



KORAB RESOURCES LIMITED
AND CONTROLLED ENTITIES

ABN 17 082 140 252

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

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CORPORATE DIRECTORY

DIRECTORS

Andrej K. Karpinski (Executive Chairman)
Rodney H.J. Skeet (Non-Executive Director)
Daniel A. Smetana (Non-Executive Director)
Anthony G Wills (Non-Executive Director)

COMPANY SECRETARY

Andrej K. Karpinski

REGISTERED & PRINCIPAL OFFICE

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West Perth WA 6005
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Facsimile: (08) 9322 6333
E-mail: information@korabresources.com.au
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AUDITORS

HLB Mann Judd
Level 4
130 Stirling Street
Perth WA 6000

SHARE REGISTRY

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250 St Georges Terrace
Perth, WA 6000
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International Telephone: +61 2 8280 7761
Facsimile: (02) 9287 0303
Email: registrars@linkmarketservices.com.au

SECURITIES EXCHANGE LISTING

Securities of Korab Resources Limited are listed on ASX Limited
(securities code KOR: shares)

DIRECTORS' REPORT

The directors present their report together with the financial report of the consolidated entity, being Korab Resources Limited ("Korab" or "Company") and its subsidiaries ("consolidated entity" or "Group"), at the end of and for the year ended 30 June 2017. Korab Resources Limited is a listed public company incorporated and domiciled in Australia.

(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT

| | 2017 | 2016 | 2015 |
|--|---------|---------|---------|
| Annual loss after taxation (\$ millions) | (0.602) | (1.107) | (0.846) |
| Basic and diluted loss per share (cents per share) | (0.26) | (0.56) | (0.58) |

DIRECTORS

The names and details of the Company's Directors in office at any time during the financial year and up to the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Andrej K. Karpinski, FAICD, F Fin (Executive Chairman)
Age 60, appointed April 1998

Responsibilities: Mr. Karpinski has responsibilities for business development, all capital raisings, investor relations, ASX liaison, risk identification and management, strategic direction and financial management of the Company, performance evaluations and corporate governance.

Qualifications: Mr. Karpinski's background is in mining, investment banking, commodities trading and funds management. He has held senior positions with Australian and international companies operating in mining and exploration, oil and gas, corporate finance, commodities trading and funds management. He brings to the Company his network of Australian and international contacts within the resources and securities sectors, his administrative skills and his expertise in project evaluation and sourcing, financial risk management, treasury management, project financing and resources banking. Mr. Karpinski is a Fellow of the Australian Institute of Company Directors, a Fellow of the Financial Services Institute of Australasia and a Professional Member of the Society of Petroleum Engineers. Mr. Karpinski is the founder of Korab Resources Limited and he has been its Executive Chairman since March 1998 when the Company was incorporated.

Other Directorships: During the past three years Mr Karpinski has not held any listed company directorships. Mr Karpinski is a Director of unlisted public company Polymetallica Minerals Limited (formerly Uranium Australia Limited).

Rodney H. J. Skeet (Non-Executive Director)
Age 75, appointed November 2002

Responsibilities: Mr. Skeet contributes his resources financing skills as well as his investment banking and resources sector contacts.

Qualifications: Mr. Skeet's background is in commodities financing and investment banking. During his career spanning 39 years he has held senior positions with financial institutions in the UK and USA including Phillip & Lion, IndoSuez, Credit Agricole, Rudolf Wolf and Brody White, Inc. His most recent position was as vice president with Dean Witter-Morgan Stanley Group in New York. He brings to the Company his broad network of international contacts within resources and securities sectors and his expertise in resources financing.

Other Directorships: During the past three years Mr Skeet has not held any listed company directorships. Mr Skeet is a director of unlisted public company Polymetallica Minerals Limited (formerly Uranium Australia Limited).

DIRECTORS' REPORT

**Daniel A. Smetana (*Non-Executive Director*)
Age 73, appointed 28 October 2013**

Responsibilities: Mr. Smetana contributes his corporate governance experience and his strategic planning expertise.

Qualifications: Mr. Smetana has been Chairman of ASX listed Joyce Corporation Ltd since 1984. He is also the Chairman of Bedshed Franchising Pty Ltd. He is a past President of the Industrial Foundation for Accident Prevention and remains a Director. He is a Director of Polymetallica Minerals Ltd, a Director of St John of God Foundation and Chairman of the St John of God Comprehensive Cancer Centre Fundraising Committee.

His past board memberships include: Director of Edge Employment Solutions Inc, Deputy Chairman of Youth Focus Inc (1998 - 2007), Deputy Chairman Western Power Corporation and Chairman of its Finance Committee until 2003, Chairman and National Councillor of the Defence Reserves Support Council - WA (1997 - 2006), Director of WA Symphony Orchestra until 2003. Vice President and Councillor of the WA Federation of Police and Community Youth Centres (Inc.)

Mr Smetana, Dip Comm, is a Fellow of CPA Australia, a Fellow of Australian Institute of Management and a Fellow of Australian Institute of Company Directors.

His awards include 2003 Centenary Medal for Service to Commerce and Community, 2007 Ian Chisholm Award for Distinguished Service to Occupational Health and Safety, 1998 WA Business Executive of the Year Award.

Other Directorships: During the past three years Mr Smetana has been Chairman of ASX listed Joyce Corporation Ltd.

**Anthony G Wills (*Non-Executive Director*)
Age 57, appointed 1 May 2015**

Responsibilities: Mr. Wills brings to the Company experience in strategic planning, operations, security and risk management, communications, public relations and foreign affairs gained over his 30-year career.

Qualifications: Mr. Wills' background is in defence and finance. Mr Wills has for the last 15 years been involved in the finance industry. Prior to that he served for 20 years in the Australian Defence Force, including 10 years in the Specials Forces serving with the SAS Regiment. Mr. Wills also brings to the Company his extensive network of Australian and overseas contacts established through his involvement with the United Nations and its various missions. Mr Wills is a member of the Australian Institute of Company Directors and a senior associate of the Financials Services Institute of Australasia. Mr. Wills continues his longstanding involvement with the SAS Regiment through his ongoing work for the SAS Resources Fund.

Other Directorships: During the past three years Mr Wills has not held any listed company directorships.

COMPANY SECRETARY

Mr Andrej K. Karpinski was appointed Company Secretary in March 1998. Mr Karpinski (FAICD, F Fin) has a number of years' experience in the position of Company Secretary.

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the year was mineral exploration and the evaluation of mineral properties. There were no significant changes in the nature of these activities during the financial year.

DIRECTORS' REPORT

DIVIDENDS PAID OR RECOMMENDED

No dividends were paid during the year and the directors do not recommend payment of a dividend in respect of the reporting period (2016: Nil).

OPERATING RESULTS

The loss of the consolidated entity after providing for income tax amounted to \$602,135 (2016 loss: \$1,107,262) primarily related to corporate compliance and administration costs of \$746,759 (2016: \$691,599).

FUTURE DEVELOPMENTS

Likely future developments in the operations of the Company are referred to in the Directors' Report. The directors are of the opinion that further information as to likely developments in the operations of the consolidated entity would prejudice the interests of the consolidated entity and accordingly it has not been included.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave to the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

REVIEW OF OPERATIONS

During the year Korab has continued work on marketing and exploration and evaluation of its mineral assets. Our subsidiary, Geolsec Phosphate Operations Pty Ltd has continued marketing of the direct shipping phosphate rock from Geolsec quarry through overseas and domestic channels. However, the market for phosphate rock is currently oversupplied and the demand is relatively weak. Consequently, Geolsec project has been put under review. During the year, Korab commenced discussion with a major fertiliser producer regarding potential users of phosphate rock from Geolsec. This producer has run multiple tests on the phosphate rock from Geolsec and the discussions have been continuing between them and Korab with a view to arranging sales of phosphate rock. During the period Korab has worked on an amended mining plan, however whilst the project is under review the amendments to the mining plan have been put on hold. At the date of this report the fertiliser producer (referred to above) is still to run additional tests on the phosphate rock and therefore there is no certainty that an agreement between Korab and the fertiliser producer will be reached.

During the reporting period, Korab also continued to make progress with the Winchester magnesite project. Korab has continued discussions with buyers of magnesium carbonate and producers of magnesium oxide with the view to establishing further forward sales or offtake agreements. Korab has also continued discussions with potential funders for the development of this project. During the reporting period, Korab also conducted further exploration and evaluation of this project with a aim of improving their resource classification, defining an ore reserve, optimising the pit, reducing the development cost and operating costs.

Korab has been reviewing the economic potential of the Sundance gold mine which is also owned by Korab and is located near town of Batchelor, just south of Darwin. This evaluation is continuing as at the date of this report.

The Bobrikovo gold and silver mine which is located in eastern Ukraine, is currently on care and maintenance while Korab has engaged with various stakeholders with the view to recommencing operations.



Figure 1 Location of Company's projects

CORPORATE

During the reporting period Korab's wholly owned subsidiary AusMag Pty Ltd continued discussions with potential funders for the Winchester project regarding the documentation for the funding, and the operations of the project once it has commenced development. Under the agreement reached during the prior reporting period the potential funders are to provide up to \$6 million in exchange for equity in AusMag Pty Ltd. The development cost of the Winchester magnesium carbonate mine has been estimated at \$4 million with the remaining \$2 million to be used for mine working capital and other project and development related expenditure. The funding agreement was conditional upon Korab securing additional offtake agreements for the magnesium carbonate rock. At the time of this report Korab has not yet secured additional offtakes, however, neither Korab nor the potential funders have terminated the agreement.

On 11 September 2016 Korab reported that it has resumed control and ownership of the Ashburton Downs project following the forfeiture of MRDC's equity in this project. Korab Group continued exploration of this project however no material results were generated.

On 19 October 2016 Korab reported that it commenced exploration for lithium at the Bachelor project following the discovery of lithium mineralisation on neighbouring tenements by other explorers.

On 23 November 2016 Korab announced results of the review of historical exploration data for the Bachelor project, which has shown that the project contains high grade zinc, lead and silver drill intercepts in historical drilling as well as broad spaced geochemical surface anomalies indicating further potential for zinc lead and silver mineralisation.

On 10 February 2017 Korab announced the results of the review of historical exploration data for the Bachelor project focusing on cobalt, copper, nickel and gold. This review has shown that the project contains several high grade cobalt, copper and gold drill intercepts as well as broad spaced geochemical surface anomalies indicating potential for additional cobbled mineralisation.

Between 22 July 2016 and 26 July 2016 the Company issued 2,257,461 fully paid ordinary shares at an issue price of \$0.05 per share to Mr. Wang under agreement under which Mr. Wang was to subscribe for

DIRECTORS' REPORT

10,000,000 Korab shares at 5 cent each which was entered into during the previous reporting period. On 30 August 2016 the Company issued 3,157,935 fully paid ordinary shares at an issue price of \$0.05 per share to Mr. Wang under this agreement. On 6 September 2016 Korab agreed to extend to 31 October 2016 the time for payment of the last tranche of the funds due under the placement and amend the placement price to the higher of (i) a 20% discount to a volume weighted average share price of the Company's shares calculated over five days on which the shares have traded on the Australian Securities Exchange (ASX) immediately preceding the receipt of the last tranche of the funds by Korab, or (ii) 4 cents per share. The time for payment of the remaining tranche of the funds due under the placement was subsequently extended to 30 November 2016, then 10 January 2017, then 28 February 2017, and then 20 March 2017. Korab is in discussion with Mr. Wang regarding the timetable for completion of the remaining tranche but no extension date has been agreed yet.

On 31 December 2016 the Company announced a placement of 5,150,000 shares at \$0.015 per share to raise \$77,250.

On 5 January 2017 the Company announced a placement of 215,866 shares at \$0.015 per share to raise \$3,238.

On 20 January 2017 the Company announced a placement of 6,937,831 shares at \$0.013 per share to raise \$90,192.

On 8 March 2017 the Company announced that it had resolved to undertake a financing transaction to enable fast-tracking of the cobalt and zinc drilling program at the Batchelor project. The funding was by way of a \$471,000, unsecured, zero-interest loan which converted into Korab's ordinary shares at a price of 1.9 cents per share in May 2017. This financing transaction is not associated with the placement of shares to Mr. Wang, or the funding for Winchester project announced in March 2016.

On 4 May 2017 the Company announced an issue of 37,632,346 under a rights issue at \$0.19 per share of which \$444,555 was received in cash and \$270,460 set off as a loan extinguishment.

IDENTIFICATION OF INDEPENDENT DIRECTORS

The independent directors are identified in the Corporate Governance Statement section of this Financial Report as set out on pages 45 to 48.

MEETINGS OF DIRECTORS

The number of directors' meetings held during the financial year for each director who held office during the financial year and the number of meetings attended by each director is as follows:

| Director | Number eligible to attend | Meetings attended |
|---------------------|----------------------------------|--------------------------|
| Andrej K. Karpinski | 26 | 26 |
| Anthony G Wills | 26 | 22 |
| Rodney H.J. Skeet | 26 | 22 |
| Daniel A. Smetana | 26 | 6 |

SHARE OPTIONS

Shares under option

The following is the movement during the period in options over shares in the Company.

| Expiry date | Exercise price | Number 01/07/16 | Issued | Expired | Exercised | Number 30/06/17 |
|-------------|----------------|-----------------|--------|---------|-----------|-----------------|
| 28/11/17 | \$0.10 | 4,000,000 | - | - | - | 4,000,000 |

DIRECTORS' REPORT

No options have been granted since the end of the reporting period. There have been no options exercised since the end of the reporting period. During the reporting period there was no forfeiture or vesting of options granted in previous periods.

SUBSEQUENT EVENTS

No other matter or circumstance has arisen since 30 June 2017 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Korab support and adhere to the principles of sound corporate governance. The Board considers that Korab is in compliance with the ASX corporate governance principles and recommendations which are of critical importance to the commercial operation of a junior listed resources company. The Company's Corporate Governance Statement is set out on pages 45 to 48 of this Financial Report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Other than stated elsewhere in this report there have been no significant changes in the state of affairs of the consolidated entity during the period under review.

AUDITORS INDEPENDENCE DECLARATION

The auditor's independence declaration under Section 307C of the Corporations Act 2001 is set out on page 13.

NON-AUDIT SERVICES

There were no non-audit services provided by the auditors during the current or preceding financial years.

DIRECTORS' INTERESTS

At the date of this report, the relevant interests of the directors in securities of the Company are as follows:

| <u>Name</u> | <u>Ordinary shares</u> | <u>Options over ordinary shares</u> |
|---------------------|------------------------|-------------------------------------|
| Andrej K. Karpinski | 59,734,739 | - |
| Rodney H.J. Skeet | 569,238 | - |
| Daniel A. Smetana | 951,407 | - |
| Anthony G Wills | - | - |

ENVIRONMENTAL ISSUES

The Group has a policy of complying with or exceeding its environmental performance obligations. The Board believes that the Company has adequate systems in place for the management of its environmental requirements. The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the financial year under review.

DIRECTORS' REPORT

REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by section 308 (3C) of the Corporations Act 2001.

Principles used to determine the nature and amount of compensation

The Board determines remuneration policies and practices, evaluates the performance of senior management, and considers remuneration for those senior managers. The Board assesses the appropriateness of the nature and amount of remuneration on an annual basis by reference to industry and market conditions, and with regard to the Company's financial and operating performance.

Total non-executive directors' fees are approved by shareholders and the Board is responsible for the allocation of those fees amongst the individual members of the Board. The value of remuneration is determined on the basis of cost to the Company and consolidated entity. Remuneration of key management personnel is referred to as compensation, as defined in Accounting Standard AASB 124.

Compensation levels for key management personnel of the Company and consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Board obtains, when required, independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Compensation arrangements can include a mix of fixed and performance based compensation however the Company has not paid bonuses to directors or executives to date. Share-based compensation can be awarded at the discretion of the Board, subject to shareholder approval when required.

It is the intention of the Board to tailor the remuneration policy to maximise the commonality of goals between shareholders and key management personnel. The method which is most likely to achieve this aim is the issue of options to key management personnel to encourage the alignment of personal and shareholder interests. The directors believe this policy will be the most effective in increasing shareholder wealth.

Compensation structures take into account the overall level of compensation for each director and executive, the capability and experience of the directors and senior executives, the executive's ability to control the financial performance of the relative business or geographical segment, the consolidated entity's performance (including earnings and the growth in share price), and the amount of any incentives within each executive's remuneration. Given the consolidated entity's focus on exploration projects during the year, the Board did not have regard to the consolidated entity's financial performance and / or change in shareholder wealth occurring in the current financial year and previous three financial years in setting remuneration. No dividends were paid or declared during this period (2016: Nil).

Fixed compensation

Fixed compensation consists of base compensation as well as any employer contributions to superannuation funds.

Non-executive directors

Total remuneration for all non-executive directors is not to exceed \$120,000 per annum. A non-executive director's base fee is currently \$26,000 per annum. The Executive Chairman currently does not and has never in the past received director's fees. Rheingold Investments Corporation Pty Ltd, a company controlled by the Executive Chairman receives management fees which are disclosed elsewhere in this report.

Non-executive directors do not receive any performance related remuneration, however they may be paid for work performed over and above their non-executive duties. Directors' fees cover all main Board activities and membership of Board committees. The Company does not have any terms or schemes relating to retirement benefits for non-executive directors. Non-executive directors receive share-based compensation at the discretion of the Board, and subject to approval by shareholders.

DIRECTORS' REPORT

Service contracts

The contract duration, notice period and termination conditions for key management personnel are:

Andrej K Karpinski, Executive Chairman. In July 2008 the Company entered into an Executive Service Agreement with Rheingold Investments Corporation Pty Ltd. Under the terms of the agreement Mr Karpinski, being the director of Rheingold Investments Corporation Pty Ltd, has agreed to provide management services to the Company at a rate of \$327,000 per annum plus GST. The Agreement may be terminated by the Company at any time by giving Rheingold Investments Corporation Pty Ltd twelve (12) months' notice. In the event the Company does not require the services provided under the Executive Service Agreement with Rheingold Investments Corporation Pty Ltd, the Company shall pay to Rheingold Investments Corporation Pty Ltd an amount of \$327,000 plus GST.

Key Management Personnel Remuneration

Details of the nature and amount of each major element of the remuneration of group key management personnel are set out below. There was no share based or performance based remuneration in either the current or prior period.

| | Andrej Karpinski | Rodney Skeet | Daniel Smetana | Anthony Wills | Total |
|---------------------------------|-----------------------------|-------------------------|---------------------------|--------------------------|----------------|
| | \$ | \$ | \$ | \$ | \$ |
| 2017 | | | | | |
| <i>Short-term benefits</i> | | | | | |
| 2017 year fees | 327,000 | 26,000 | 26,000 | 26,000 | 405,000 |
| <i>Post-employment benefits</i> | | | | | |
| Superannuation contributions | - | - | 2,470 | 2,470 | 4,940 |
| Total | <u>327,000</u> | <u>26,000</u> | <u>28,470</u> | <u>28,470</u> | <u>409,940</u> |
| 2016 | | | | | |
| <i>Short-term benefits</i> | | | | | |
| 2016 year fees | 327,000 | 26,000 | 26,000 | 26,000 | 405,000 |
| <i>Post-employment benefits</i> | | | | | |
| Superannuation contributions | - | - | 2,470 | 2,470 | 4,940 |
| Total | <u>327,000</u> | <u>26,000</u> | <u>28,470</u> | <u>28,470</u> | <u>409,940</u> |

Loans to and other related transactions with key management personnel

Mr Andrej Karpinski is a director and controlling shareholder of Rheingold Investments Corporation Pty Ltd ("Rheingold"). Management contract fees form part of the remuneration of directors and have been disclosed as such in the directors' report.

| | 2017 | 2016 |
|---|----------------|----------------|
| | \$ | \$ |
| Fees to Rheingold Investments Corporation Pty Ltd for: | | |
| - Management contract fees | 327,000 | 327,000 |
| Total fees to Rheingold Investments Corporation Pty Ltd | <u>327,000</u> | <u>327,000</u> |

During the prior period the directors and Rheingold agreed to suspend payments of the executive services fees (management contract fees) and directors' fees. The unpaid fees are being accrued. The balance of outstanding liabilities to Rheingold, Mr. Karpinski and his related entities at period end for loans to the parent entity and unpaid fees is \$348,079 (2016: \$672,730) at an average interest rate of 12.85%. The loans and unpaid fees are not payable prior to 30 September 2018. These loans and debt become payable immediately on change of control of Korab. Mr. Karpinski has not received any directors' fees from Korab or its subsidiaries since the formation of Korab in March 1998. During the reporting period accrued directors' fees and Rheingold management contract fees were converted to loans and some of the prior year loans were repaid by Korab. \$270,460 of the Rheingold loans were set off against subscription funds due from Rheingold under the Underwriting Agreement for the Rights Issue Offer announced to the ASX on 7 April 2017.

DIRECTORS' REPORT

The balance of outstanding liabilities to directors, excluding Mr. Karpinski and their related entities at period end for loans to the parent entity and unpaid fees is \$549,367 (2016: \$326,153) at an average interest rate of 12.00%. The loans and unpaid fees are not payable prior to 30 September 2018.

Mr Andrej Karpinski is a director and significant shareholder of Polymetallica Minerals Limited (formerly Uranium Australia Ltd). The balance of outstanding receivables from Polymetallica Minerals Limited at period end is \$987,603 (2016: \$922,734) at an interest rate of 8.5%. The receivable is not payable prior to 30 September 2018.

Share options

The movement during the reporting period in the number of options in Korab Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2017

| <i>Director</i> | Held at 1/7/16 | Issued / (expired) | Held at 30/6/17 |
|------------------------|-----------------------|---------------------------|------------------------|
| Andrej Karpinski | - | - | - |
| Rodney Skeet | - | - | - |
| Daniel Smetana | - | - | - |
| Anthony Wills | - | - | - |

Shares

The movement during the reporting period in the number of ordinary shares in Korab Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2017

| <i>Director</i> | Held at 1/7/16 | Net acquired | Held at 30/6/17 |
|------------------------|-----------------------|---------------------|------------------------|
| Andrej Karpinski | 41,079,693 | 18,655,046 | 59,734,739 |
| Rodney Skeet | 487,918 | 81,230 | 569,238 |
| Daniel Smetana | 815,491 | 135,916 | 951,407 |
| Anthony Wills | - | - | - |

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year the Company paid a premium to insure the directors and officers of the Company and its controlled entities. The liabilities insured are damages and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the entity.

This report is signed in accordance with a resolution of the directors.



Andrej K Karpinski, FAICD, F Fin, (Executive Chairman)
Perth, Western Australia,
29 September 2017

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Korab Resources Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

HLB Mann Judd

Perth, Western Australia
29 September 2017



M R Ohm
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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Liability limited by a scheme approved under Professional Standards Legislation

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | 30 June 2017 \$ | 30 June 2016 \$ |
|--|-------|--------------------|--------------------|
| Interest income | | 81,018 | 75,628 |
| Other income | | 43,360 | - |
| Finance expense | | (193,553) | (167,978) |
| Depreciation and amortisation | | (2,785) | (17,860) |
| Corporate compliance and management | | (746,759) | (691,599) |
| Foreign exchange gain | | 2,563 | 2,471 |
| Occupancy costs | | (49,608) | (37,409) |
| Conference, travel and public relations | | (21,926) | (12,842) |
| Impairment expense | 7 | - | (476,633) |
| Fees capitalised | | 280,640 | 218,960 |
| Other | | 4,915 | - |
| (Loss) before income tax | | (602,135) | (1,107,262) |
| Income tax benefit | | - | - |
| (Loss) for the year | | (602,135) | (1,107,262) |
| Other comprehensive income for the year net of income tax | | | |
| <i>Items that may be classified to profit or loss</i> | | | |
| Exchange difference on translation of foreign operations | | 287 | 419 |
| Total comprehensive loss for the year | | (601,848) | (1,106,843) |
| Basic and diluted loss per share (cents per share) | 5 | (0.26) | (0.56) |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes to the financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

| | Notes | 30 June 2017 \$ | 30 June 2016 \$ |
|---|-------|--------------------|--------------------|
| Current assets | | | |
| Cash and cash equivalents | | 299,047 | 45,125 |
| Trade and other receivables | 6 | 49,908 | 38,543 |
| Total current assets | | <u>348,955</u> | <u>83,668</u> |
| Non-current assets | | | |
| Trade and other receivables | 6 | 987,603 | 922,734 |
| Exploration and evaluation | 7 | 2,244,703 | 1,846,461 |
| Property, plant and equipment | 8 | - | 2,785 |
| Total non-current assets | | <u>3,232,306</u> | <u>2,771,980</u> |
| Total assets | | <u>3,581,261</u> | <u>2,855,648</u> |
| Current liabilities | | | |
| Trade and other payables | 9 | 324,519 | 359,228 |
| Loans and other borrowings | 10 | 159,077 | 272,163 |
| Total current liabilities | | <u>483,596</u> | <u>631,391</u> |
| Non-current liabilities | | | |
| Trade and other payables | 9 | - | 42,067 |
| Loans and borrowings | 10 | 1,123,076 | 1,223,217 |
| Total non-current liabilities | | <u>1,123,076</u> | <u>1,265,284</u> |
| Total liabilities | | <u>1,606,672</u> | <u>1,896,675</u> |
| Net assets | | <u>1,974,589</u> | <u>958,973</u> |
| Equity | | | |
| Contributed equity | 14 | 18,270,959 | 16,653,495 |
| Foreign currency translation reserve | 14 | (997,078) | (997,365) |
| Option reserve | 14 | 4,000 | 4,000 |
| Non-controlling interest contribution reserve | 14 | (1,036,227) | (1,036,227) |
| Accumulated losses | 14 | (14,267,065) | (13,664,930) |
| Total equity | | <u>1,974,589</u> | <u>958,973</u> |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes to the financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017**

| | Notes | 30 June 2017 \$ | 30 June 2016 \$ |
|---|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Payments to suppliers and employees | | (330,872) | (445,725) |
| Interest received | | 1,580 | 1,696 |
| Interest paid | | (40,288) | (75,767) |
| Net cash flows (used in) operating activities | 13 | <u>(369,580)</u> | <u>(519,796)</u> |
| Cash flows from investing activities | | | |
| Exploration and evaluation expenditure | | (95,150) | (249,835) |
| Payments for property, plant and equipment | | - | (100) |
| Proceeds from sale of property, plant and equipment | | - | - |
| Net cash flows (used in) investing activities | | <u>(95,150)</u> | <u>(249,935)</u> |
| Cash flows from financing activities | | | |
| Cash received from issue of ordinary shares | 14(a) | 886,004 | 696,000 |
| Proceeds from borrowings | | 766,581 | 584,280 |
| Cash used for repayments of borrowings | | (933,933) | (688,038) |
| Net cash flows provided by financing activities | | <u>718,652</u> | <u>592,242</u> |
| Net increase / (decrease) in cash and cash equivalents | | 253,922 | (177,489) |
| Cash and cash equivalents at the beginning of the financial year | | <u>45,125</u> | <u>222,614</u> |
| Cash and cash equivalents at the end of the financial year | 13 | <u>299,047</u> | <u>45,125</u> |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes to the financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017**

| | Contributed equity \$ | Option Reserve \$ | Accumulated losses \$ | Non- controlling interest contribution reserve \$ | Foreign currency translation reserve \$ | Total \$ |
|--|--------------------------------------|----------------------------------|--------------------------------------|--|--|---------------------|
| Balance at 30 June 2015 | 15,671,122 | 4,000 | (12,557,668) | (1,036,227) | (997,784) | 1,083,443 |
| Exchange difference arising on translation of foreign operations | - | - | - | - | 419 | 419 |
| Loss for the year | - | - | (1,107,262) | - | - | (1,107,262) |
| Total comprehensive loss for the year | - | - | (1,107,262) | - | 419 | (1,106,843) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Cash received as subscription monies due for shares | 696,000 | - | - | - | - | 696,000 |
| Debt set-off against subscription monies due for shares | 168,937 | - | - | - | - | 168,937 |
| Share based payments | 117,436 | - | - | - | - | 117,436 |
| Balance at 30 June 2016 | 16,653,495 | 4,000 | (13,664,930) | (1,036,227) | (997,365) | 958,973 |
| Exchange difference arising on translation of foreign operations | - | - | - | - | 287 | 287 |
| Loss for the year | - | - | (602,135) | - | - | (602,135) |
| Total comprehensive loss for the year | - | - | (602,135) | - | 287 | (601,848) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Cash received as subscription monies due for shares | 886,004 | - | - | - | - | 886,004 |
| Debt set-off against subscription monies due for shares | 741,460 | - | - | - | - | 741,460 |
| Share issue costs | (10,000) | - | - | - | - | (10,000) |
| Balance at 30 June 2017 | 18,270,959 | 4,000 | (14,267,065) | (1,036,227) | (997,078) | 1,974,589 |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Korab Resources Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Accounting Interpretations), as adopted by the Australian Accounting Standards Board ("AASB"), other authoritative pronouncements of the AASB and the Corporations Act 2001. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Korab Resources Limited complies with International Financial Reporting Standards as issued by the International Accounting Standards Board. Comparative information is reclassified where appropriate to enhance comparability.

The functional and presentation currency of the Company is Australian dollars. The financial report was authorised for issue by the directors on 29 September 2017. Korab Resources Limited is a company limited by shares, incorporated and domiciled in Australia.

Basis of measurement

The financial report is prepared on a historical cost basis as modified by the revaluation of financial assets and liabilities at fair value through profit and loss.

Going concern

The financial report has been prepared on the basis of accounting principles applicable to a going concern, which assumes the commercial realisation of the future potential of the Group's assets and the discharge of its liabilities in the normal course of business. At balance date, the Group had an excess of current liabilities over current assets of \$134,641 and had a net cash outflow from operations for the year ended 30 June 2017 of \$369,580, and investing activities of \$95,150. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The Company believes it will need to seek additional funding in the coming year in order to meet its operating expenditure and planned exploration expenditure for the next twelve months from the date of signing these financial statements. The directors are confident of being able to obtain additional funding through increase in debt, raising of additional share capital, or sale of assets. Should this not occur, or not occur on a sufficiently timely basis, there is a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Use of estimates and judgements

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements, are as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

(i) Exploration and evaluation assets

Exploration and evaluation expenditure is accumulated in respect of each identifiable area of interest. These costs are carried forward in respect of an area that has not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in or relating to, the area of interest are continuing.

(ii) Functional currency

Companies in the consolidated entity have to determine their functional currencies based on the primary economic environment in which each entity operates. In order to do that management has to analyse several factors, including which currency mainly influences sales prices of product sold by the entity, which currency influences the main expenses of providing services, in which currency the entity has received financing, and in which currency it keeps its receipts from operating activities.

(iii) Taxation

A subsidiary, Donetsk Kryazh LLC, operates mainly in the Ukraine and is within that country's tax jurisdiction. The Ukrainian tax system is characterised by numerous taxes and laws that change frequently, can contradict each other, and can be interpreted in various ways. Judgement is required in the determination of the Company's tax provisions, however the directors believe that these have been calculated based on the best information available.

(iv) Recoverability of loan to Polymetallica Minerals Limited

Korab has been advised by Polymetallica that it is in the process of selling assets and arranging of a debt funding from third parties to raise funds to repay the loans made by Korab.

(b) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial statements of the Company and its controlled entities. A controlled entity is any entity controlled by the Company whereby the parent entity has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Where a subsidiary enters or leaves the consolidated entity during the year, its operating results are included or excluded from the date control was obtained or until the date control ceased. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those applied by the parent entity.

(c) Recoverable amount of assets and impairment testing

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment by estimating their recoverable amount.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where such an indicator exists, a formal assessment of recoverable amount is then made. Where this is less than carrying amount, the asset is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects the current market assessments of the time value of money and the risks specific to the asset. Any resulting impairment loss is recognised immediately in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

(d) Receivables

Trade and other receivables are stated at fair value and subsequently measured at amortised cost, less impairment losses.

(e) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired.

The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the consolidated entity. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the consolidated entity recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the consolidated entity's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the statement of comprehensive income.

(f) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the consolidated entity's rights of tenure to the area are current and that the costs are expected to be recouped through the successful development of the area or by its sale, or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Each area of interest is assessed for impairment to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Impairment testing is carried out in accordance with Note 1(d).

Accumulated costs in relation to an abandoned area are written off in full against profit or loss in the year in which the decision to abandon the area is made. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mine development properties.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

(g) Taxes

The charge for current income tax expense is based on the result for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by balance date.

Deferred tax is accounted for using the statements of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in the statement of comprehensive income except where it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred income tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is expected to be obtained.

Tax consolidation

The Company and its wholly-owned Australian resident controlled entities have formed a tax-consolidated entity and are therefore taxed a single entity. Korab Resources Limited is the head entity of the tax-consolidated entity. In future periods the members of the consolidated entity will, if required, enter into a tax sharing agreement whereby each company in the consolidated entity contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated entity.

(h) Trade and other payables

Trade and other payables are stated at amortised cost. The amounts are unsecured and usually paid within 45 days of recognition.

(i) Earnings per share

The consolidated entity presents basic and diluted earnings per share ("EPS") for its ordinary shares. Basic EPS is calculated by dividing the result attributable to equity holders of the Company by the weighted number of shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potential ordinary shares, which comprise share options granted.

(j) Share based payments

The fair value of shares and share options granted as compensation is recognised as an expense with a corresponding increase in equity. Fair value is measured at grant date and recognised over the period during which the grantees become unconditionally entitled to the shares or share options. The fair value of share grants at grant date is determined by the share price at that time. The fair value of share options at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, any vesting and performance criteria, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

Upon the exercise of the option, the balance of the share-based payments reserve relating to the option is transferred to contributed equity.

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Employee benefits

Provision is made for the consolidated entity's liability for employee benefits and termination indemnities arising from services rendered by employees to balance date.

(i) Short-term benefits

Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

(ii) Long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period.

(m) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to an equity transaction are shown as a deduction from equity, net of any recognised income tax benefit.

(n) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(o) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

(p) Foreign currency

Functional and presentation currency

The functional currency of each of the consolidated entity's entities is measured using the currency of the primary economic environment in which that entity operates (the "functional" currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

rate at balance date. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

Exchange differences arising on the translation of monetary items are recognised in the profit and loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Foreign operations

The financial performance and position of foreign operations whose functional currency is different from the consolidated entity's presentation currency are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at statement of financial position date.
- income and expenses are translated at transaction date or average exchange rates for the period, whichever is more appropriate.

Exchange differences arising on translation of foreign operations are transferred directly to the consolidated entity's foreign currency translation reserve as a separate component of equity. These differences are recognised in the statement of comprehensive income upon disposal of the foreign operation.

(q) Revenue recognition

Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest

Revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(r) Borrowing costs

Interest expenses comprise interest expense on borrowings and the unwinding of the discount on provisions.

(s) Property, plant and equipment

Recognition and measurement

All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an item also includes the initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss during the financial year in which they are incurred.

Impairment

The carrying amount of property, plant and equipment is reviewed whenever there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part. Impairment testing is carried out in accordance with Note 1(d).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

Where an asset does not generate cash flows that are largely independent it is assigned to a cash generating unit and the recoverable amount test applied to the cash generating unit as a whole.

If the carrying value of the asset is determined to be in excess of its recoverable amount, the asset or cash generating unit is written down to its recoverable amount.

Depreciation and impairment

Depreciation on plant and equipment is calculated on a straight line basis over expected useful life to the economic entity commencing from the time the asset is held ready for use. The following useful lives are used in the calculation of depreciation:

| | |
|----------------------|--------------|
| Plant and equipment: | 2 to 5 years |
| Motor vehicles: | 10 years |

Assets held under a finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least annually.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

(t) Parent entity financial information

The financial information for the parent entity, Korab Resources Limited, disclosed in Note 21 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Korab Resources Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(u) Investments and other financial assets

The consolidated entity determines the classification of its financial instruments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Fair value is the measurement basis, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost. Fair value is inclusive of transaction costs except for financial assets and liabilities at fair value through profit and loss. Changes in fair value are either taken to the profit and loss or to an equity reserve (refer below). Fair value is determined based on current bid prices for all quoted investments. If there is not an active market for a financial asset fair value is measured using established valuation techniques.

The consolidated entity assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets are impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists the cumulative loss is removed from equity and recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

(i) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the profit and loss in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less any impairment losses. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

(iii) Held-to-maturity investments

These investments have fixed maturities, and it is the consolidated entity's intention to hold these investments to maturity. Held-to-maturity investments are stated at amortised cost using the effective interest rate method.

(iv) Available-for-sale financial assets

Available for sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not included in any of the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity in an available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities.

(v) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases which transfer to a lessee substantially all the risks and benefits incidental to ownership of the leased asset are classified as finance leases. Other lease agreements are treated as operating leases.

Finance leases are capitalised at the inception of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income except for borrowing costs related to the financing of assets constructed for own use (during the construction period). Capitalised leased assets used in mining operations are expensed on a unit of production basis so as to write off the costs in proportion to the depletion of the estimated recoverable reserves or over the life of the lease.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(w) Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

Site restoration

Provisions for the cost of site restoration are recognised at the time that an environmental disturbance occurs or a constructive obligation is determined. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances as at the reporting date. Estimated costs included in the determination of the provision reflect the risks and probabilities of alternative estimates of cash flows required to settle the obligation. The expected rehabilitation costs are estimated based on the cost of external contractors performing the work or the cost of performing the work internally depending on management's intention.

The timing of the actual rehabilitation expenditure is dependent upon a number of factors including the currently approved life of the mine and changes in local environmental regulations. Expenditures may occur before and after closure and can continue for an extended period of time depending on rehabilitation requirements. The expected future cash flows exclude the effect of inflation. The unwinding of the discount is included in finance costs and results in an increase in the amount of the provision.

The provision is updated each year for the effect of a change in the discount rate and exchange rate, when applicable, and the change in estimate is added or deducted from the related asset and depreciated prospectively over the asset's useful life.

Significant judgments and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements or, if more stringent, our environmental policies which give rise to a constructive obligation. When expected cash flows change, the revised cash flows are discounted using the current US dollar real risk-free pre-tax discount rate and an adjustment is made to the provision.

When a provision for site restoration is initially recognized, the corresponding cost is capitalized as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and rehabilitation activities is recognized in property, plant and equipment and depreciated over the expected economic life of the operation to which it relates.

(x) Contingencies

Contingent liabilities are defined as:

- possible obligations resulting from past events whose existence depends on future events;
- obligations that are not recognised because it is not probable that they will lead to an outflow of resources;
- obligations that cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the statement of financial position, but are disclosed in the notes to the financial statements, with the exception of contingent liabilities where the probability of the liability occurring is remote.

(y) Financial liabilities

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through the profit or loss, borrowings, or as derivatives as hedging instruments in an effective hedge, as appropriate. The consolidated entity determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of borrowings, less directly attributable transaction costs. The subsequent measurement of financial liabilities depend on their classification. Financial liabilities at fair value through the profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the consolidated entity that are not designated as hedging instruments in hedge relationships as defined by AASB 139. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include recent arm's length market transactions, references to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, or other valuation models.

(z) New accounting standards and interpretations

In the year ended 30 June 2017 the directors have reviewed all of the new and revised accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2016. It has been determined by the directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group and, therefore, no change is necessary to Group accounting policies. The directors have also reviewed all new Standards and Interpretations that have been issued, but are not yet effective, for the year ended 30 June 2017. As a result of this review the directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group and, therefore, no change is necessary to Group accounting policies.

2. SEGMENT REPORTING

The consolidated entity has adopted AASB 8 *Operating Segments* which requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance. The Executive Chairman of Korab reviews internal reports prepared such as consolidated financial statements, and strategic decisions of the consolidated entity are determined upon analysis of these internal reports. During the year the consolidated entity operated predominantly in one business segment, being the minerals exploration sector. Accordingly, under the "management approach" outlined only one operating segment has been identified and no further disclosure is required in the notes to the consolidated financial statements.

The geographic location of non-current assets and revenue is set out in the table below:

| | 2017 | 2016 |
|--------------------------------|-------------|-------------|
| | \$ | \$ |
| Australia – non-current assets | 3,232,306 | 2,771,980 |
| Australia – interest revenue | 81,018 | 75,628 |

3. INCOME TAX EXPENSE

Numerical reconciliation of income tax expense to prima facie tax expense:

| | | |
|---|-----------|-------------|
| Loss before income tax expense | (602,135) | (1,107,262) |
| Prima facie income tax benefit on pre-tax loss at the Australian income tax rate of 27.5% (2016: 28.5%) | (165,587) | (315,570) |
| Tax effect of: | | |
| Current year tax benefit not brought to account | 165,587 | 315,570 |
| Income tax expense | - | - |

The consolidated entity has a deferred tax asset in respect of income tax losses. This asset has not been brought to account in the Statement of Financial Position as realisation is not considered probable.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

4. AUDITORS' REMUNERATION

Audit and review services:

| | | |
|--|---------------|---------------|
| Auditors of the Company: HLB Mann Judd | 50,000 | 50,000 |
| Auditors of a subsidiary company | - | - |
| | <u>50,000</u> | <u>50,000</u> |

5. BASIC EARNINGS PER SHARE

| | 2017 | 2016 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| Loss from operations attributable to ordinary equity holders of Korab used to calculate basic and diluted earnings per share | <u>(602,135)</u> | <u>(1,107,262)</u> |
| <i>Weighted average number of shares</i> | Number of shares | Number of shares |
| 1 July | 208,072,358 | 178,623,725 |
| Shares issued | 20,205,589 | 18,790,769 |
| 30 June (basic and diluted) | <u>228,277,947</u> | <u>197,414,494</u> |

All potential ordinary shares, being options to acquire ordinary shares, are not considered dilutive in the calculation of earnings per share as the exercise of the options would not increase the loss per share.

6. TRADE AND OTHER RECEIVABLES

| | 2017 | 2016 |
|--|----------------|----------------|
| | \$ | \$ |
| <i>Current</i> | | |
| Other receivables and prepayments: third parties | <u>49,908</u> | <u>38,543</u> |
| | <u>49,908</u> | <u>38,543</u> |
| <i>Non-current</i> | | |
| Other receivables and prepayments: third parties | <u>987,603</u> | <u>922,734</u> |
| | <u>987,603</u> | <u>922,734</u> |

The non-current third party loan is an unsecured receivable from Polymetallica Minerals Limited (formerly Uranium Australia Ltd), a company in which Mr Andrej Karpinski is Executive Chairman and a significant shareholder. The loan has an interest rate of 8.5% and is not payable prior to 30 September 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

7. EXPLORATION AND EVALUATION

| | 2017 | 2016 |
|---|------------------|------------------|
| | \$ | \$ |
| <i>Areas of interest in the exploration and evaluation phase:</i> | | |
| Cost at beginning of the year | 1,846,461 | 1,854,299 |
| Capitalised contractor fees | 280,640 | 218,960 |
| Other expenditure capitalised during the period | 117,602 | 249,835 |
| Cost at end of the year | 2,244,703 | 2,323,094 |
| Impairment expense | - | (476,633) |
| Carrying amount at the end of the year | <u>2,244,703</u> | <u>1,846,461</u> |

In the prior period an impairment expense of \$476,633 was charged in respect of exploration expenditure incurred by a wholly owned subsidiary, Australian Copper Pty Ltd ("AC"). On 3 November 2015 the Company announced an agreement with an unrelated party whereby that party would take a 75% equity interest in Australian Copper Holdings Pty Ltd ("ACH"), a wholly owned subsidiary of AC, subject to investing a total of \$500,000 in equity in ACH. The unrelated party paid \$50,000 in respect of these partly paid shares but has failed to meet further payments and has therefore forfeited its equity interest. The impairment expense of \$476,633 reflects the writedown in AC's exploration assets to a value that represents AC's remaining 25% ownership of ACH.

The Directors are of the opinion that whilst the tenure of the Bobrikovo project and related operations are not affected by the current political developments in Ukraine, the uncertainty as to the future direction of the developments there makes it prudent to be conservative. The exploration and evaluation expenditure attributable to the Bobrikovo project has been written-off at consolidation level in earlier reporting period to reflect this conservative approach.

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

8. PROPERTY, PLANT AND EQUIPMENT

| | 2017 | 2016 |
|--|----------------|----------------|
| | \$ | \$ |
| <i>Cost: Plant and equipment</i> | | |
| Balance at beginning of financial year | 179,319 | 179,219 |
| Additions | - | 100 |
| Balance at end of financial year | <u>179,319</u> | <u>179,319</u> |
| <i>Accumulated depreciation: Plant and equipment</i> | | |
| Balance at beginning of financial year | 176,534 | 170,375 |
| Depreciation charge for year | 2,785 | 6,159 |
| Balance at end of financial year | <u>179,319</u> | <u>176,534</u> |
| Carrying amount at the end of the financial year | <u>-</u> | <u>2,785</u> |
| <i>Cost: Motor vehicles</i> | | |
| Balance at beginning of financial year | 77,000 | 77,000 |
| Balance at end of financial year | <u>77,000</u> | <u>77,000</u> |
| <i>Accumulated depreciation: Motor vehicles</i> | | |
| Balance at beginning of financial year | 77,000 | 77,000 |
| Depreciation charge for year | - | - |
| Balance at end of financial year | <u>77,000</u> | <u>77,000</u> |
| Carrying amount at the end of the financial year | <u>-</u> | <u>-</u> |
| Total carrying amount at the end of the financial year | <u>-</u> | <u>2,785</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

9. TRADE AND OTHER PAYABLES

| | 2017 | 2016 |
|---|----------------|----------------|
| | \$ | \$ |
| <i>Current</i> | | |
| Trade payables and accrued expenses (i) | 310,542 | 359,228 |
| Trade payables - related parties | 13,977 | - |
| | <u>324,519</u> | <u>359,228</u> |
| <i>Non-current</i> | | |
| Trade payables - related parties | - | 42,067 |
| | <u>-</u> | <u>42,067</u> |

(i) Trade payables are non-interest bearing and are normally settled within 45 days.

10. LOANS AND BORROWINGS

| | 2017 | 2016 |
|---|------------------|------------------|
| | \$ | \$ |
| <i>Current</i> | | |
| Loans payable - related parties – unsecured (i) | 159,077 | 189,663 |
| Loans payable - third parties – unsecured (ii) | - | 82,500 |
| | <u>159,077</u> | <u>272,163</u> |
| <i>Non-current</i> | | |
| Loans payable - related parties – unsecured (i) | 820,123 | 883,433 |
| Loans payable - third parties – unsecured (ii) | 302,953 | 339,784 |
| | <u>1,123,076</u> | <u>1,223,217</u> |

Loans and borrowings comprise accrued fees converted to loans and cash loans provided to Korab by Andrej Karpinski and his related parties.

- (i) The terms and conditions of related party loans and borrowings are set out Notes 16 and 17, Related Party Transactions and Key Management Personnel Disclosures respectively.
- (ii) The third party loans and borrowings are on arms-length terms and conditions.

11. SUBSEQUENT EVENTS

No other matter or circumstance has arisen since 30 June 2017 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs.

12. SUBSIDIARIES

| | Country of incorporation | Class of shares | Equity holding | |
|--------------------------------------|-------------------------------------|----------------------------|-----------------------|-------------|
| | | | 2017 | 2016 |
| Held by parent | | | | |
| Lugansk Gold Limited | Australia | Ordinary | 100% | 100% |
| Geolsec Phosphate Operations Pty Ltd | Australia | Ordinary | 100% | 100% |
| Melrose Gold Mines Limited | Australia | Ordinary | 100% | 100% |
| Australian Copper Limited | Australia | Ordinary | 100% | 100% |
| Held by Lugansk Gold Limited | | | | |
| LLC "Donetsky Kryazh" | Ukraine | Ordinary | 100% | 100% |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

13. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES

| | 2017 | 2016 |
|--|------------------|------------------|
| | \$ | \$ |
| (a) Reconciliation of (loss) after income tax to net cash flow from operating activities | | |
| (Loss) for the year | (602,135) | (1,107,262) |
| <i>Non-cash items</i> | | |
| Depreciation and amortisation | 2,785 | 17,860 |
| Capitalised contactor fees | (280,640) | (218,960) |
| Management fees set off against loans | 544,884 | - |
| Impairment expense | - | 476,633 |
| Interest expense | 153,265 | - |
| <i>Change in assets and liabilities</i> | | |
| - (Increase) in trade and other receivables | (76,232) | (53,960) |
| - (Decrease) / increase in trade and other payables | (111,507) | 365,893 |
| Net cash outflow from operating activities | <u>(369,580)</u> | <u>(519,796)</u> |
| <i>(b) Cash and cash equivalents</i> | | |
| Cash at bank and at call | <u>299,047</u> | <u>45,125</u> |

(c) Risk exposure

The consolidated entity's exposure to interest rate risk is discussed in Note 16. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

14. CAPITAL AND RESERVES

(a) Contributed equity:

| | 2017 | 2017 | 2016 | 2016 |
|---|--------------------|-------------------|--------------------|-------------------|
| | Number | \$ | Number | \$ |
| <i>Movements in ordinary shares on issue</i> | | | | |
| 1 July | 208,072,358 | 16,653,495 | 178,623,725 | 15,671,122 |
| Issue of shares for cash | 41,116,702 | 886,004 | 20,988,889 | 696,000 |
| Share issue costs | - | (10,000) | - | - |
| Issue of shares in extinguishment of borrowings | 39,024,210 | 741,460 | 6,411,151 | 168,937 |
| Issue of shares in payment of professional services | - | - | 2,048,593 | 117,436 |
| 30 June | <u>288,213,270</u> | <u>18,270,959</u> | <u>208,072,358</u> | <u>16,653,495</u> |

Ordinary shares have the right to one vote per share at meetings of the Company, to receive dividends as declared and, in the event of a winding-up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of, and amounts paid up on, shares held.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

14. CAPITAL AND RESERVES (continued)

(b) Accumulated losses

| | 2017 | 2016 |
|---------------------|---------------------|---------------------|
| | \$ | \$ |
| 1 July | (13,664,930) | (12,557,668) |
| Loss for the period | (602,135) | (1,107,262) |
| 30 June | <u>(14,267,065)</u> | <u>(13,664,930)</u> |

(c) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

| | | |
|---|------------------|------------------|
| 1 July | (997,365) | (997,784) |
| Foreign exchange on translation of foreign operations | 287 | 419 |
| 30 June | <u>(997,078)</u> | <u>(997,365)</u> |

(d) Option reserve

The option reserve is used to record the value of equity benefits provided to employees, directors and other parties for goods and services provided and for proceeds received on the issue of options.

| | | |
|---------|--------------|--------------|
| 1 July | 4,000 | 4,000 |
| 30 June | <u>4,000</u> | <u>4,000</u> |

The weighted average remaining contractual life of options outstanding at year-end was 5 months. There was no movement in Company options during the reporting period:

| | Number | Weighted Average Exercise Price |
|--|------------------|--|
| Options outstanding as at 1 July 2016 and 30 June 2017 | <u>4,000,000</u> | <u>\$0.10</u> |

(d) Non-controlling interest contribution reserve

The non-controlling interest contribution reserve represents the net proceeds from / expenditure on the sale of / acquisition of minority interests, net of the share of net assets disposed / acquired.

| | 2017 | 2016 |
|---------|--------------------|--------------------|
| | \$ | \$ |
| 1 July | (1,036,227) | (1,036,227) |
| 30 June | <u>(1,036,227)</u> | <u>(1,036,227)</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

15. FINANCIAL RISK MANAGEMENT

General objectives, policies and processes

The consolidated entity's activities expose it to credit risk, market risk (including interest rate risk, price risk and currency risk), liquidity risk, and commodity price risk. This note presents qualitative and quantitative information about the consolidated entity's exposure to each of the above risks, their objectives, policies and procedures for managing risk, and the management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The consolidated entity's overall risk management approach focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the financial performance of the consolidated entity. The consolidated entity does not currently use derivative financial instruments to hedge financial risk exposures and therefore it is exposed to daily movements in commodity prices, interest rates and exchange rates. The consolidated entity uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates and ageing analysis for credit risk.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Given the stage of the consolidated entity's development there are no formal targets set for return on capital. There were no changes to the consolidated entity's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the consolidated entity. The consolidated entity has no significant concentration of credit risk. Exposure to credit risk is considered minimal but is monitored on an ongoing basis.

Cash transactions are limited to financial institutions considered to have a suitable credit rating. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position at balance date. The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure.

The consolidated entity's maximum exposure to credit risk at the reporting date was:

| | 2017 | 2016 |
|-----------------------------|------------------|------------------|
| | \$ | \$ |
| <i>Carrying amount:</i> | | |
| Cash and cash equivalents | 299,047 | 45,125 |
| Trade and other receivables | 1,037,511 | 961,277 |
| | <u>1,336,558</u> | <u>1,006,402</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

15. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk

(i) Interest rate risk

The significance and management of the risks to the consolidated entity is dependent on a number of factors including (i) interest rates (current and forward) and the currencies that are held; (ii) level of cash and liquid investments; (iii) maturity dates of investments; and (iv) proportion of investments that are fixed rate or floating rate.

The risk is managed by the consolidated entity maintaining an appropriate mix between fixed and floating rate investments. All cash assets are held in Australian dollars.

The consolidated entity's exposure to interest rate risk is considered minimal. The effective interest rates of variable rate income-earning financial assets at the reporting date are as follows.

| | Variable rate instruments at call 2017 (\$) | Weighted average effective interest rate 2017 | Variable rate instruments at call 2016 (\$) | Weighted average effective interest rate 2016 |
|------------------------------|--|--|--|--|
| <i>Financial assets</i> | | | | |
| Cash and cash equivalents | 299,047 | 1.8% | 45,125 | 2.4% |

At the reporting date the carrying amount of the consolidated entity's interest bearing financial assets was:

| | 2017 (\$) | 2016 (\$) |
|----------------------------------|------------------|------------------|
| <i>Variable rate instruments</i> | | |
| Financial assets | 299,047 | 45,125 |

Sensitivity analysis

A 100 basis points increase or decrease in the weighted average year-end interest rate of variable rate instruments would have increased / (decreased) consolidated profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2015:

| | Profit and loss (\$) |
|-----------------------|-----------------------------|
| 30 June 2017 increase | 29,905 |
| 30 June 2017 decrease | (29,905) |
| 30 June 2016 increase | 451 |
| 30 June 2016 decrease | (451) |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

15. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Price risk

The consolidated entity was not exposed to equity securities price risk at 30 June 2017 or 30 June 2016.

(iii) Currency risk

The Company is exposed to currency risk on costs which are quoted in currencies (Ukrainian Hryvnias) other than the functional currency of the Company, being the A\$. The consolidated entity does not hedge this risk, however it continues to monitor the exchange rate so that this currency exposure is maintained at an acceptable level. The major exchange rates relevant to the consolidated entity were as follows:

| | Year ended 30 June 2017 | As at 30 June 2017 | Year ended 30 June 2016 | As at 30 June 2016 |
|----------------|------------------------------------|-------------------------------|------------------------------------|-------------------------------|
| A\$ / US\$ | 0.754 | 0.766 | 0.729 | 0.743 |
| A\$ / Hryvnias | 19.74 | 19.87 | 17.14 | 18.27 |

The consolidated entity's exposure to foreign exchange risk at statement of financial position date was as follows, based on carrying amounts in A\$:

| 2017 | A\$ | Ukrainian Hryvnias | Total |
|-----------------------------|------------------|-------------------------------|------------------|
| Cash and cash equivalents | 299,047 | - | 299,047 |
| Trade and other receivables | 1,037,511 | - | 1,037,511 |
| Loans and borrowings | (1,282,153) | - | (1,282,153) |
| Trade and other payables | (324,519) | - | (324,519) |
| | <u>(270,114)</u> | <u>-</u> | <u>(270,114)</u> |

| 2016 | A\$ | Ukrainian Hryvnias | Total |
|-----------------------------|------------------|-------------------------------|------------------|
| Cash and cash equivalents | 45,125 | - | 45,125 |
| Trade and other receivables | 961,277 | - | 961,277 |
| Loans and borrowings | (1,495,380) | - | (1,495,380) |
| Trade and other payables | (396,093) | (5,202) | (401,295) |
| | <u>(885,071)</u> | <u>(5,202)</u> | <u>(890,273)</u> |

Sensitivity

The consolidated entity had no material exposure from changes in foreign currency exchange rates at 30 June 2017 or 30 June 2016.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

15. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as and when they fall due. The consolidated entity's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under a range of financial conditions. The following are the contractual maturities of consolidated non-derivative financial liabilities:

| | Carrying amount (\$) | Contractual cashflows (\$) | 6 months or less (\$) | 1 to 5 years (\$) |
|--------------------------|-----------------------------|-----------------------------------|------------------------------|--------------------------|
| 2017 | | | | |
| Trade and other payables | 324,519 | 324,519 | 324,519 | - |
| Loans and borrowings | 1,282,153 | 1,282,153 | 159,077 | 1,123,076 |
| | <u>1,606,672</u> | <u>1,606,672</u> | <u>483,596</u> | <u>1,123,076</u> |
| 2016 | | | | |
| Trade and other payables | 401,295 | 401,295 | 359,228 | 42,067 |
| Loans and borrowings | 1,495,380 | 1,495,380 | 272,163 | 1,223,217 |
| | <u>1,896,675</u> | <u>1,896,675</u> | <u>631,391</u> | <u>1,265,284</u> |

(d) Commodity price risk

The consolidated entity is not exposed to commodity price risk at 30 June 2016 or 30 June 2015.

(e) Fair values

The fair values of consolidated financial assets and financial liabilities, together with their carrying amounts shown in the statement of financial position, are as follows:

| <i>Consolidated</i> | Carrying amount 2017 (\$) | Fair value 2017 (\$) | Carrying amount 2016 (\$) | Fair value 2016 (\$) |
|-----------------------------|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
| Cash and cash equivalents | 299,047 | 299,047 | 45,125 | 45,125 |
| Trade and other receivables | 1,037,511 | 1,037,511 | 961,277 | 961,277 |
| Loans and borrowings | (1,282,153) | (1,282,153) | (1,495,380) | (1,495,380) |
| Trade and other payables | (324,519) | (324,519) | (401,295) | (401,295) |
| | <u>(270,114)</u> | <u>(270,114)</u> | <u>(890,273)</u> | <u>(890,273)</u> |

Trade and other receivables / payables carrying amounts are considered to reflect their fair value. The basis for determining fair values is disclosed in Note 1(v).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

16. RELATED PARTY TRANSACTIONS

Korab Resources Limited is the ultimate parent entity. Interests in subsidiaries are disclosed in Note 12 and details of key management personnel compensation is set out in Note 17. The remuneration of key management personnel is set out in the Remuneration Report on page 11. Related party payables are disclosed in Notes 9 and 10. Mr Andrej Karpinski is a director and controlling shareholder of Rheingold Investments Corporation Pty Ltd ("Rheingold"). Management contract fees form part of the remuneration of directors and have been disclosed as such in the directors' report.

| | 2017 \$ | 2016 \$ |
|---|----------------|----------------|
| Fees to Rheingold Investments Corporation Pty Ltd for: | | |
| - Management contract fees | 327,000 | 327,000 |
| Total fees to Rheingold Investments Corporation Pty Ltd | <u>327,000</u> | <u>327,000</u> |

During the prior period the directors and Rheingold agreed to suspend payments of the executive services fees (management contract fees) and directors' fees. The unpaid fees are being accrued. The balance of outstanding liabilities to Rheingold, Mr. Karpinski and his related entities at period end for loans to the parent entity and unpaid fees is \$348,079 (2016: \$672,730) at an average interest rate of 12.85%. The loans and unpaid fees are not payable prior to 30 September 2018. These loans and debt become payable immediately on change of control of Korab. Mr. Karpinski has not received any directors' fees from Korab or its subsidiaries since the formation of Korab in March 1998. During the reporting period accrued directors' fees and Rheingold management contract fees were converted to loans and some of the prior year loans were repaid by Korab. \$270,460 of the Rheingold loans were set off against subscription funds due from Rheingold under the Underwriting Agreement for the Rights Issue Offer announced to the ASX on 7 April 2017.

The balance of outstanding liabilities to Mrs. Karpinski, at period end for loan to the parent entity is 62,775 United States Dollars (AU\$81,876 at the applicable foreign exchange rate) (2016: 55,158 United States Dollars, or \$74,214 at applicable foreign exchange rate) at an interest rate of 12.00%. The loan is not payable prior to 30 September 2018. This loan becomes payable immediately on change of control of Korab.

The balance of outstanding liabilities to directors, excluding Mr. Karpinski, and their related entities at period end for loans to the parent entity and unpaid fees is \$549,367 (2016: \$326,153) at an average interest rate of 12.00%. The loans and unpaid fees are not payable prior to 30 September 2018.

Mr Andrej Karpinski is a director and significant shareholder of Polymetallica Minerals Limited (formerly Uranium Australia Ltd). The balance of outstanding receivables from Polymetallica Minerals Limited at period end is \$987,603 (2016: \$922,734) at an interest rate of 8.5%. The receivable is not payable prior to 30 September 2018.

17. KEY MANAGEMENT PERSONNEL DISCLOSURES

Apart from the details disclosed in this note, no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

(a) Key management personnel compensation

Key management personnel compensation included in corporate compliance and management costs is as follows:

| | 2017 (\$) | 2016 (\$) |
|---------------------|----------------|----------------|
| Short term benefits | 405,000 | 405,000 |
| Post-employment | 4,940 | 4,940 |
| | <u>409,940</u> | <u>409,940</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

17. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Information regarding individual directors and executives compensation is provided in the Remuneration Report as set out on pages 10 to 12. Details of equity instruments held directly, indirectly or beneficially by key management personnel and their related parties are included in the directors' report.

(b) Other key management personnel transactions

Amounts payable to key management personnel at reporting date in respect of outstanding fees, expenses and loans are:

| | 2017 (\$) | 2016 (\$) |
|--------------------------|------------------|------------------|
| <i>Current</i> | | |
| Trade and other payables | 13,977 | - |
| Loans and borrowings | 159,077 | 189,664 |
| <i>Non-current</i> | | |
| Trade and other payables | - | 42,067 |
| Loans and borrowings | 738,247 | 883,433 |

18. COMMITMENTS

Lease commitments

| | 2017 | 2016 |
|--|-------------|--------------|
| | \$ | \$ |
| <i>Non-cancellable operating leases (office lease)</i> | | |
| Within one year | - | 6,100 |
| Later than one year but not later than 5 years | - | - |
| | <u>-</u> | <u>6,100</u> |

The office lease, which commenced on 11 August 2013, has not been extended and now continues on a month-by-month basis.

Mining tenements

| | 2017 | 2016 |
|---|----------------|----------------|
| | \$ | \$ |
| Annual expenditure commitments to maintain current rights to tenure of mining tenements | 469,000 | 110,000 |
| Rehabilitation obligations | - | - |
| | <u>469,000</u> | <u>110,000</u> |

The consolidated entity has obligations to perform minimum exploration work and to meet annual payments in respect of rent and granted tenements. These obligations may be varied from time to time subject to approval and on this basis they are expected to be fulfilled in the normal course of operations. The Company can also meet its expenditure obligations by seeking joint venture partners, or by causing other parties to expend funds on exploration or mining, or by way of sale of all or part of an interest in a tenement, or by allowing tenements to lapse. Expenditure requirements for applications pending approval are not included.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2017

19. CONTINGENT LIABILITIES

Key Management Personnel Contracts

Contingent liabilities arising from key management personnel contracts are set out in the Remuneration Report as set out on pages 10 to 12.

20. PARENT ENTITY INFORMATION

The individual financial statements for the parent entity show the following aggregate amounts:

| | 2017 | 2016 |
|--|------------------|--------------------|
| | \$ | \$ |
| <i>Statement of Financial Position</i> | | |
| Current assets | 285,759 | 47,512 |
| Total assets | 3,441,179 | 2,659,670 |
| Current liabilities | 343,514 | 477,479 |
| Total liabilities | 1,466,590 | 1,700,697 |
| Equity | | |
| Contributed equity | 18,270,959 | 16,653,495 |
| Reserves | 4,000 | 4,000 |
| Accumulated losses | (16,300,370) | (15,698,521) |
| | <u>1,974,589</u> | <u>958,974</u> |
| Loss for the year | <u>(601,849)</u> | <u>(1,106,842)</u> |
| Total comprehensive loss for the year | <u>(601,849)</u> | <u>(1,106,842)</u> |

The parent entity has not provided any financial guarantees in respect of subsidiaries, nor did it have any contingent liabilities as at 30 June 2017 or 30 June 2016.

The Company has obligations to perform minimum exploration work and to meet annual payments in respect of rent and granted tenements. These obligations may be varied from time to time subject to approval and on this basis they are expected to be fulfilled in the normal course of operations. The Company can also meet its expenditure obligations by seeking joint venture partners, or by causing other parties to expend funds on exploration or mining, or by way of sale of all or part of an interest in a tenement, or by allowing tenements to lapse. Expenditure requirements for applications pending approval are not included.

**DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2017**

- (1) In the opinion of the directors of Korab Resources Limited:
- (a) the financial statements and notes set out on pages 14 to 39 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001*.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Signed in accordance with a resolution of the directors.



**Andrej K. Karpinski, FAICD, F Fin
Executive Chairman**

Perth, Western Australia
29 September 2017

INDEPENDENT AUDITOR'S REPORT

To the members of Korab Resources Limited

Report on the Audit of the Financial Report

Qualified opinion

We have audited the financial report of Korab Resources Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for qualified opinion

Included in the company's non-current trade and other receivables as at 30 June 2017 is a loan to Polymetallica Minerals Limited ("Polymetallica") of \$987,603. Polymetallica is a company whose principal asset is expenditure on areas of interest in the exploration and evaluation phase. The directors of Korab Resources Limited have advised us that, in their opinion, the loan is fully recoverable based upon the value of the principal assets held by Polymetallica or the ability of Polymetallica to raise additional capital. We were unable to obtain sufficient appropriate audit evidence regarding the fair value of Polymetallica's areas of interest or ability to raise additional capital, in order to form an opinion as to the recoverability of the loan. Consequently, we are unable to determine whether any impairment of this loan is necessary.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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Material uncertainty regarding going concern

We draw attention to Note 1(a) in the financial report, which indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* paragraph and the *Material Uncertainty Related to Going Concern* paragraph above, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| <p>Classification of loans and borrowings (Refer to Note 10)</p> <p>The operations are typically funded through capital raisings and borrowings from related and external parties.</p> <p>At 30 June 2017, Korab Resources Limited had total of \$1,123,076 in relation to current and non-current borrowings representing 70% of total liabilities.</p> <p>Given the size of the loans and borrowings balance and the importance for continued operations, the accounting for the Group's borrowings is considered a key audit matter.</p> | <p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> - We obtained confirmations from the material funders confirming borrowings, including amounts and interest rates; - Where debt was regarded as non-current, we ensured the party confirmed unconditional right to defer payment such that there were no repayments required within 12 months from the balance date; - We obtained details voluntary repayments of borrowings made by the entity between balance date and audit report date and classified the amount as current; - We read the minutes of Directors' meetings to ensure loans and borrowings were complete and accruing appropriate interest. |
| <p>Carrying amount of exploration and evaluation asset (Refer to Note 7)</p> <p>In accordance with AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>, the Group capitalises acquisition costs of rights to explore and applies the cost model after recognition.</p> <p>Our audit focused on the Group's assessment of the carrying amount of the capitalised exploration and evaluation asset, because this is one of the significant assets of the Group. There is a risk that the capitalised expenditure no longer meets the recognition criteria of the standard.</p> <p>In addition, we considered it necessary to assess whether facts and circumstances existed to suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount</p> | <p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> - We obtained an understanding of the key processes associated with management's review of the exploration and evaluation asset carrying values; - We considered the Director's assessment of potential indicators of impairment; - We obtained evidence that the Group has current rights to tenure of its area of interest; - We discussed with management the nature of planned ongoing activities; and - We examined the disclosures made in the financial report. |

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Korab Resources Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants



M R Ohm
Partner

Perth, Western Australia
29 September 2017

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Korab Resources Limited is responsible for corporate governance of the Company. The Board guides and monitors the business and affairs of Korab Resources Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Parent Company has neither full time nor part time employees. Most of the administration and technical functions are outsourced to contractors who observe their own diversity and equal opportunity policies. Subsidiaries that form the Korab Group are encouraged to seek diversification in their employment policies.

For further information on corporate governance policies adopted by Korab Resources Limited, refer to our website: www.korabresources.com.au.

BOARD OBJECTIVES

The Board will develop strategies for the Company, review strategic objectives, and monitor the performance against those objectives. The overall goals of the corporate governance process are to:

- drive shareholders value;
- assure a prudential and ethical base to the Company's conduct and activities; and
- ensure compliance with the Company's legal and regulatory obligations.

Consistent with these goals, the Board assumes the following responsibilities;

- developing initiatives for profit and assets growth;
- reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- acting on behalf of, and being accountable to, the Shareholders;
- identifying business risks and implementing actions to manage those risks; and
- developing and effecting management and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to directors in a timely manner to facilitate directors' participation in Board discussions on a fully informed basis.

STRUCTURE OF THE BOARD

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the financial report is included in the Directors' Report.

Election of Board members is substantially the province of the Shareholders in general meeting. However, the Company commits to the following principles:

- the Board to comprise of directors with a blend of skills, experience and attributes appropriate for the Company and its business;
- the principal criterion for the appointment of new directors being their ability to add value to the Company and its business.

The Board has adopted the ASX Corporate Governance Councils definition of an independent director contained their report titled "The Principles of Good Corporate Governance and Best Practice Recommendations".

The current Board structure is considered to best serve the Company in meeting its objectives, given its small capitalisation, limited resources and existing operations. The composition of the Board is reviewed on an annual basis to ensure that the Board has the appropriate mix of expertise and experience.

CORPORATE GOVERNANCE STATEMENT (Continued)

STATEMENT CONCERNING AVAILABILITY OF INDEPENDENT PROFESSIONAL ADVICE

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director then, provided the director first obtains approval for incurring such expense from the Chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

SKILLS, EXPERIENCE, EXPERTISE AND TERM OF OFFICE OF EACH DIRECTOR

A profile of each director containing the applicable information is set out in the directors' report.

REMUNERATION COMMITTEE AND NOMINATION COMMITTEE

At this time Korab has no remuneration or nomination committee. The board intends to form a remuneration committee during the current financial year.

NOMINATION ARRANGEMENTS

Where a vacancy is considered to exist, the board will select an appropriate candidate through consultation with external parties and consideration of the needs of shareholders and the Company. Such appointments will be referred to shareholders for re-election at the next annual general meeting. All directors, except the Executive Chairman, are subject to re-election by shareholders at least every three years.

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board will determine the selection criteria for the position based on the skills deemed necessary for the Board to best carry out its responsibilities. The Board will then appoint the most suitable candidate (assuming one is available) who must stand for election at the next annual general meeting.

PERFORMANCE

During the reporting period the entity did not have a formal process for evaluation of directors and Executives due to there only being four in total. The Chairman will undertake an annual assessment of the performance of the individual directors and meet privately with each director to discuss this assessment.

REMUNERATION ARRANGEMENTS

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board by remunerating directors fairly and appropriately with reference to relevant employment market conditions. To assist in achieving the objective the Board intends to link the nature and amount of executive directors' emoluments to the Company's financial and operational performance. The expected outcomes of this remuneration structure will be:

- Retention and motivation of directors and executive officers
- Performance rewards to allow directors and executive officers to share the rewards of the success of Korab Resources Limited

The remuneration of the Executive Chairman is decided by the non-executive directors. In determining competitive remuneration rates the directors review local and international trends among comparative companies and the industry generally. Directors intend to consider an employee share option plan during the current financial year.

The maximum remuneration of non-executive directors is the subject of Shareholder resolution in accordance with the Company's Constitution, and the Corporations Act as applicable. The duration of non-executive director's remuneration within that maximum will be made by the Board having regard to the inputs and value of the Company of the respective contributions by each non-executive director.

The Board may award additional remuneration to non-executive directors called upon to perform extra services or make special exertions on behalf of the Company.

CORPORATE GOVERNANCE STATEMENT (Continued)

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors. All remuneration paid to directors and executives is valued at the cost to the Company and expensed.

AUDIT COMMITTEE

The shareholders in general meeting are responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors. The Board has not yet established an audit committee. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes both internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial and non-financial information.

IDENTIFICATION AND MANAGEMENT OF RISK

The Board's collective experience will enable accurate identification of the principal risks which may affect the Company's business. Management of these risks will be discussed by the Board at periodic (at least annual) strategic planning meetings. In addition, key operational risks and their management, will be recurring items for deliberation at Board meetings.

ETHICAL STANDARDS

The Board is committed to the establishment and maintenance of appropriate ethical standards to underpin the Company's operations and corporate practices.

INDEPENDENT DIRECTORS

The independent directors are Rodney Skeet and Anthony Wills.

FEMALE EMPLOYEES

As at 30 June 2017 the parent company had no part time or full time employees.

As at 30 June 2017 the proportion of males and females employed by the Korab Group (including local and overseas subsidiaries) was as follows:

| | Male | Female | Total | % Female |
|-----------|------|--------|-------|----------|
| Directors | 4 | 0 | 4 | 0% |
| Other | - | 1 | 1 | 100% |
| Total | 4 | 1 | 5 | 20% |

CORPORATE GOVERNANCE STATEMENT (Continued)

EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS (NOT COMPLETE)

From 1 July 2016 to 30 June 2017 (the "Reporting Period") the Company complied with the Corporate Governance Principles and the Recommendations as published by the ASX Corporate Governance Council ("ASX Principles and Recommendations"), other than in relation to the matters specified below:

| | Notification of Departure | Explanation of Departure |
|----------|--|--|
| 2.4 | A majority of Board are not independent directors | The Board consists of an Executive Chairman, one independent non-executive director and one non-independent non-executive director. The Board does not consider it is cost effective to increase the size of the board to meet this recommendation given the size of the Company. |
| 2.5 | The Chairman is not an independent director and acts in the capacity of chief executive officer. | The Board considers that the Company is currently of a size and complexity where the Chairman can act in an executive capacity. If the Company's activities increase in size, scope and/or nature the appointment of a non-executive Chairman will be considered by the Board. |
| 1.5 | The Company does not have a diversity policy. | The parent Company does not have either full time or part time employees. The contractors supplying services to the Company observe their own diversity and equal opportunity policies. The Board is confident that Korab Group's recruitment practices result in the employment of the most suitable candidate without discriminating unfairly against any potential employee on the basis of gender, age, ethnicity, culture, or on any other basis. |
| 2.1 | A separate Nomination Committee has not been formed | The Board intends to appoint a Nomination Committee during the 2018 financial year. |
| 4.1 | The Company does not have an Audit Committee | The Board intends to appoint an Audit Committee during the 2018 financial year. |
| 8.1 | The Company does not have Remuneration Committee | The Board intends to appoint a Remuneration Committee during the 2018 financial year. |
| 6.3 | The Company has not adopted a policy to encourage participation at meetings of security holders | The Board considers that shareholders currently receive both the information and adequate notice to participate at meetings of security holders. |
| 7.1, 7.2 | The Company does not have a Risk Committee | The Board considers that it was of an effective composition, size and commitment to adequately discharge its responsibilities and duties during this period, however no formal review of the risk management framework occurred during the period. |
| 7.3 | The Company does not have an internal audit function | The Board considers that the Company is not currently of a size to justify the formation of an internal audit function. The Board considers that it, in conjunction with the CFO, was of an effective composition, size and commitment to adequately discharge its responsibilities and duties during this period. |

ADDITIONAL SHAREHOLDER INFORMATION

Additional information required by the ASX Limited ("ASX") Listing Rules as at 29 September 2017 and not disclosed elsewhere in this report is set out below.

SUBSTANTIAL SHAREHOLDERS

The following shareholders have lodged substantial shareholder notices with ASX:

| Beneficial holder | Shares | % |
|--------------------------|---------------|----------|
| Andrej K. Karpinski, | 59,734,739 | 20.73 |

DISTRIBUTION OF SHAREHOLDERS

The distribution of security holders is as follows:

| Range of holding | Shareholders | Number Of Ordinary Shares |
|-------------------------|---------------------|----------------------------------|
| 100,001 and over | 247 | 264,539,109 |
| 10,001 – 100,000 | 538 | 21,754,185 |
| 5,001 – 10,000 | 161 | 1,372,380 |
| 1,001 – 5,000 | 165 | 519,203 |
| 1 – 1,000 | 134 | 28,393 |
| Totals | 1,245 | 288,213,270 |

The number of shareholders holding less than a marketable parcel of ordinary shares is 662.

VOTING RIGHTS (ORDINARY SHARES)

The voting rights attaching to Ordinary Shares are governed by the Constitution. On a show of hands every person present who is a member or representative of a member shall have one vote and on a poll, every member present in person or by proxy or by attorney or duly authorised representative shall have one vote for each share held. No options have any voting rights.

SCHEDULE OF MINERAL TENEMENTS

The details of tenements, miscellaneous licences and land leases held by Korab Resources Limited and controlled entities as of 30 September 2017 are as follows:

| Tenement | Registered Holder/Applicant | Korab's Share | Status | Grant Date/ Application Date | Expiry Date | Area | Current Annual Rent | Current Annual Minimum Expenditure* |
|-----------------|------------------------------------|----------------------|---------------|-------------------------------------|--------------------|-------------|----------------------------|--|
| EL29550 | Korab Resources Limited | 100% | Granted | 1/08/2012 | 31/07/2018 | 17,100ha | \$11,744 | \$110,000 |
| EL31341 | Korab Resources Limited | 10% | Granted | 28/11/2016 | 27/11/2022 | 6,500ha | \$735 | \$10,000 |
| MLN512 | Korab Resources Limited | 100% | Granted | 19/04/1982 | 31/12/2023 | 16ha | \$555 | N/A |
| MLN513 | Korab Resources Limited | 100% | Granted | 19/04/1982 | 31/12/2023 | 16ha | \$555 | N/A |
| MLN514 | Korab Resources Limited | 100% | Granted | 19/04/1982 | 31/12/2023 | 16ha | \$555 | N/A |
| MLN515 | Korab Resources Limited | 100% | Granted | 19/04/1982 | 31/12/2023 | 16ha | \$555 | N/A |
| MLN542 | Korab Resources Limited | 100% | Granted | 19/04/1982 | 31/12/2023 | 15ha | \$540 | N/A |
| MLN543 | Korab Resources Limited | 100% | Granted | 19/04/1982 | 31/12/2023 | 15ha | \$540 | N/A |
| ML27362 | Geolsec Phosphate | 100% | Granted | 22/04/2010 | 21/04/2035 | 234.3ha | \$5,177 | N/A |
| ML30587 | AusMag | 100% | Granted | 21/10/2015 | 20/10/1940 | 349.3ha | \$7,270 | N/A |
| E 08/2115 | Australian Copper Holdings | 100% | Granted | 4/11/2010 | 3/11/2020 | 73 Blks | \$39,055 | \$146,000 |
| E 08/2307 | Australian Copper Holdings | 100% | Granted | 23/08/2013 | 22/08/2018 | 43 Blks | \$8,736 | \$63,000 |
| E 52/2724 | Australian Copper Holdings | 100% | Granted | 18/07/2013 | 17/07/2018 | 70 Blks | \$14,560 | \$105,000 |
| E 08/2756 | Australian Copper | 100% | Granted | 9/09/2016 | 8/09/2021 | 16 Blks | \$2,144 | \$20,000 |
| E 08/2757 | Australian Copper | 100% | Granted | 23/02/2017 | 22/02/2022 | 5 Blks | \$670 | \$15,000 |
| BKB169 | LLC "Donetsky Kryazh" | 100% | Granted | 30/10/2007 | 30/10/2037 | 25ha | UAH102,804 | N/A |
| 4420381100 | LLC "Donetsky Kryazh" | 100% | Granted | 29/07/2009 | 17/07/2018 | 8ha | UAH23,119 | N/A |
| 1589 | LLC "Donetsky Kryazh" | 100% | Granted | 29/07/2009 | 17/06/2018 | 13ha | N/A | N/A |
| 2730 | LLC "Donetsky Kryazh" | 100% | Granted | 17/06/2002 | 17/06/2018 | 12ha | N/A | N/A |

ADDITIONAL SHAREHOLDER INFORMATION (Continued)

ON-MARKET BUYBACK

There is no current on-market buyback.

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest shareholders are as follows:

| Rank | Name | 30 Jun 2017 | %IC |
|-------------|---|--------------------|---------------|
| 1 | RHEINGOLD INVESTMENTS CORPORATION PTY LTD | 45,500,000 | 15.79 |
| 2 | RIADIS HOLDINGS PTY LTD | 15,000,000 | 5.20 |
| 3 | CUSTODIAL SERVICES LIMITED | 11,426,078 | 3.96 |
| 4 | CHANCERY HOLDINGS PTY LTD | 10,893,082 | 3.78 |
| 5 | RHEINGOLD INVESTMENTS CORPORATION PTY LTD | 10,550,529 | 3.66 |
| 6 | SERGIY ANTONENKO | 10,000,000 | 3.47 |
| 7 | VECTOR NOMINEES PTY LIMITED | 7,388,889 | 2.56 |
| 8 | HONG WANG | 5,415,396 | 1.88 |
| 9 | LJM ENTERPRISES (WA) PTY LTD | 5,366,667 | 1.86 |
| 10 | SELWYN BRUCE HATRICK | 5,000,113 | 1.73 |
| 11 | DENIS MELVILLE IRWIN | 4,500,000 | 1.56 |
| 12 | BIN LIU | 4,326,336 | 1.50 |
| 13 | JOHN MORTON HATRICK | 3,915,000 | 1.36 |
| 14 | MR ANDREW GORDON MCCREA | 3,717,206 | 1.29 |
| 15 | RHEINGOLD INVESTMENTS CORPORATION PTY LTD | 3,684,210 | 1.28 |
| 16 | WARREN BRUCE TUCKETT | 3,420,000 | 1.19 |
| 17 | THREEBEE INVESTMENT GROUP PTY LTD | 3,200,000 | 1.11 |
| 18 | LJM CAPITAL CORPORATION PTY LTD | 3,016,667 | 1.05 |
| 19 | M & K KORKIDAS PTY LTD | 2,977,618 | 1.03 |
| 20 | CHANCERY HOLDINGS PTY LTD | 2,863,158 | 0.99 |
| | Total | 162,160,949 | 56.26 |
| | Grand Total | 288,213,270 | 100.00 |
| | Balance | 126,052,321 | 43.74 |