovo is similar to 170 million ounce gold deposit at Muruntau in Uzbekistan and to 57 million ounce Sukhoi Log deposit in Russia. Other deposit analogues to Bobrikovo are gold deposits in Nova Scotia, Canada.

### Measured resource at Bobrikovo (corresponds to oxide zone)



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The oxidised zone of the Bobrikovo deposit begins at the surface and extends down to 30-40m. Sulphide gold mineralisation starts at 30-40 m depth and continues to a depth of 3,200m. Veins are easily recognizable and suitable for selective extraction.

Bobrikovo structure strikes 11km by 2.5 km. The deposit occurs on the intersection of deep fault zones. Mineralisation is controlled by NW-NNW trending anticline hinge, and occurs as concordant quartz-carbonate tension veins and stockworks. Host rocks of the Nagolny Kryazh comprise two structural stages: the lower, Precambrian, and the upper, Phanerozoic. The lower structure comprises deformed sequence of gneisses and crystalline schists. Precambrian basement is overlapped by 3km- thick sedimentary rock sequence. Ore zone is 2.5-3 km long and 0.9 – 1km wide.

## MELROSE GOLD MINES LTD

Melrose Gold Mines will own and operate the Melrose gold project and Darlot East gold project currently 100% owned by Korab Resources. Melrose project consists of three granted mining leases which contain the Boundary, Bungarra, Hurleys and Stirling gold deposits. Project also includes several miscellaneous licences which were secured for a new road to Bronzewing plant. Bronzewing plant is located some 40 km to the west of the Melrose project. The JORC code compliant gold deposits at Melrose have a resource base of 326,000 ounces with a substantial exploration upside. Gold mineralisation commences at a depth of 10 meters and remains open at depth. The area is underexplored and significant potential exists for substantial additional mineralisation along strike and at depth. Additional step-out drilling confirmed independent assessment that additional gold mineralisation extends below the deposits and along strike with multiple high grade intercepts of up to 211 g/t gold. In addition to the Melrose and Darlot East, Melrose Gold Mines will hold gold rights to Ashburton Downs project in WA and the Batchelor and Green Alligator projects in the Northern Territory. Batchelor project includes the Sundance gold mine which in the past has produced gold at a head grade of over 10 g/t. Drilling at the Northern Territory and WA projects where Melrose Gold Mines will hold gold rights has discovered near surface high grade gold mineralisation which will be followed up by more drilling during 2010.

To enable the fast tracking the development of Melrose project, the Company is in the process of establishing a separate Melrose Gold Mines management team with prior experience in development of similar style open-cut gold mining projects.

The company is currently undertaking the review of the resource model and the high level review of development options for the project. This will serve as the basis of the definitive feasibility study (DFS) which will be continued following the successful spin-off and IPO of the Melrose Gold Mines. Melrose Gold Mines intends to fund the DFS from the proceeds of the IPO and complete it by mid 2011. The funds raised under the IPO prospectus will cover the costs of geotechnical drilling, metallurgy testing, process design and mine design, selection of the development option (heap leach, toll treat or reconditioned mill) and the permitting of the mine. Portion of the funds will be used for additional resource definition and exploration drilling to extend the JORC code compliant resource base. The development of the mine at Melrose is likely to be funded by a combination of secondary equity raising and debt.

Previously completed scoping study indicated that the project could achieve a 1<sup>st</sup> year production of 20,000-40,000 ounces of gold at a cash cost of AU\$500-AU\$585 per ounce as a stand-alone operation. At a gold price of AU\$1,000/oz this would generate a pre-tax profit of between AU\$8.3 million and AU\$20 million. Subject to definitive feasibility study confirming the results of the scoping

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study, Melrose Gold Mines will be aiming to commence gold production from Melrose project in 2011<sup>2</sup>. We need to point out that there is no guarantee that the results of the definitive feasibility study will confirm the results of the scoping study.

The indicative price for the IPO has been set at between 20 and 24 cents per share. This would value the 100% of the JORC code compliant mineral resource at Melrose at between AU\$55 and AU\$65 per ounce. Majority of listed companies which own producing or near production projects of similar size and in comparable locations trade at market capitalisations equivalent to AU\$70-AU\$150 per ounce of their JORC compliant resources. Given the discount of the proposed Melrose Gold Mines IPO issue price relative to its peers, and advanced stage of the project, Melrose Gold Mines IPO shares have a potential for appreciation upon listing. Korab shareholders who will hold Korab shares on the record date will receive between 1 and 1.3 free shares in Melrose Gold Mines, subject to approval by shareholders at Extraordinary General Meeting (EGM).

### ABOUT KORAB RESOURCES LIMITED

Korab Resources Ltd is an Australian mining and exploration company based in Perth with operations in Australia and Europe. Korab's quarrying and mining projects include rock phosphate, gold, silver and magnesium. More information about Korab's gold projects can be sourced from recent ASX announcements. The company also manages exploration projects in Western Australia and the Northern Territory. For more information about Korab please visit our website at [www.korabresources.com.au](http://www.korabresources.com.au) Korab's shares are traded on Australian Securities Exchange (ASX) and on the Berlin Stock Exchange (Berliner Börse).

### CONTACT:

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**Competent Person:** The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves at the Melrose project is based on information compiled by Malcolm Castle, who is an independent geological consultant and is a corporate member of The Australasian Institute of Mining and Metallurgy. Malcolm Castle has in excess of 5 years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking 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'. Malcolm Castle consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves at Bobrikovo project is based on information compiled by Professor Piestrzynski, who the principal geological consultant for Geoexpert Ltd. and who is a member of European Federation of Geologists which is a Recognised Overseas Professional Organisation (ROPO) pursuant to the JORC Code (Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves) and ASX Listing Rules and who holds a professional title of EurGeol (European Geologist). Professor Piestrzynski has in excess of 5 years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking 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'. Professor Piestrzynski consents to the inclusion in the report of the matters based on his information in the form and context in which it appears

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