Strategic Metals & Rare Earths Letter

INTERNATIONAL

the independent information and advisory publication on investing in Strategic Metals & Rare Earths

Special Situation – April 2017 Update

www.korabresources.com.au

Korab Resources (A$ 0.02)

ASX : KOR

H+L prices (12 months)	: A$ 0.05 – 0.02
Issued shares	: 225.8 million
Fully diluted	: 229.8 million
Market capitalization	: A$ 4.5 million (US$ 3.4 million)

12-month price target: A$ 0.06

Company profile

Korab Resources ("Korab") is an international mining and exploration company including the **Geolsec Phosphate ("Geolsec"), Winchester Magnesite Operations**, **Rum Jungle Zinc**, **Lead and Silver Fields** and **Batchelor Cobalt and Lithium Project**. All these projects are located in the Northern Territory, **Australia**. The Company also owns the **Bobrikovo Gold and Silver Deposit** in eastern **Ukraine** which explores for gold and copper.

► **Geolsec Phosphate Operations Pty** is the operator of the **Geolsec Phosphate Mine** in the Northern Territory, Australia , which project is under review given the current low global demand for phosphate rock. Geolsec can be used as direct phosphate rock soil supplement which provides substantial on-going benefits to the environment by improving soil fertility and improving nutritional quality of produce.

►The **Winchester Magnesite Deposit**, located near Darwin operated by **AusMag Pty**, is one of the best located magnesium deposits in the world with 16.6 million tonnes of JORC Code compliant magnesium oxide (MgO) resources, grading 43.2%.
In March 2016, **Korab** announced that it had entered into an agreement with Mr. Hong Wang, representing interests in a variety of Chinese industries for A$ 6 million development funding of the Winchester Magnesium Carbonate Project and Mr. Wang to provide the Company with an A$ 500,000 cash injection by personally subscribing for 10 million Korab shares at A$ 0.05 per share.

➢ Winchester Magnesium Carbonate Project, Northern Territory

In March 2015, **Korab** released the results of the expanded pre-feasibility study into Winchester magnesite quarry and its potential earning, costs, free cash flow and net present value.
Highlights of the expanded study are that the Project has very attractive economics with an aggregate EBITDA of A$ 306 million over quarry life and an attractive long-run annual EBITDA of A$ 32 million per year at 800 kt per year rock sales.
The capital and start-up costs were estimated at around $ 4 million, including quarry costs of approximately A$ 1.2 million and contingency of approximately A$ 1.0 million.

As part of the initial phase of the exploration, **Korab** will continue detailed review of historical exploration data surface and down hole geochemistry, RAB, RC and diamond core drill logs and outcrop mapping.

In March 2016, **Korab** announced that it has entered into an agreement with Mr. Hong Wang (who represents interests associated with Chinese steel industry, banking and finance, construction and building materials) for a A$ 6 million development funding for the Winchester Magnesium Carbonate Project. Under the agreement, the A$ 6 million development funding would be provided by way of funders acquiring a direct equity interest in AusMag Pty, subsidiary of **Korab** developing the Winchester Project and would be conditional on Korab or AusMag securing additional off-takes for magnesium carbonate rock.

Under the same agreement, but as a separate transaction, in addition to arranging the A$ 6 million development funding, Mr. Wang would provide **Korab** with A$ 500,000 cash injection by personally subscribing for 10 million Korab shares.

During Quarter 3 2016, **Korab** received approximately $ 270,000 of the total of $ 500,000 to be invested personally by Mr. Wang. In January 2017, the Company reported that it had received a request to extend the completion of the private placement to Mr. Wang to the end of February 2017.
The documentation for the A$ 6 million project funding for the Winchester Magnesium Carbonate Mine is nevertheless being progressed.

➢ Batchelor Cobalt and Lithium Project, Northern Territory

In October 2016, **Korab** announced that it has commenced exploration for lithium at its **Batchelor Project** following discoveries of lithium mineralization and pegmatite swarms by Core Exploration, Liontown Resources and Lithium Australia to the northwest of Batchelor, as well as the recent acquisitions of exploration ground by Core Exploration to the west and northwest from Korab ground.

According to Northern Territory Geological Survey ("NTGS") reported **lithium** mineralization in the area is related to tin and tantalum occurrences, primarily in pegmatite dykes and sills within the Burrell Creek Formation of the Finniss River Group.

On February 10, 2017, **Korab** reported first stage results of the review of **cobalt potential** at its Batchelor Project. This first stage review encompassed geochemical assessment of 20 RC drill holes, 784 RAB holes drilled on a 40 metre x 200 metre grid, 2,950 soil samples taken on 40 metre x 100 metre, and 686 rock chip samples. RAB drilling averaged 10 metres in depth with 8,150 samples analysed.
Highlights (above 700 ppm Co) from Reverse Circulation drilling include multiple zones of cobalt, copper and gold up to 1,460 ppm cobalt, 10,000 ppm copper and 2.29 ppm gold over one metre; 1.300 ppm cobalt, 12,100 ppm copper and 1,300 ppm gold over one metre and 1,040 ppm cobalt, 16,900 ppm copper and 1.36 ppm gold.

Korab's review confirmed presence of high-grade cobalt mineralization within its tenements, which appears to be pervasive, extending over multiple zones of significant surficial extent, covering in aggregate an area of approximately 13.9 million m². The largest single mineralization zone covers 10.3 million m².
In the northern zones cobalt appears to be associated with copper and gold, in the southern and central zones it appears to be associated with copper and nickel.

Korab now has sufficient information to complete the planning of the drilling program designed to test several high-priority zinc-lead-silver and cobalt-copper-gold prospects.

Subject to permitting and availability of drilling rigs, **Korab** anticipates that drilling will commence in the second quarter of 2017.

On March 8, 2017, **Korab** announced that it had secured new funds for a fast-tracking cobalt and zinc drilling program at the Batchelor Project. The funding is by way of a A$ 471,000 unsecured zero-interest convertible loan which will be converted to the Company's ordinary shares at a price of 1.9 cents per share.

➢ Geolsec Phosphate Operations, Northern Territory

The location of the Geolsec Phosphate Mine south of the port of Darwin and within a short distance to the majority of Asian ports, gives Geolsec significant shipping advantage over phosphate producers located in Africa and the Middle East when supplying Indian, Asian, Australian and New Zealand buyers and distributors. Furthermore, being located next to transcontinental railway link and connecting Darwin to Queensland, New South Wales, Victoria and the Ord River agricultural region in Western Australia, Geolsec has excellent access to main agricultural regions in all Australian states.

Korab's primary domestic target markets for phosphate rock are fertilised and other agrisupplier distributors, as well as pastoralists, fruit growers, free plantations and organic farms in Queensland, Victoria, New South Wales, South Australia and Western Australia.

In April 2016, **Korab** and Geolsec advised that they had appointed an Indian distributor to handle a transaction amounting up to 180,000 tonnes of phosphate rock over 6 months.
The distributor originally requested a larger amount of rock, however, given prior agreements entered into by Geolsec and in view of advanced discussions with several other buyers, Geolsec has limited the initial amount of rock available for this transaction to 180,000 tonnes. The buyer has requested formal sales and shipping agreements which are currently being finalized.

However, given the current low global demand for phosphate rock, the Geolsec Project is under review.

➢ Rum Jungle Zinc, Lead and Silver Field, Northern Territory

On 23 November 2016, **Korab** reported outcome of the review of the historical drilling results which confirmed presence of high-grade zinc, lead and silver mineralization in the **Rum Jungle Mineral Field**. The intercepts occur at **White Bomb/Glen Luckie prospects** in the similar setting as the Winchester zinc, lead and silver mine located 8 kilometres in the north and are similar tenor.

Drilling highlights include 4 ppm silver, 4.71% zinc and 0.38% lead over 13 metres, including 15 ppm silver, 20.60% zinc and 0.32% lead over 1 metre (hole BRC 12) and 78 ppm silver, 0.21% zinc and 3.16% lead over 22 metres, including 21 ppm silver, 16% zinc and 8.38% lead over 2 metres.

The zinc-lead-silver drilling results are most encouraging, both for possibilities they present for finding discordant, structurally emplaced ore bodies and for large strataform or stratabound base metal deposits.
The former were discoveries at the Woodcutters mine and at Area 44 locality 8 kilometres to the north from the find. The latter were discovered in the Embayment area at Rum Jungle (Browns, Mt Fitch and Whites) 15-20 kilometres to the northwest from White Bomb.

The possibility of a large strataform base metal deposit in the White Bomb/Glen Luckie area is suggested by the great thickness of significantly mineralised graphitic and pyritic sediments drilled at this location in the past. White Bomb appears to lie on a mineralised trend extending over 4 kilometres, which is part of a 16 kilometres log target horizon and includes the nearby prospects of White Bomb East, the CRAE lead-zinc prospect, and possibly the Occidental lead-zinc prospect.

Korab has received original drill logs, plans, sections, laboratory assays, partial pulp and drill chips and associated materials. Logging shows that the mineralization occurs as sphalerite (zinc sulphide) and galena (lead sulphide) with occasionally large amounts of silver. The mineralization occurs primarily in a chlorite-carbonite dolerite sill.
In WBD 06 drilling reported faulting and fractures within the intervals where high-grade lead and silver were assayed. The intervals with high-grade lead and silver contained between quartz and carbonate veins (varying from 20% to 70%) with dark-grey pyrite and graphitic siltstone.

Further drilling is needed at White Bomb/Glen Luckie to test for shallower and hopefully large tonnages of base metal sulphides in the vertical zone between the gossan and the high-grade intersections, as well as along trend.

Finance

On 8 March 2017, **Korab** announced that it had secured new funding to an amount of A$ 471,000 for a fast-tracking cobalt and zinc drilling program on its **Batchelor Project** in the Northern Territory.

On 7 April 2017, **Korab** announced a 1 for 6 non-renounnceable pro rate rights issue at 1.9 cnts per new share to raise up to S$ 715,013 before costs.
The rights issue will be usded to reduce the Company's debt (currently approximately A$ 1.8 million).

Management

Board of Directors

Andrej K. Karpinski - Executive Chairman - has a background in mining and exploration, resources financing, commodities trading and funds management. He brings to the Company his network of Australian and international contacts, his administrative skills and his expertise in corporate management, mining, exploration, financial risk and treasury management, project financing and resources banking. Mr. Karpinski has been a Director of Korab since its formation in March 1998. He is a Fellow of the Australian Institute of Company Directors, and a Fellow of Financial Services Institute of Australasia.

Rodney H. Skeet - Non Executive Director – has a background in commodities financing and investment banking. He brings to the Company his broad network of international contacts within resources and securities sectors and his expertise in resources financing.

Daniel A. Smetana - Non Executive Director - has a background in corporate management. He has been Chairman of ASX listed Joyce Corporation since 1984. His past board memberships include: Deputy Chairman Western Power Corporation until 2003, and Chairman and National Councillor of the Defence Reserves Support Council - WA (1997 - 2006), Mr Smetana is a Fellow of CPA Australia, a Fellow of Australian Institute of Management and a Fellow of Australian Institute of Company Directors.

Anthony G. Wills - Non Executive Director - has a background in defence and finance. For the last 15 years He has been involved in the finance industry. 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. 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 senior associate of the Financials Services Institute of Australasia.

Investment comment:

Korab's Winchester Magnesite Deposit is considered to be one of the best located magnesium deposits in the world and has attracted an A$ 6 million development funding from a Chinese investor.

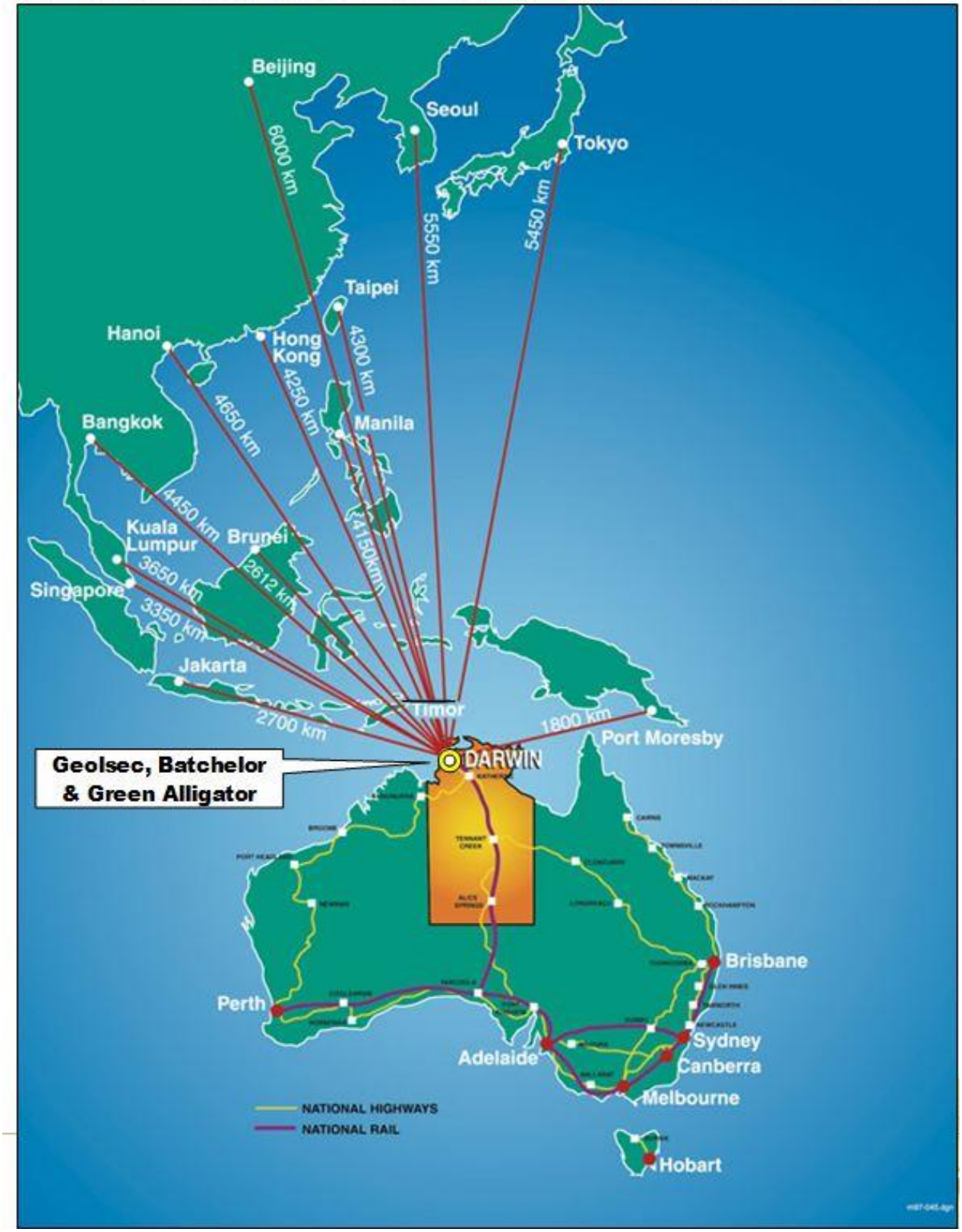
The Batchelor Project will be explored for lithium and most recently for cobalt in parallel with the development of the Winchester Project.

In addition, the drilled Rum Jungle Zinc, Lead and Silver Field confirmed presence of high-grade zinc, lead and silver mineralization.

Based on the prospective outlook of its diversified portfolio of assets, at a market capitalization of just US$ 3.4 million, I consider **Korab** significantly undervalued.

My 12-month price target is A$ 0.06.

Korab's Rum Jungle projects have unrivalled logistics & transport options



Magnesium lightest of all light metal alloys

Magnesium is found in seawater and brines, as well as in deposits in the earth. There are three different types of magnesium ore: magnesite, dolomite and carnalite.
Traces of magnesium can be found in mineral waters. The element is a part of green plant chlorophyll.

Magnesium is the lightest of all light metal alloys and therefore is an excellent choice for engineering applications when weight is a critical design element. It is strong, has good dissipation, good dumping and is readily available. Its properties make it easy to weld, cast or machine. It can be alloyed with other metals, making them more beneficial.

The use of pure magnesium is rare due to its volatility at high temperatures and it is extremely corrosive in wet environments. Therefore the use of magnesium alloys when designing aerospace and automotive parts is critical.

Burning magnesium produces white light. This makes it ideal for firework sparklers, flares and flash photography. It also functions as an agent to produce uranium out of salt. The element's ions are necessary for every living organism. That is why magnesium salt is included in fertilizers and food.
In many cases, Magnesium bromide is utilised as a sedative. Magnesium is also used to remove sulphur from iron and steel.

Magnesium has numerous components

The most vital commercially are sulphates, carbonates, chlorides and oxides

These are used in textile processing, leather tanning, insulation, fertilizers, cosmetics and ceramics.

The citrates of magnesia and magnesium hydroxide are used in medication. The element can be interact with organic halides.

Magnesium alloys are in use around the world in a variety of different applications. These are a preferred material when looking for weight reduction without compromising overall strength. The vibration damping capacity is also beneficial in applications in which the internal focus of high-speed components must be reduced.

The most common applications are: Aircraft and missile components; aircraft engine mounts, control hinges, fuel tanks, wings; automotive wheels, housings, transmission eases, engine blocks; bicycles and other sporting equipment; equipment for material handling; ladders; laptops; television; cell phones; luggage; portable power tools; chainsaws, hedge clippers, weed whackers; printing and textile machinery; steering wheels and columns, seat frames.

Magnesium alloys have also been used as a replacement for some engineering plastics due to their higher stiffness, high recycling capabilities and lower cost or production.

► World magnesite mine production

World magnesite mine production in 2015 amounted to 8,225 million tonnes of which China produced 5.77 million tonnes or approximately 70% of total world production, followed by Turkey 800,000 tonnes, Russia 375,000 tonnes, Austria 220,000 tonnes, Spain 200,000 tonnes and Slovakia 200,000 tonnes.

China has topped world production for 18 years, of which approximately 44% comes from Shaanxi Province and approximately 42% from Shan Shanxi Province.
Shanxi Yinguang Magnesium Industry (Group) Co. is the largest primary magnesium producer in China, with a primary magnesium capacity of approximately 100 kilotons. Its major subsidiary Shanxi Yinguang Hushaeng Magnesium Industry ranks number 1 in China in terms of primary magnesium output. The Company has formed a complete industrial chain covering every stage from magnesium ore exploration to magnesium alloy deep processing.

Nanjing Yunhai Special Metals is the largest producer of magnesium alloys in China, with a capacity of approximately 140 kiloton. The company is accelerating its magnesium alloy capacity expansion and developing the upstream industrial chain in the region with rich magnesium ore resources such as Shaanxi Province.

Dongguan Eontec is a major manufacturer of magnesium alloy precision die castings in China. The company, which went public on the GEM of the Shenzen Stock Exchange in 2012, has maintained rapid revenue growth from magnesium alloy products in the last few years.
The company accelerated the strategic switch to 3 C products, and the magnesium alloy shells and internal brackets for tablets, PCs and smart phones will be the main business growth points for the company in the future.

► World magnesium reserves

Resources from which magnesium may be recovered range from large to virtually unlimited and are globally widespread.
Magnesite is the major source from which magnesium is extracted.

According to USGS, world magnesite reserves in 2014 were 2,400 million tonnes.

However, magnesium reserves are highly concentrated in three countries: Russia (650 million tonnes), China (500 million tonnes) and North Korea (450 million tonnes).

According to USGS, almost all of the world's primary magnesium is produced in China, which according to data from USGS was responsible for 800,000 tones, representing approximately 88%of a total world production of 910 tonnes in 2013. Other significant producers of magnesium metal are Russia (30 tonnes), Israel (28 tonnes) and Kazakhstan (21 tonnes).

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