



**KORAB RESOURCES LIMITED**  
AND CONTROLLED ENTITIES

ABN 17 082 140 252

**ANNUAL REPORT**

FOR THE YEAR ENDED 30 JUNE 2011



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**CORPORATE DIRECTORY**

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**DIRECTORS**

Andrej K. Karpinski (Executive Chairman)  
Rodney H.J. Skeet (Non-Executive Director)  
Malcolm J. McKenzie (Non-Executive Director)

**COMPANY SECRETARY**

Andrej K. Karpinski

**REGISTERED & PRINCIPAL OFFICE**

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**AUDITORS**

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Perth WA 6005

**SHARE REGISTRY**

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**SECURITIES EXCHANGE LISTING**

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



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 2011. Korab Resources Limited is a listed public company incorporated and domiciled in Australia.

PROFIT / (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT IN MILLIONS OF DOLLARS

	2011	2010	2009	2008	2007	2006
Operating profit / (loss) in millions of dollars	(1.238)	(1.907)	(1.304)	(1.106)	1.121	(0.566)
Operating profit / (loss) in cents per share	(1.50)	(2.70)	(2.16)	(2.26)	2.49	(1.36)
Return on average equity in percent	(39%)	(69%)	(30%)	(23%)	28%	(28%)
Average issued capital in millions of shares	82.248	70.886	68.000	48.786	45.000	41.603
Average shareholders equity in millions of dollars	3.173	2.761	4.361	4.913	4.007	2.022

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 54, appointed March 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 investment banking, commodities trading and funds management. He has held senior positions with Australian and international companies operating in corporate finance, commodities trading and funds management. He brings to the Company his network of Australian and international contacts within resources and securities sectors, his administrative skills and his expertise in financial risk management, treasury management, project financing and resources banking. Mr. Karpinski is a Fellow of the Australian Institute of Company Directors, and a Fellow of FINSIA. 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 companies Polymetallica Minerals Limited (formerly Uranium Australia Limited), Lugansk Gold Limited and Melrose Gold Mines Ltd.

**Malcolm J. (John) McKenzie (Non-Executive Director)**  
**Age 67, appointed February 2009**

*Responsibilities:* Mr. McKenzie contributes his strategic planning and administrative skills as well as corporate governance knowledge.

*Qualifications:* Mr. McKenzie's background is in corporate management, real estate property and land development. His corporate experience includes 24 years as a director of BGC, one of the largest private manufacturing, construction and contracting companies in Australia with current sales in excess of \$1 billion. He provides to the Company with the benefit of his general business and corporate experience as well as an ongoing strong interest in the resources sector.

*Other Directorships:* During the past three years Mr McKenzie has not held any listed company directorships. Mr McKenzie is a director of unlisted public companies Lugansk Gold Limited and Melrose Gold Mines Ltd.



DIRECTORS' REPORT

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**Rodney H. J. Skeet (*Non-Executive Director*)  
Age 69, 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 37 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 Consolidated entity 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 Lugansk Gold Limited.

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 and development of mineral properties. There were no significant changes in the nature of these activities during the financial year.

OPERATING RESULTS

The loss of the consolidated entity after providing for income tax and eliminating non-controlling equity interests amounted to \$1,238,748 (2010 loss: \$1,907,096).

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 (2010: Nil).

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.



DIRECTORS' REPORT

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REVIEW OF OPERATIONS

Korab Resources Ltd is an Australian mining company listed on Australian Securities Exchange (ASX:KOR). Korab operates several exploration projects in Western Australia and the Northern Territory with potential for potash, rare earths, tin, copper, lead, zinc, nickel, phosphate rock, iron ore and several industrial metals including vanadium, titanium, wolfram, manganese and cobalt. Korab also operates two development projects in the Northern Territory where it aims to produce phosphate rock and magnesium metal.

The consolidated entity explored and/or developed the following projects (areas of interest) during the year ended 30 June 2011:

- Melrose (gold) – Western Australia (Melrose Gold Mines Ltd)
- Darlot East (gold) – Western Australia (Melrose Gold Mines Ltd)
- Batchelor (phosphate, rare earths, gold, magnesium, iron ore, base metals, titanium, nickel) - Northern Territory (Korab Resources Ltd)
- Green Alligator (rare earths, gold, magnesium, iron ore, base metals, nickel, titanium) – Northern Territory (Korab Resources Ltd)
- Wonganoo (gold) – Western Australia (Melrose Gold Mines Ltd)
- Ashburton Downs (copper, gold) – Western Australia (Korab Resources Ltd)
- Bobrikovo (gold, silver) – Ukraine (Lugansk Gold Ltd)

EXPLORATION PROJECTS

In contrast to most micro-cap explorers' Korab utilises a recently developed exploration strategy which can be termed "Mineral Systems" approach. This philosophy centres on applying the understanding of the mineralising processes in a predictive capacity, rather than utilising a purely empirical approach. It is a method focusing on 'why' mineralisation occurs and 'where' it should occur under various geological conditions. This is in contrast to a traditional approach which largely targets only geochemical or geophysical anomalies. The "Mineral Systems" approach has several benefits. It enables Korab to explore for several styles of mineralisation as opposed to focusing on a single mineralisation model. In addition, Korab increases the chances for discovering an entirely new zone, or a different style of mineralisation by utilising all available data in a more holistic fashion.

Ashburton Downs Project

Ashburton Downs is located near Parabardoo in the Ashburton Mineral Field in the Pilbara region of Western Australia. Past exploration shows that target stratigraphies at Ashburton Downs have a potential to host potash, rare earths, detrital iron, copper and other base metals mineralisation. The area has recently received exploration attention from BHP, Rio Tinto and Fortescue Metal Group with BHP and Fortescue Metal Group applying for exploration ground adjoining Korab's tenements and applications.

Rum Jungle's Batchelor and Green Alligator Projects

Batchelor and Green Alligator projects are located in the Rum Jungle Mineral Field in the Pine Creek orogen of the Northern Territory, 70 km south of Darwin. Past exploration shows that target stratigraphies at Batchelor and Green Alligator projects in Rum Jungle Mineral Field have a potential to host tin, copper, lead, zinc, phosphate, rare earths, nickel, cobalt and banded iron formations.

Tucker Creek Project

Tucker Creek project is located in the Gascoyne region of Western Australia, 25 km from West Coast Highway and 100 km from the coast. The area under exploration is prospective for copper, lead, zinc, gold and other minerals and has recently attracted interest from Fortescue Metal Group and Rio Tinto. Korab has acquired past exploration data for the project area and evaluation of this data is continuing. Early results indicate significant potential for polymetallic deposits as well as potential for commercial quantities of other minerals.



DIRECTORS' REPORT

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DEVELOPMENT PROJECTS

Korab also operates two mining and quarrying projects in the Northern Territory's Rum Jungle Mineral Field where it is working to commence development of organic phosphates project (Geolsec) and magnesium project (Winchester). Our corporate strategy is to establish Korab as a niche operator in sectors with strong historical growth and a continuing long term growth potential. Our mining projects are characterised by projected low operating cost, high profit margin and superior logistics and location.

Geolsec Organic Phosphate

Geolsec phosphate deposit is located at Rum Jungle in close proximity to the Darwin port (70 km by 4-lane Stuart Highway) allowing for easy access to most ports in Asia and Australia.

Local infrastructure includes road, rail, high-voltage power, potable water and piped gas. Geolsec project is located less than 2km from the regional centre of Batchelor. Geolsec phosphate deposit extends from surface to 40-120 meters depth and is located on Castlemaine hill with good access by all-weather road.

Korab intends to develop the Geolsec deposit as a simple quarrying operation with negligible environmental impact. Commencement of quarrying operations at Geolsec is conditional on receiving all required permits and approvals which have not yet been secured.

Laboratory tests of the Geolsec phosphate rock have produced grades from 21% to 39% P<sub>2</sub>O<sub>5</sub> with half of the samples assaying over 36% P<sub>2</sub>O<sub>5</sub>. Acid solubility tests show Geolsec to have very high reactivity. Historical tests completed by CSIRO have shown Geolsec rock phosphate to have high absorption rates when applied directly to acidic soils. Comparison test run by CSIRO have shown Geolsec phosphate rock to have higher absorption rates than Christmas Island phosphate rock. Another benefit of the Geolsec phosphate rock is its very low content of heavy metals which makes it superior to Moroccan and Egyptian phosphate rock.

Korab will be shortly undertaking drilling program at Rum Jungle which will include 50-60 reverse circulation and diamond drill holes at Geolsec. The aim of Geolsec program is to increase the tonnage of the available phosphate rock and to drill test several phosphate anomalies. The lateral extent and the footprint of the phosphate anomalies which will be drill tested significantly exceeds the footprint of the Geolsec deposit.

Subject to receiving all permits and approvals Geolsec Phosphate Operations Pty Ltd (Korab's subsidiary operating the Geolsec project) is looking to commence production of organic phosphate rock fertiliser to supply organic farmers and pastoralists with GEOLSEC eco-friendly products.

Organic farming is the fastest growing sector of the global economy. Its' resilience to economic slowdown has been proven during 2008/2009 period when organic farming grew at 17% annual rate while the global economy went through the worst recession in decades. Australia is the largest organic producer globally with 12 million hectares under organic cultivation.

CAPEX and start-up costs are estimated at between \$200,000 and \$300,000. Operating costs for Geolsec Phosphate Operations Pty Ltd are expected to be as follows:

- Indicative operating cost for bulk, un-processed, un-ground phosphate rock ~ \$30 per tonne.
- Indicative operating cost for un-processed, ground-up phosphate rock in 1 tonne bulk bags ~ \$70 per tonne.
- Indicative operating cost for un-processed, ground-up phosphate rock in retail-size 15-20 kg bags ~ \$100 per tonne.

Ground-up phosphate rock for direct application wholesales in Australia for between \$450 and \$750 per 1 tonne bag. Bagged ground-up rock phosphate for direct application retails for between A\$1,000 and A\$1,200 per tonne (packaged in 15-20kg bags). Bulk rock phosphate for chemical processing sells for between US\$160-US\$180 per tonne. Historical prices of phosphate rock have been volatile moving in line with supply constraints and market demand. Most government, NGO and international bodies expect that phosphate rock prices will increase over time as shortages develop due to overpopulation and growing demand for food. Of even greater significance to Korab are recent reports on sustainability, population and agriculture published by the UN and EU where recommendations have been made for increased use of direct application rock phosphate in preference to soluble fertilisers to stop further degradation of farmland and ground water.



DIRECTORS' REPORT

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Organic farming is the fastest growing sector of the global economy. Australia is the largest organic producer globally with 12 million hectares under organic cultivation. Geolsec's organic phosphate fertiliser is environmentally and nutritionally superior to chemical fertilisers and can be used on a wide variety of crops and pastures.

Organic fertilisers based on ground-up rock phosphate such as GEOLSEC offer several advantages over chemically processed soluble fertilisers such as DAP, MAP or superphosphate:

- Organic fertilisers slowly release nutrients into the soil matching the speed at which the nutrients are being absorbed by the plants.
- Phosphate rock has the ability to restore microelemental and microbial soil balance which in turn leads to less reliance on artificial fertilisers and better crop yields.
- Use of organic phosphate instead of chemically processed phosphate avoids the serious environmental degradation caused by increased concentrations of fertilisers in the ground water, the rivers and the coastal waters. Use of organic phosphate rock reduces the risk of harmful accumulation of nutrients in the soil and reduces soil salinity problems
- Plants grown on organic phosphate rock fertiliser have a better nutritional quality.
- Because of phosphate rock's unique chemical composition, incorporation of phosphate rock into the soil enhances its biological activity and increases soil carbon (C) accumulation, leading to improved soil fertility and restoration of its physical and chemical properties.
- Organic phosphate rock is a source of several nutrients other than P. Rock phosphates are usually applied to replenish soil P status, but phosphate rock also provides other nutrients not present in soluble fertilisers. Application of organic phosphate has a potential trigger effect on plant growth and crop yields as a result not only of phosphorus release but also because of phosphate rock's effect on increasing exchangeable calcium (Ca) and reducing aluminium saturation.
- Phosphate rocks for direct application can be more efficient than artificial fertilizers in terms of phosphorus (P) recovery by plants under certain conditions. Based on the unit cost of P, natural phosphate rock is usually the cheapest.
- Phosphate rocks are natural minerals requiring no metallurgical processing. Their direct application avoids production of polluting wastes such as phospho-gypsum and greenhouse gases, thus resulting in energy conservation and protection of environment.

#### Winchester Magnesium

Winchester magnesite deposit is located within the Batchelor project, 70km south from Darwin in the Northern Territory. The project has been taken through the feasibility study stage including mine planning and design, preparation of environment impact statement, design of process flow chart, design of the processing and crushing plant, test mining, construction of pilot processing plant and production of magnesium. Feasibility study indicated that the optimal size for Stage 1 of the plant was a 14MW furnace with an annual capacity of 12,500 tonnes. The estimated capital cost of Stage 1 including mine infrastructure, calciner, 14MW furnace, condenser and necessary ancillaries was \$76M. Stage 2 would increase annual capacity to 25,000 tonnes and Stage 3 would further increase annual capacity to 50,000 tonnes.

Drilling at Batchelor to a depth of 100m outlined a high grade zone of magnesium mineralisation 7.5km long and 0.5km wide. Mineralisation is open at depth. Close spaced drilling over the fraction of this area measuring 550m by 300m outlined an indicated resource of 12.2Mt at 43.1% MgO and an inferred resource of 4.4Mt at 43.6% MgO.

Project is located just 30 minutes from the suburbs of Darwin. Rail line, gas pipeline, sealed transcontinental highway and high voltage power lines cross the project area providing the project with excellent basic infrastructure and logistics.



DIRECTORS' REPORT

Magnesium is 33% lighter than aluminium and 75% lighter than steel. Magnesium is the lightest of all metals used as the basis for constructional alloys. It is this property which entices automobile manufacturers to replace denser materials, not only steels, cast irons and copper base alloys but even aluminium alloys by magnesium based alloys. The requirement to reduce the weight of car components as a result in part of the introduction of legislation limiting emission has triggered renewed interest in magnesium. The growth rate over the next 10 years has been forecast to be 7% per annum. Magnesium is widely used in aerospace and military applications, steel making, super conducting materials, automotive sector and building and construction. Experts believe that the growing demand for lighter, fuel efficient vehicles, super conductors, steel, advanced alloys and eco-friendly building materials will ensure demand for magnesium continues to increase at historical rate of 7% pa. Chinese Government has put magnesium on the list of strategic materials on par with rare earths indicating the value it places on this advanced material.

**Competent Person:** The information in this Director's Report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Andrew Hawker, who is an independent geological consultant and is a member of The Australasian Institute of Mining and Metallurgy. Andrew Hawker has in excess of 5 years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Andrew Hawker consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

**CORPORATE**

On 2 July 2010 Korab shareholders approved the distribution in-specie to Korab shareholders of all shares held by Korab in Melrose Gold Mines Ltd and Lugansk Gold Ltd, the distribution to occur no later than six months from listing Melrose Gold Mines Ltd and Lugansk Gold Ltd on ASX. Neither of these companies has yet listed on ASX.

On 4 August 2010 Korab announced that its subsidiary Lugansk Gold had agreed to buy the remaining 26% equity in LLC Donetskryazh it did not already own. LLC Donetskryazh operates the Bobrikovo gold and silver mine located in Eastern Ukraine. This acquisition settled on 23 November 2010.

On 15 February 2011 Korab announced the closure of an oversubscribed Share Purchase Plan (SPP) to eligible Korab shareholders which raised \$2,970,000 via an issue of 9,000,000 shares at 33 cents each.

On 21 April 2011 Melrose Gold Limited, Korab's 95.61% subsidiary, lodged a prospectus ("Original Prospectus") with ASIC for the issue of 18,000,000 shares at \$0.20 per share to raise \$3,600,000, together with a provision to accept oversubscriptions of up to a further 9,000,000 shares at \$0.20 per share to raise up to a further \$1,800,000 before costs of the issue, to develop the highly prospective Melrose Project tenements containing mineral resources located near Leinster in the eastern goldfields of Western Australia.

**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.

**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:

<b>Director</b>	<b>Number eligible to attend</b>	<b>Meetings attended</b>
Andrej K. Karpinski	8	8
Malcolm J. McKenzie	8	8
Rodney H.J. Skeet	8	8

The Company does not have formally constituted Audit, Remuneration or Nomination Committees as the board considers that the company's size and type of operation does not currently warrant such committees.



DIRECTORS' REPORT

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SUBSEQUENT EVENTS

- (1) On 14 July 2011 Korab announced it had received the grant of exploration licence EL 08/2133 located in the Gascoyne/Ashburton region of Western Australia, 25 km from West Coast Highway and 100 km from the coast. The area under exploration is prospective for copper, lead, zinc, gold and other minerals and has recently attracted interest from Fortescue Metals Group and Rio Tinto. Korab has acquired past exploration data for the project area and evaluation of this data is nearing completion.
- (2) On 20 July 2011 Melrose Gold Mines Limited lodged a Supplementary Prospectus with the Australian Securities and Investments Commission, supplementary to Melrose's Original Prospectus dated 21 April 2011. At the date of the Supplementary Prospectus the Company had received applications for 2,779,865 Shares, raising \$555,973. The purpose of the Supplementary Prospectus was to advise investors and applicants that (i) Melrose's shares have not been admitted to quotation by ASX within three months of the date of the Original Prospectus; (ii) the Minimum Subscription has not been raised at the date of the Supplementary Prospectus and may not be raised within four months of the date of issue of the Original Prospectus; (iii) in response to an application lodged by the Company, ASIC has made a declaration that the four month time period specified recommence from the date of lodgement of the Supplementary Prospectus with ASIC; and (iv) applicants may withdraw their application and request a refund by 20 August 2011.

Other than these no other matter or circumstance has arisen since 30 June 2011 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.

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.

AUDITORS INDEPENDENCE DECLARATION

The auditor's independence declaration under Section 307C of the Corporations Act 2001 is set out on page 14.

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 47 to 49 of this Annual Report.

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.



DIRECTORS' REPORT

NON-AUDIT SERVICES

On 29 November 2010 HLB Mann Judd were appointed as auditors of the Company.

The Board has considered the non-audit services provided during the year by the auditors and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditors' independence requirements of the Corporations Act 2001.

Details of the amounts paid or payable to the auditor of the consolidated entity for audit and non-audit services provided during the year are set out below:

	June 2011 \$	June 2010 \$
<i>Audit and review services:</i>		
Auditors of the Company: HLB Mann Judd	40,000	-
Former auditors of the Company: Cormac Sharkey & Co	-	101,690
Auditors of a subsidiary company	1,758	-
<i>Other services:</i>		
Independent accountant's report	12,000	-
	<u>53,758</u>	<u>101,690</u>

DIRECTORS' INTERESTS

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

Name	Ordinary shares	Options over ordinary shares
Andrej K. Karpinski	20,486,362	-
Rodney H.J. Skeet	701,556	-
Malcolm J. McKenzie	5,741,875	-

IDENTIFICATION OF INDEPENDENT DIRECTORS

The independent directors are identified in the Corporate Governance Statement section of this Annual Report as set out on pages 47 to 49.

SHARE OPTIONS

No share options were issued during the current reporting period.

*Shares under option*

The following unissued ordinary shares of the Company are under option.

Expiry Date	Exercise Price	Number 01/07/10	Issued	Exercised	Number 30/06/11
06/01/12	\$0.20	500,000	-	500,000	-

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.



DIRECTORS' REPORT

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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 directors and executives 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 directors and executives. 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. It is anticipated that within the next 12 months Korab's board will develop, in conjunction with outside consultants, an option based employee incentive program which will then be submitted to shareholders for approval.

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 new 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 (2010: 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 \$25,000 per annum. The Executive Chairman currently does not receive director's fees. Rheingold Investments Corporation Pty Ltd, a company controlled by Executive Chairman receives executive management fees which are disclosed elsewhere in this report.



**DIRECTORS' 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.

*Service contracts*

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

- (i) Andrej K Karpinski, Executive Chairman. The Company has entered into 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 A K Karpinski twelve (12) months' notice. In the event the Company does not require Mr Karpinski to work throughout the period of notice, the Company shall pay to Mr Karpinski an amount of \$327,000 plus GST. Mr. Karpinski has voluntarily suspended part of the payments due under the agreement. The amounts of fees which are accrued are disclosed in the notes to these financial statements.

*Directors' and key management personnel remuneration, Company and consolidated entity*


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

	<b>Andrej Karpinski</b>	<b>Malcolm McKenzie</b>	<b>Rodney Skeet</b>	<b>Ben Donovan</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>2011</b>					
<i>Short-term benefits</i>					
2011 year fees paid	239,800	9,642	2,167	36,000	287,609
2011 year fees accrued	87,200	17,333	23,833	-	128,366
<i>Post-employment benefits</i>					
Superannuation contributions	-	4,995	-	-	4,995
<b>Total</b>	<b>327,000</b>	<b>31,970</b>	<b>26,000</b>	<b>36,000</b>	<b>420,970</b>
<b>2010</b>					
<i>Short-term benefits</i>					
Fees paid	35,200	4,333	9,333	-	48,866
Fees accrued	364,467	31,667	18,167	-	414,301
<i>Post-employment benefits</i>					
Superannuation contributions	-	3,240	-	-	3,240
<b>Total</b>	<b>399,667</b>	<b>39,240</b>	<b>27,500</b>	<b>-</b>	<b>466,407</b>

Ben Donovan is a director and company secretary of a subsidiary, Melrose Gold Mines Limited.

The directors suspended payment of non-executive directors' remuneration and the Executive Chairman's management fees in November 2008. As of the date of this report, non-executive directors' fees are being paid in full and the payments for management contract fees for services of the Executive Chairman have been part paid with the unpaid portion of fees being accrued.

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



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

Perth, Western Australia, 30 September 2011



AUDITOR'S INDEPENDENCE DECLARATION

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Accountants | Business and Financial Advisers "

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**AUDITOR'S INDEPENDENCE DECLARATION**

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As lead auditor for the audit of the financial report of Korab Resources Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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- b) any applicable code of professional conduct in relation to the audit.

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A handwritten signature in blue ink, appearing to read 'W M Clark'.

**W M CLARK**  
Partner, HLB Mann Judd

**Perth, Western Australia**  
**30 September 2011**

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2011**

	Notes	30 June 2011 \$	30 June 2010 \$
Interest income		87,524	61,653
Other income		45,765	50,223
Finance expense		(86,821)	(52,023)
Depreciation and amortisation		(34,297)	(27,300)
Corporate compliance and management		(1,154,825)	(1,001,185)
Occupancy costs		(47,761)	(84,924)
Conference, travel and public relations		(84,675)	(77,627)
Exploration and new venture expenditure written off		(48,344)	(268,854)
Loss on sale of projects		-	(448,188)
Other		(6,281)	26,868
Loss before income tax		(1,329,715)	(1,821,357)
Income tax expense		-	-
<b>Loss for the year</b>		<b>(1,329,715)</b>	<b>(1,821,357)</b>
<b>Other comprehensive income for the year net of income tax</b>			
Exchange difference on translation of foreign operations		(321,538)	103,090
<b>Total comprehensive loss for the year</b>		<b>(1,651,253)</b>	<b>(1,718,267)</b>
Loss for the year attributable to:			
Owners of the parent		(1,238,748)	(1,907,096)
Non-controlling interest		(90,967)	85,739
		<b>(1,329,715)</b>	<b>(1,821,357)</b>
Total comprehensive loss for the year attributable to:			
Owners of the parent		(1,455,374)	(1,804,292)
Non-controlling interest		(195,879)	86,025
		<b>(1,651,253)</b>	<b>(1,718,267)</b>
Basic loss per share (cents per share)	5	(1.5)	(2.7)

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 2011**

	Notes	30 June 2011 \$	30 June 2010 \$
<b>Current assets</b>			
Cash and cash equivalents		2,279,643	430,287
Trade and other receivables	6	491,090	255,364
<b>Total current assets</b>		<u>2,770,733</u>	<u>685,651</u>
<b>Non-current assets</b>			
Trade and other receivables	6	469,886	373,876
Exploration and evaluation	7	2,262,975	1,930,489
Other investments		6,478	-
Property, plant and equipment	8	19,558	52,944
Intangible assets	9	11,701	11,801
<b>Total non-current assets</b>		<u>2,770,598</u>	<u>2,369,110</u>
<b>Total assets</b>		<u>5,541,331</u>	<u>3,054,761</u>
<b>Current liabilities</b>			
Trade and other payables	10	543,543	243,116
Lease liabilities	11	-	10,983
Borrowings	12	2,880	-
<b>Total current liabilities</b>		<u>546,423</u>	<u>254,099</u>
<b>Non-current liabilities</b>			
Trade and other payables	10	558,764	519,508
Lease liabilities	11	-	29,274
Borrowings	12	-	341,824
<b>Total non-current liabilities</b>		<u>558,764</u>	<u>890,606</u>
<b>Total liabilities</b>		<u>1,105,187</u>	<u>1,144,705</u>
<b>Net assets</b>		<u>4,436,144</u>	<u>1,910,056</u>
<b>Equity</b>			
Contributed equity	16	9,644,181	6,582,992
Foreign currency translation reserve	16	(229,986)	452,596
Non-controlling interest contribution reserve	16	236,373	-
Accumulated losses	16	(5,070,144)	(5,054,924)
Total equity attributable to owners of the parent entity		<u>4,580,424</u>	<u>1,980,664</u>
Non-controlling interests	16	(144,280)	(70,608)
<b>Total equity</b>		<u>4,436,144</u>	<u>1,910,056</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 2011**

	Notes	30 June 2011 \$	30 June 2010 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(1,966,021)	(1,349,022)
Interest received		87,524	54,719
Interest paid		(84,452)	(51,973)
<b>Net cash flows (used in) operating activities</b>	15	<u>(1,962,949)</u>	<u>(1,346,276)</u>
<b>Cash flows from investing activities</b>			
Exploration and evaluation expenditure		(338,963)	(276,801)
Acquisition of property, plant and equipment		(811)	(4,856)
Loans from related parties		-	2,238
Acquisition of subsidiary, net of cash acquired		-	(89,915)
<b>Net cash flows (used in) investing activities</b>		<u>(339,774)</u>	<u>(369,334)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		2,970,000	2,000,000
Share applications received in advance		456,048	(14,870)
Proceeds from non-controlling interests		1,014,384	-
Proceeds from exercise of share options		100,000	50,000
Repayment of finance lease liabilities		-	(29,890)
Acquisition of non-controlling interests		(341)	-
Repayment of borrowings		(379,201)	(64,531)
Payment of share issue costs		(8,811)	-
<b>Net cash flows from financing activities</b>		<u>4,152,079</u>	<u>1,940,709</u>
<b>Net increase in cash and cash equivalents</b>		1,849,356	225,099
Cash and cash equivalents at the beginning of the financial year		<u>430,287</u>	<u>205,188</u>
<b>Cash and cash equivalents at the end of the financial year</b>	15	<u>2,279,643</u>	<u>430,287</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 2011**

	Contributed equity \$	Accumulated losses \$	Non- controlling interest contribution reserve \$	Foreign currency translation reserve \$	Total \$	Non- controlling interest \$	Total \$
<b>Balance at 30 June 2009</b>	5,463,432	(1,900,314)	-	(116,163)	3,446,955	165,047	3,612,002
Exchange difference arising on translation of foreign operations	-	-	-	102,804	102,804	286	103,090
Loss for the year	-	(1,907,096)	-	-	(1,907,096)	85,739	(1,821,357)
Total comprehensive loss for the year	-	(1,907,096)	-	102,804	(1,804,292)	86,025	(1,718,267)
<i>Transactions with owners in their capacity as owners:</i>							
Disposal of subsidiary	(930,440)	(1,247,514)	-	465,955	(1,711,999)	(321,680)	(2,033,679)
Shares issued on exercise of options	50,000	-	-	-	50,000	-	50,000
Shares issued for cash	2,000,000	-	-	-	2,000,000	-	2,000,000
<b>Balance at 30 June 2010</b>	6,582,992	(5,054,924)	-	452,596	1,980,664	(70,608)	1,910,056
Exchange difference arising on translation of foreign operations	-	-	-	(216,626)	(216,626)	(104,912)	(321,538)
Loss for the year	-	(1,238,748)	-	-	(1,238,748)	(90,967)	(1,329,715)
Total comprehensive loss for the year	-	(1,238,748)	-	(216,626)	(1,455,374)	(195,879)	(1,651,253)
<i>Transactions with owners in their capacity as owners:</i>							
Shares issued for cash	3,070,000	-	-	-	3,070,000	-	3,070,000
Share issue costs	(8,811)	-	-	-	(8,811)	-	(8,811)
Non controlling interest contribution reserve	-	1,223,528	236,373	(465,956)	993,945	122,207	1,116,152
<b>Balance at 30 June 2011</b>	9,644,181	(5,070,144)	236,373	(229,986)	4,580,424	(144,280)	4,436,144

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 2011**

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**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, Urgent Issues Consolidated entity Interpretations, 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 30 September 2011. 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 (including derivative instruments) at fair value through profit and loss.

*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:

(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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

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(iii) Taxation

A subsidiary, Donetsk Kryazh LLC, operates mainly in the Ukraine and is within that county'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.

**(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.

*Associates*

Associates are entities over which the consolidated entity has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The consolidated entity's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The consolidated entity's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the consolidated entity and its associates are eliminated to the extent of the consolidated entity's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

**(c) Intangible assets**

Intangible assets are measured at costs less accumulated impairment losses.

*Goodwill*

Goodwill (or negative goodwill) arises on the acquisition of subsidiaries, associates and jointly controlled entities. Goodwill represents the excess of the cost of acquisition over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill) it is recognised immediately in profit or loss.

Goodwill is not amortised and is subsequently measured at cost less accumulated impairment losses.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**(d) 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.

**(e) Receivables**

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

**(f) 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**(g) 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 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.

**(h) 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**(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. 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 Group's liability for employee benefits arising from services rendered by employees to balance date. 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.

**(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) Trade and other payables**

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

**(p) Comparative figures**

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**(q) 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 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.

**(r) 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.

**(s) Borrowing costs**

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**(t) 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).

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:	5 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.

**(u) Parent entity financial information**

The financial information for the parent entity, Korab Resources Limited, disclosed in Note 22 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**(v) 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 consolidated entity 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.

*(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.

**(w) 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



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**(w) Leases (continued)**

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.

**(x) 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.

*Site restoration*

Provisions for the cost of site restoration are recognized 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 site restoration provision is measured at the expected value of future cash flows, discounted to their present value using a current, US dollar real risk-free pre-tax discount rate. 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 the provision for site restoration was initially recognized, the corresponding cost was 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**(y) 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.

**(z) 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.

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.

**(aa) New accounting standards and interpretations**

In the year ending 30 June 2011 the consolidated entity has 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 2010. It has been determined by the consolidated entity that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The consolidated entity has also reviewed all new Standards and Interpretations that have been issued, but are not yet effective, for the year ended 30 June 2011. 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 its business and, therefore, no change is necessary to accounting policies.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**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.

**3. INCOME TAX EXPENSE**

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

	2011 \$	2010 \$
Loss before income tax expense	(1,329,715)	(1,821,357)
Prima facie income tax benefit on pre-tax loss at the Australian income tax rate of 30% (2010: 30%)	398,914	546,407
Tax effect of:		
Effect of lower overseas tax rate	(34,549)	(8,313)
Current year tax benefit not brought to account	(364,365)	(538,094)
Income tax expense	<u>-</u>	<u>-</u>

*Unrecognised net deferred tax assets*

Deferred tax assets have not been recognised in respect of the following items (refer Note 1(h)):

Tax losses	<u>2,274,547</u>	<u>1,821,356</u>
	2,274,547	1,821,356

**4. AUDITORS' REMUNERATION**

*Audit and review services:*

Auditors of the Company: HLB Mann Judd	40,000	-
Former auditors of the Company: Cormac Sharkey & Co	-	101,690
Auditors of a subsidiary company	1,758	-
<i>Other services:</i>		
Independent accountant's report	12,000	-
	<u>53,758</u>	<u>101,690</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 30 JUNE 2011

5. EARNINGS PER SHARE

	2011 \$	2010 \$
<b>Basic earnings per share</b>		
Loss from operations attributable to ordinary equity holders of Korab used to calculate basic and diluted earnings per share	(1,238,748)	(1,907,096)
	<b>Number of shares</b>	<b>Number of shares</b>
<i>Weighted average number of shares</i>		
1 July	78,500,000	68,000,000
Shares issued	3,747,945	2,886,301
30 June (basic and diluted)	<u>82,247,945</u>	<u>70,886,301</u>

All potential ordinary shares, being options to acquire ordinary shares, are not considered dilutive in the calculation of 2011 or 2010 earnings per share as the exercise of the options would not increase the loss per share.

6. TRADE AND OTHER RECEIVABLES

*Current*

Other receivables and prepayments: third parties	491,090	255,364
	<u>491,090</u>	<u>255,364</u>

*Non-current*

Other receivables and prepayments: related parties	469,886	373,876
	<u>469,886</u>	<u>373,876</u>

The related 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%.

7. EXPLORATION AND EVALUATION

Cost at beginning of the year	1,930,489	4,790,598
Foreign exchange translation	(81,214)	-
Expenditure during year	413,700	-
Demerger of subsidiary	-	(2,860,109)
Cost at end of the year	<u>2,262,975</u>	<u>1,930,489</u>
Carrying amount at the end of the year	<u>2,262,975</u>	<u>1,930,489</u>

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.

A subsidiary has expensed \$48,344 in the current year relating to mine development costs.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**8. PROPERTY, PLANT AND EQUIPMENT**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<i>Cost: Plant and equipment</i>		
Balance at beginning of financial year	103,712	133,344
Additions	811	3,068
Demerger of subsidiary	-	(32,700)
Balance at end of financial year	<u>104,523</u>	<u>103,712</u>
<i>Accumulated depreciation: Plant and equipment</i>		
Balance at beginning of financial year	81,651	82,303
Depreciation charge for year	18,797	19,580
Demerger of subsidiary	-	(20,232)
Balance at end of financial year	<u>100,448</u>	<u>81,651</u>
Carrying amount at the end of the financial year	<u>4,075</u>	<u>22,061</u>
<i>Cost: Motor vehicles</i>		
Balance at beginning of financial year	<u>77,000</u>	<u>77,000</u>
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	46,117	38,397
Depreciation charge for year	15,400	7,720
Balance at end of financial year	<u>61,517</u>	<u>46,117</u>
Carrying amount at the end of the financial year	<u>15,483</u>	<u>30,883</u>
Total carrying amount at the end of the financial year	<u>19,558</u>	<u>52,944</u>

**9. INTANGIBLE ASSETS**

Borrowing costs	496	496
Accumulated amortisation	(406)	(306)
Carrying amount at the end of the financial year	<u>90</u>	<u>190</u>
Trademarks	11,611	11,611
Accumulated amortisation	-	-
Carrying amount at the end of the financial year	<u>11,611</u>	<u>11,611</u>
Total carrying amount at the end of the financial year	<u>11,701</u>	<u>11,801</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**10. TRADE AND OTHER PAYABLES**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<i>Current</i>		
Trade payables – third parties (i)	22,161	129,288
Non-trade payables and accrued expenses - related parties (ii)	10,042	-
Non-trade payables and accrued expenses – share subscriptions	456,048	-
Non-trade payables and accrued expenses – other third parties	55,292	113,828
	<u>543,543</u>	<u>243,116</u>
 <i>Non-current</i>		
Non-trade payables and accrued expenses - related parties (ii)	558,764	519,508
	<u>558,764</u>	<u>519,508</u>

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

(ii) The terms and conditions of related party payables are set out Notes 18 and 20, Related Party Transactions and Key Management Personnel Disclosures respectively.

**11. LEASE LIABILITIES**

<i>Current</i>		
Finance lease - motor vehicle	-	14,651
Unexpired interest charges	-	(3,668)
Carrying amount at the end of the year	<u>-</u>	<u>10,983</u>
 <i>Non-current:</i>		
Finance lease - motor vehicle	-	34,258
Unexpired interest charges	-	(4,984)
Carrying amount at the end of the year	<u>-</u>	<u>29,274</u>
 Carrying Value	 <u>-</u>	 <u>40,257</u>

**12. BORROWINGS**

<i>Current:</i>		
Loans payable - third parties – unsecured	2,880	-
	<u>2,880</u>	<u>-</u>
 <i>Non-current</i>		
Loans payable - related parties - unsecured	-	341,824
	<u>-</u>	<u>341,824</u>

The consolidated entity had a \$600,000 unused credit standby facility at 30 June 2011 and 30 June 2010.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**13. SUBSIDIARIES**

	<b>Country of incorporation</b>	<b>Class of shares</b>	<b>Equity holding</b>	
			<b>2011</b>	<b>2010</b>
<b>Held by parent</b>				
Lugansk Gold Limited	Australia	Ordinary	68.67%	95.47%
Geolsec Phosphate Operations Pty Ltd	Australia	Ordinary	100%	100%
Melrose Gold Mines Limited	Australia	Ordinary	95.61%	99.01%
Australian Copper Limited	Australia	Ordinary	100%	100%
Iron Ore Australia Pty Ltd	Australia	Ordinary	100%	0%
Australian Industrial Metals Pty Ltd	Australia	Ordinary	100%	0%
Nickel Australia Pty Ltd	Australia	Ordinary	100%	0%
<b>Held by Lugansk Gold Limited</b>				
LLC "Donetsky Kryazh"	Ukraine	Ordinary	100%	74.00%

*Acquisition of controlled entities*

On 23 November 2010 Lugansk Gold Limited acquired the remaining 26% of LLC "Donetsky Kryazh" it did not already own for consideration of \$341. Donetsky Kryazh operates the Bobrikovo gold and silver mine in the Ukraine.

Lugansk Gold Limited issued 40,866,667 shares during the period at various prices to raise \$655,365, thus reducing Korab's equity to 68.67%.

Melrose Gold Mines Limited issued 3,590,190 shares at \$0.10 per share to raise \$359,019, thus reducing Korab's equity to 95.61%

**14. SUBSEQUENT EVENTS**

On 14 July 2011 Korab announced it had received the grant of exploration licence EL 08/2133 located in the Gascoyne/Ashburton region of Western Australia, 25 km from West Coast Highway and 100 km from the coast. The area under exploration is prospective for copper, lead, zinc, gold and other minerals and has recently attracted interest from Fortescue Metals Group and Rio Tinto. Korab has acquired past exploration data for the project area and evaluation of this data is nearing completion.

On 20th July 2011 Melrose Gold Mines Limited lodged a Supplementary Prospectus with the Australian Securities and Investments Commission, supplementary to Melrose's Original Prospectus dated 21 April 2011. At the date of the Supplementary Prospectus the Company had received applications for 2,779,865 Shares, raising \$555,973. The purpose of the Supplementary Prospectus was to advise investors and applicants that (i) the Melrose's shares have not been admitted to quotation by ASX within three months of the date of the Original Prospectus; (ii) the Minimum Subscription has not been raised at the date of the Supplementary Prospectus and may not be raised within four months of the date of issue of the Original Prospectus; (iii) in response to an application lodged by the Company, ASIC has made a declaration that the four month time period specified recommenced from the date of lodgement of the Supplementary Prospectus with ASIC; and (iv) applicants may withdraw their application and request a refund by 20 August 2011.

Other than these no other matter or circumstance has arisen since 30 June 2011 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**15. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES**

	2011	2010
	\$	\$
(a) Reconciliation of (loss) after income tax to net cash flow from operating activities		
(Loss) for the year	(1,329,715)	(1,821,357)
Depreciation and amortisation	34,297	27,330
Net (profit)/loss on sale of assets	-	448,188
Interest expenses classified as financial cost	-	16,870
Licenses written-off	-	268,854
Exchange difference on translation of foreign operations	(322,528)	-
Minority interest	-	(85,739)
Change in assets and liabilities		
- (Increase) in trade and other receivables	(331,737)	(193,217)
- (Increase) in payments for exploration costs and tenements	-	(12,207)
- (Decrease) / increase in trade and other payables	(13,266)	5,002
Net cash flow from operating activities	<u>(1,962,949)</u>	<u>(1,346,276)</u>
 (b) Cash and cash equivalents		
Cash at bank and at call	<u>2,279,643</u>	<u>430,287</u>

(c) Risk exposure

The consolidated entity's exposure to interest rate risk is discussed in Note 17. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**16. CAPITAL AND RESERVES**

*(a) Contributed equity:*

	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>Number</b>	<b>\$</b>	<b>Number</b>	<b>\$</b>
<i>Ordinary shares</i>				
1 July	78,500,000	6,582,992	68,000,000	5,463,432
Issue of shares for cash	9,000,000	2,970,000	10,000,000	2,000,000
Cost of issue of shares	-	(8,811)	-	-
Exercise of share options	500,000	100,000	500,000	50,000
Distribution in specie of Uranium Australia Limited shares to Korab shareholders	-	-	-	(930,440)
30 June	<u>88,000,000</u>	<u>9,644,181</u>	<u>78,500,000</u>	<u>6,582,992</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.

*(b) Accumulated losses*

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
1 July	(5,054,924)	(1,900,314)
Demerger of subsidiary	-	(1,247,514)
Transfer to non-controlling interest contribution reserve	1,223,528	-
Loss for the period	(1,238,748)	(1,907,096)
30 June	<u>(5,070,144)</u>	<u>(5,054,924)</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	452,596	(116,163)
Demerger of subsidiary	-	465,955
Transfer to non-controlling interest contribution reserve	(465,956)	-
Foreign exchange on translation of foreign operations	(216,626)	102,804
30 June	<u>(229,986)</u>	<u>452,596</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.

1 July	-	-
Recognition of change in shareholdings in subsidiaries	236,373	-
30 June	<u>236,373</u>	<u>-</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**16. CAPITAL AND RESERVES (continued)**

*(e) Non-controlling interest*

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
1 July	(70,608)	165,047
Loss for the period	(90,967)	85,739
Demerger of subsidiary	-	(321,680)
Transfer to non-controlling interest contribution reserve	122,207	-
Foreign exchange on translation of foreign operations	(104,912)	286
30 June	<u>(144,280)</u>	<u>(70,608)</u>

**17. 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:

	<b>2011 (\$)</b>	<b>2010 (\$)</b>
<i>Carrying amount:</i>		
Cash and cash equivalents	2,279,643	430,287
Trade and other receivables	960,976	629,240
	<u>3,240,619</u>	<u>1,059,527</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**17. 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. There were no variable rate interest-bearing financial liabilities other than prior year lease liabilities as set out in Note 11.

	Variable rate instruments at call 2011 (\$)	Weighted average effective interest rate 2011	Variable rate instruments at call 2010 (\$)	Weighted average effective interest rate 2010
<i>Financial assets</i>				
Cash and cash equivalents	2,279,643	2.7%	430,287	0.8%

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

	<b>2011 (\$)</b>	<b>2010 (\$)</b>
<i>Variable rate instruments</i>		
Financial assets	2,279,643	430,287
<i>Fixed rate instruments</i>		
Lease liabilities	-	40,257

*Sensitivity analysis*

A 10% increase or decrease in the weighted average year-end interest rate of variable rate instruments, being 27 basis points (2010: 8 basis points), would have increased / (decreased) consolidated profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010:

	<b>Profit and loss (\$)</b>
30 June 2011 increase	2,510
30 June 2011 decrease	(2,510)
30 June 2010 increase	33
30 June 2010 decrease	(33)

(ii) Price risk

The consolidated entity was not exposed equity securities price risk at 30 June 2011 or 30 June 2010.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**17. FINANCIAL RISK MANAGEMENT (continued)**

(b) *Market risk (continued)*

(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 these 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 2011	As at 30 June 2011	Year ended 30 June 2010	As at 30 June 2010
A\$ / US\$	0.989	1.060	0.882	0.857
US\$ / Hryvnias	8.045	8.085	8.147	8.024
A\$ / Hryvnias	7.957	8.568	7.185	6.874

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

2011	A\$	Ukrainian Hryvnias	Total
Cash and cash equivalents	2,261,324	18,319	2,279,643
Trade and other receivables	620,811	340,165	960,976
Borrowings	(2,880)	-	(2,880)
Trade and other payables	(1,083,334)	(18,975)	(1,102,309)
	<u>1,795,921</u>	<u>339,509</u>	<u>2,135,430</u>

2010	A\$	Ukrainian Hryvnias	Total
Cash and cash equivalents	427,874	2,413	430,287
Trade and other receivables	423,384	205,856	629,240
Lease liabilities	(40,257)	-	(40,257)
Borrowings	(341,824)	-	(341,824)
Trade and other payables	(755,795)	(6,829)	(762,624)
	<u>(286,618)</u>	<u>201,440</u>	<u>(85,178)</u>

*Sensitivity*

Had the Australian dollar weakened / strengthened by 10% against the Ukrainian Hryvnias for the year ended and as at 30 June 2011, with all other variables held constant, the group's post-tax loss for the year after eliminating non-controlling equity interests would have been \$18,012 higher / \$22,015 lower and its foreign currency exchange reserve would be \$65,672 lower / \$80,266 higher.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**17. 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:

	<b>Carrying amount (\$)</b>	<b>Contractual cashflows (\$)</b>	<b>6 months or less (\$)</b>	<b>1 to 5 years (\$)</b>
2011				
Trade and other payables	1,102,307	1,102,307	543,543	558,764
	<u>1,102,307</u>	<u>1,102,307</u>	<u>543,543</u>	<u>558,764</u>
2010				
Trade and other payables	762,624	762,624	243,116	519,508
	<u>762,624</u>	<u>762,624</u>	<u>243,116</u>	<u>519,508</u>

*(d) Commodity price risk*

The consolidated entity is not currently exposed to commodity price risk.

*(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>	<b>Carrying amount 2011 (\$)</b>	<b>Fair value 2011 (\$)</b>	<b>Carrying amount 2010 (\$)</b>	<b>Fair value 2010 (\$)</b>
Cash and cash equivalents	2,279,643	2,279,643	430,287	430,287
Trade and other receivables	960,976	960,976	629,240	629,240
Lease liabilities	-	-	(40,257)	(40,257)
Borrowings	(2,880)	(2,880)	(341,824)	(341,824)
Trade and other payables	(1,102,307)	(1,102,307)	(762,624)	(762,624)
	<u>2,135,432</u>	<u>2,135,432</u>	<u>(85,178)</u>	<u>(85,178)</u>

All trade and other receivables / payables carrying amount is deemed 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 2011**

**18. RELATED PARTY TRANSACTIONS**

Korab Resources Limited is the ultimate parent entity.

Interests in subsidiaries are disclosed in Note 13 and details of key management personnel compensation is set out in Note 20. The remuneration of directors and key management personnel is set out in the Remuneration Report on pages 12 to 13. Related party receivables are shown in Note 6 and related party payables in Note 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.

	2011 \$	2010 \$
Payments made to Rheingold Investments Corporation Pty Ltd for:		
- Management contract fees paid	239,800	35,200
- Management contract fees accrued	87,200	364,467
Total payments to Rheingold Investments Corporation Pty Ltd	327,000	399,667

In October 2008 Directors and Rheingold agreed to indefinitely suspend payments of the executive services fees (management contract fees) because of the global financial crisis. As of the date of this report, the payments for management contract fees have resumed but on a reduced basis with the unpaid portion of fees being accrued. The balance of outstanding liabilities to Rheingold at period end is \$556,872 (2010: \$519,508) at an interest rate of 8.63%. The loan is not payable prior to 31 October 2012.

Mr. Karpinski has not received any directors' fees from Korab or its subsidiaries since the formation of Korab in March 1998.

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 \$469,886 (2010: \$373,876) at an interest rate of 8.5%. The receivable is not payable prior to 30 June 2012.

**19. CONTINGENCIES**

In the opinion of the directors there were no material contingent liabilities that existed as at 30 June 2011 or 30 June 2010. Contingent liabilities arising from key management personnel contracts are set out in the Remuneration Report as set out on pages 12 to 13.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**20. 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:

	2011 (\$)	2010 (\$)
Short term benefits	415,975	463,167
Post employment	4,995	3,240
	420,970	466,407

Information regarding individual directors and executives compensation is provided in the Remuneration Report as set out on pages 12 to 13. 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 and expenses are:

	2011 (\$)	2010 (\$)
<i>Current</i>		
Trade and other payables	10,042	-
<i>Non-current</i>		
Trade and other payables	558,764	519,508

*(c) Share options*

There were no options in the Company held, directly, indirectly or beneficially by any key management person during the period 1 July 2009 to 30 June 2011.

*(d) 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:

**2011**

<b>Director</b>	<b>Held at 01/07/10</b>	<b>Net acquired</b>	<b>Held at 30/6/11</b>
Andrej Karpinski	20,350,000	136,362	20,486,362
Rodney Skeet	691,556	10,000	701,556
Malcolm McKenzie	5,696,421	45,454	5,741,875

**2010**

<b>Director</b>	<b>Held at 01/07/09</b>	<b>Net acquired</b>	<b>Held at 30/6/10 or date of resignation</b>
Andrej Karpinski	20,125,000	225,000	20,350,000
Rodney Skeet	616,556	75,000	691,556
Malcolm McKenzie	5,646,421	50,000	5,696,421
Daniel Smetana	561,818	50,000	611,818



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**21. COMMITMENTS**

**Lease commitments**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<i>Non-cancellable finance lease payments (motor vehicle)</i>		
- Not later than 1 year	-	14,650
- Later than 1 year and not later than 5 years	-	34,258
	<u>-</u>	<u>48,908</u>
<i>Non-cancellable operating leases (office lease)</i>		
Within one year	97,385	30,018
Later than one year but not later than 5 years	54,147	210,126
	<u>151,532</u>	<u>240,144</u>

The office lease, which commenced 15 January 2008, comprises an initial term of five years with an option to renew.

**Mining tenements**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Annual expenditure commitments to maintain current rights to tenure of mining tenements	695,160	226,160
Rehabilitation obligations	20,000	20,000
	<u>715,160</u>	<u>246,160</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 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.

The consolidated entity will be responsible for any rehabilitation obligations of Savanna Mineral Resources Pty. Ltd. (Savanna), a joint venture partner in respect of the Tenements arising from any activities on certain Tenements occurring prior to 20<sup>th</sup> February 2004 up to a maximum of \$20,000, it being acknowledged and agreed by the Company and Savanna that any such rehabilitation obligations in excess of \$20,000 will be the responsibility of Savanna.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
**FOR THE YEAR ENDED 30 JUNE 2011**

**22. PARENT ENTITY INFORMATION**

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

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<i>Statement of Financial Position</i>		
Current assets	3,800,511	1,588,049
Total assets	5,049,316	3,417,130
Current liabilities	54,408	185,329
Total liabilities	613,172	890,606
Equity		
Contributed equity	9,644,181	6,582,992
Accumulated losses	(5,208,037)	(4,241,797)
	<u>4,436,144</u>	<u>2,341,195</u>
Loss for the year	<u>(966,240)</u>	<u>(1,423,041)</u>
Total comprehensive loss for the year	<u>(966,240)</u>	<u>(1,423,041)</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 2011 or 30 June 2010.

The Company's capital commitments are as follows:

**Mining tenements**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Annual expenditure commitments to maintain current rights to tenure of mining tenements	695,160	174,500
Rehabilitation obligations	20,000	20,000
	<u>715,160</u>	<u>194,500</u>

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 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.

The Company will be responsible for any rehabilitation obligations of Savanna Mineral Resources Pty. Ltd. (Savanna), a joint venture partner in respect of the Tenements arising from any activities on certain Tenements occurring prior to 20<sup>th</sup> February 2004 up to a maximum of \$20,000, it being acknowledged and agreed by the Company and Savanna that any such rehabilitation obligations in excess of \$20,000 will be the responsibility of Savanna.




**DIRECTORS' DECLARATION  
FOR THE YEAR ENDED 30 JUNE 2011**

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- (1) In the opinion of the directors of Korab Resources Limited:
- (a) the financial statements and notes set out on pages 15 to 43 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 2011 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  
30 September 2011



INDEPENDENT AUDIT REPORT  
FOR THE YEAR ENDED 30 JUNE 2011



Accountants | Business and Financial Advisers "

**INDEPENDENT AUDITOR'S REPORT**

To the members of Korab Resources Limited

**Report on the Financial Report**

We have audited the accompanying financial report of Korab Resources Limited ("the company"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

***Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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



INDEPENDENT AUDIT REPORT  
FOR THE YEAR ENDED 30 JUNE 2011



Accountants | Business and Financial Advisers "

**Matters relating to the electronic presentation of the audited financial report**

This auditor's report relates to the financial report and remuneration report of Korab Resources Limited for the financial year ended 30 June 2011 included on Korab Resources Limited's website. The company's directors are responsible for the integrity of the Korab Resources Limited website. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report in this report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report.

**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**Auditor's Opinion**

In our opinion:

- (a) the financial report of Korab Resources Limited is 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 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

**Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. 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.

**Auditor's Opinion**

In our opinion, the Remuneration Report of Korab Resources Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

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Perth, Western Australia  
30 September 2011

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HLB MANN JUDD  
Chartered Accountants

W M CLARK  
Partner



**CORPORATE GOVERNANCE STATEMENT**

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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.

For further information on corporate governance policies adopted by Korab Resources Limited, refer to our website: [www.korabresources.com.au](http://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 annual 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.

**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.



CORPORATE GOVERNANCE STATEMENT (Continued)

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**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 appointment 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.

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.



CORPORATE GOVERNANCE STATEMENT (Continued)

**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 director is Rodney Skeet.

**EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS**

From 1 July 2010 to 30 June 2011 (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:

	<b>Notification of Departure</b>	<b>Explanation of Departure</b>
2.1	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 feel it is cost effective to increase the size of the board to meet this recommendation given the size of the company.
2.2	The Chairman is not an independent director	The Board considers that the Company is not currently of a size or complexity to require an independent Chairman. If the Company's activities increase in size, scope and/or nature the appointment of an independent Chairman will be considered by the Board.
2.3	The Chairman 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.
2.4	The Company does not have a Nomination Committee	The Board intends to appoint a Nomination Committee during the 2012 financial year.
4.1	The Company does not have an Audit Committee	The Board intends to appoint an Audit Committee during the 2012 financial year.
8.1	The Company does not have Remuneration Committee	The Board intends to appoint a Remuneration Committee during the 2012 financial year.



ADDITIONAL SHAREHOLDER INFORMATION

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

**SUBSTANTIAL SHAREHOLDERS**

The following shareholders have lodged substantial shareholder notices with ASX:

<b>Beneficial holder</b>	<b>Shares</b>	<b>%</b>
Andrej Karpinski,	20,486,362	23.28
Malcolm McKenzie	5,741,875	6.53

**DISTRIBUTION OF SHAREHOLDERS**

The distribution of members and their holdings of equity securities in the Company as at 26 September 2011 were as follows:

<b>Range of holding</b>	<b>Shareholders</b>	<b>Number Of Ordinary Shares</b>
1 – 1,000	125	32,885
1,001 – 5,000	270	865,930
5,001 – 10,000	270	2,329,075
10,001 – 100,000	641	23,123,838
100,001 and over	105	61,648,272
<b>Totals</b>	<b>1,411</b>	<b>88,000,000</b>

The number of shareholders holding less than a marketable parcel of ordinary shares is 238.

**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.

**ON-MARKET BUYBACK**

There is no current on-market buyback.



ADDITIONAL SHAREHOLDER INFORMATION (Continued)

**TWENTY LARGEST SHAREHOLDERS**

The names of the twenty largest shareholders of the fully paid ordinary shares of the Company as at 26 September 2011 are as follows:

Name	Number Of Ordinary Fully Paid Shares	% Held Of Issued Ordinary Capital
ANDREJ KARPINSKI	10,834,729	12.31%
CUSTODIAL SERVICES LIMITED	7,294,268	8.29%
RHEINGOLD INVESTMENTS CORPORATION PTY LTD	6,667,718	7.58%
CHANCERY HOLDINGS PTY LTD	3,339,281	3.79%
RHEINGOLD INVESTMENTS CORPORATION PTY LTD	2,983,915	3.39%
CHANCERY HOLDINGS PTY LTD	2,402,594	2.73%
SELWYN BRUCE HATRICK	2,000,000	2.27%
JBWERE (NZ) NOMINEES LIMITED	1,256,565	1.43%
CITICORP NOMINEES PTY LIMITED	918,984	1.04%
TUCKETT HOLDINGS PTY LTD	750,000	0.85%
FIONA TEO	720,454	0.82%
MR WARREN BRUCE TUCKETT & MRS SUSANNE LEE TUCKETT	705,000	0.80%
RODNEY HENRY SKEET	701,556	0.80%
RIADIS HOLDINGS PTY LTD	700,000	0.80%
MARGARET HATRICK & SELWYN HATRICK & CHRISTOPHER CURRIE	650,000	0.74%
ITC MANUFACTURING PTY LTD	630,454	0.72%
OFFA PTY LTD	610,454	0.69%
ADAMIC PTY LTD	551,618	0.63%
MR GORDON NEIL ANDERSON & MS RHONDA CYNTHIA ANDERSON	525,251	0.60%
IAN STUART WATSON	522,983	0.59%
<b>Total</b>	<b>44,765,824</b>	<b>50.87%</b>
<b>Balance of Register</b>	<b>43,234,176</b>	<b>49.13%</b>
<b>Grand Total</b>	<b>88,000,000</b>	<b>100.00%</b>



ADDITIONAL SHAREHOLDER INFORMATION (Continued)

**SCHEDULE OF MINERAL TENEMENTS**

As of 27 September 2011 Korab Resources Ltd and its subsidiaries held equity or were earning equity in the following tenements:

Tenement	Registered Holder/Applicant	Shares/	Status	Grant Date/ Application Date	Expiry Date	Area	Current Annual Rent	Current Annual Minimum Expenditure
EL 24818	Korab Resources Limited	100%	Granted	18-01-2006	17-01-12	18 Blks	\$3,168	\$60,000
EL 25133	Korab Resources Limited	100%	Granted	13-07-2006	12-07-12	2 Blks	\$352	\$8,000
EL 25135	Korab Resources Limited	100%	Granted	13-07-2006	12-07-12	1 Blks	\$176	\$20,000
EL 25136	Korab Resources Limited	100%	Granted	12-09-2006	11-09-12	3 Blks	\$528	\$16,000
SEL 24855	Korab Resources Limited	100%	Granted	24-01-2006	23-01-12	11 Blks	\$1,936	\$75,000
EL 27683	Korab Resources Limited	100%	Granted	27-04-2010	26-04-16	5 Blks	\$55	\$15,000
EL 27875	Korab Resources Limited	100%	Granted	27-04-2010	26-04-16	4 Blks	\$44	\$6,500
ELA 28348	Korab Resources Limited	100%	Application	14-10-2010	N/A	27 Blks	\$297	\$12,000
ELA 28867	Korab Resources Limited	100%	Application	30-06-2011	N/A	4 Blks	\$44	\$8,000
MLN512	Korab Resources Limited	100%	Granted	19-04-1982	31-12-23	16ha	\$176	N/A
MLN513	Korab Resources Limited	100%	Granted	19-04-1982	31-12-23	16ha	\$176	N/A
MLN514	Korab Resources Limited	100%	Granted	19-04-1982	31-12-23	16ha	\$176	N/A
MLN515	Korab Resources Limited	100%	Granted	19-04-1982	31-12-23	16ha	\$176	N/A
MLN542	Korab Resources Limited	100%	Granted	19-04-1982	31-12-23	15ha	\$165	N/A
MLN543	Korab Resources Limited	100%	Granted	19-04-1982	31-12-23	15ha	\$165	N/A
ML 27362	Geolsec Phosphate Operations Pty Ltd	100%	Granted	22-04-2010	21-04-35	234.3ha	\$2,585	N/A
P 37/7048	Melrose Gold Mines	100%	Granted	27-06-2008	26-06-12	158.38ha	\$350	\$6,360
P 37/7049	Melrose Gold Mines	100%	Granted	27-06-2008	26-06-12	159.64ha	\$352	\$6,400
E 53/1210	Redport Exploration	100%	Granted	18-01-2007	17-01-12	26 Blks	\$6,227	\$39,000
E 53/1211	Redport Exploration	100%	Granted	10-01-2007	9-01-12	25 Blks	\$5,988	\$37,500
P 53/1252	Redport Exploration	100%	Granted	31-01-2007	30-01-15	197ha	\$433	\$7,880
P 53/1253	Redport Exploration	100%	Granted	31-01-2007	30-01-15	198ha	\$436	\$7,920
P 53/1254	Redport Exploration	100%	Granted	31-01-2007	30-01-15	178ha	\$392	\$7,120
P 53/1255	Redport Exploration	100%	Granted	31-01-2007	30-01-15	200ha	\$440	\$8,000
P 53/1256	Redport Exploration	100%	Granted	31-01-2007	30-01-15	186ha	\$409	\$7,440
P 37/6943	Redport Exploration	100%	Granted	20-03-2007	19-03-15	197ha	\$433	\$7,880
P 53/1324	Redport Exploration	100%	Granted	29-07-2008	28-07-12	72.89ha	\$161	\$2,920
P 53/1336	Redport Exploration	100%	Granted	12-06-2008	11-06-12	108.9ha	\$240	\$4,360
P 53/1337	Redport Exploration	100%	Granted	12-06-2008	11-06-12	188.6ha	\$416	\$7,560
P 53/1338	Redport Exploration	100%	Granted	12-06-2008	11-06-12	174.68ha	\$385	\$7,000
P 53/1339	Redport Exploration	100%	Granted	12-06-2008	11-06-12	174.66ha	\$385	\$7,000
P 53/1340	Redport Exploration	100%	Granted	12-06-2008	11-06-12	170.31ha	\$376	\$6,840
P 53/1341	Redport Exploration	100%	Granted	12-06-2008	11-06-12	178.93ha	\$394	\$7,160
M 53/579	Redport Exploration	100%	Granted	27-11-2008	26-11-29	26.62ha	\$405	\$10,000
M 53/574	Redport Exploration	100%	Granted	14-01-2009	13-01-30	11.57ha	\$180	\$10,000
M 53/575	Redport Exploration	100%	Granted	14-01-2009	13-01-30	14.12ha	\$225	\$10,000
M 53/578	Redport Exploration	100%	Granted	14-01-2009	13-01-30	676ha	\$10,155	\$67,700
M 53/1089	Redport Exploration	100%	Granted	9-10-2009	8-10-30	7333ha	\$110,010	\$733,400
M 37/108	Melrose Gold Mines	100%	Granted	9-07-1987	8-07-29	11.04ha	\$180	\$10,000
M 37/519	Melrose Gold Mines	100%	Granted	22-08-1995	21-08-16	185ha	\$2,790	\$18,600
M 37/1167	Melrose Gold Mines	100%	Granted	14-06-2005	13-06-26	103ha	\$1,545	\$10,300
L 37/144	Melrose Gold Mines	100%	Granted	4-08-2006	3-08-27	32.68ha	\$439	N/A
L 37/145	Melrose Gold Mines	100%	Granted	4-08-2006	3-08-27	56.42ha	\$758	N/A
E 08/2115	Australian Copper	100%	Granted	4-11-2010	3-11-15	121 Blks	\$13,734	\$121,000
E 08/2307	Australian Copper	100%	Application	00.00.00	00.00.00	43 Blks	\$4,881	\$43,000
E 08/2308	Australian Copper	100%	Application	00.00.00	00.00.00	70 Blks	\$7,945	\$70,000
E 08/2133	Korab Resources	100%	Granted	5-07-2011	4-07-16	189 Blks	\$21,452	\$189,000
BKB169 563/535	LLC "Donetsky Kryazh"	100%	Granted	30-10-2007	30-10-12	25ha	UAH102,804	N/A
4420381100	LLC "Donetsky Kryazh"	100%	Granted	29-07-2009	17-07-13	8ha	UAH23,119	N/A
1589	LLC "Donetsky Kryazh"	100%	Granted	29-07-2009	17-06-13	13ha	N/A	N/A
2730	LLC "Donetsky Kryazh"	100%	Granted	17-06-2002	17-06-13	12ha	N/A	N/A

