



ABN 88 125 546 910

Rights Issue Prospectus

For a pro rata renounceable entitlement offer of 1 New Share for every 3 Shares held by Eligible Shareholders at an issue price of 55 cents per Share to raise up to approximately \$30.3 million (**Rights Issue**).

The Rights Issue is conditionally underwritten by RFC Corporate Finance Ltd for up to \$12.5 million of the Shortfall. Refer to Section 8.5 of this Prospectus for details regarding the terms and conditions of the Offer Management and Underwriting Agreement.

The Rights Issue closes at 5.00 pm (Perth time) on 14 September 2011.

IMPORTANT NOTICE

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the New Shares being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser.

This document may not be distributed into the United States or to any US Person (or to any person acting for the account or benefit of a US Person).

Blake Dawson

Australian Lawyers



Corporate Adviser and Underwriter

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1. SUMMARY OF IMPORTANT DATES AND NOTES

1.1 Timetable and important dates

| Event | Date |
|--|-------------------|
| Rights Issue announced | 1 August 2011 |
| Prospectus lodged with ASIC and ASX | 1 August 2011 |
| Notice of Rights Issue sent to Shareholders | 3 August 2011 |
| Shares commence trading on ASX on an ex-rights basis | 4 August 2011 |
| Rights trading on ASX commences | 4 August 2011 |
| Record Date for determining Rights under the Rights Issue | 10 August 2011 |
| Rights Issue opens and despatch of Prospectus and Entitlement and Acceptance Forms | 11 August 2011 |
| General Meeting to consider Second Tranche Share Placement | 31 August 2011 |
| Rights trading on ASX ends | 7 September 2011 |
| Deferred Settlement Trading of New Shares commences | 8 September 2011 |
| Closing time for renunciations, acceptances and payment in full of Rights | 14 September 2011 |
| Notification to ASX by the Company of under-subscriptions | 16 September 2011 |
| Despatch date/New Shares entered into Shareholders' security holdings | 19 September 2011 |
| New Shares commence trading on ASX | 20 September 2011 |

The above timetable is indicative only and is subject to change. The Company reserves the right, subject to the Corporations Act, ASX Listing Rules and other applicable laws to vary the times and dates of the Rights Issue, including extending the Rights Issue or accepting late applications, either generally or in particular cases, without notice. The Company will announce all changes through ASX. You cannot, in most circumstances, withdraw your application once it has been accepted.

1.2 Important notice

Shareholders should read this document in its entirety and, if in doubt, should consult their professional advisers.

This Prospectus is dated 1 August 2011 and a copy of this Prospectus was lodged with ASIC on that date. ASIC and ASX take no responsibility for the content of this Prospectus.

The expiry date of the Prospectus is 13 months from the date of this Prospectus (**Expiry Date**). No New Shares will be allotted or issued on the basis of this Prospectus after the Expiry Date.

Applications for New Shares offered pursuant to this Prospectus can only be submitted on an original Entitlement and Acceptance Form which accompanies this Prospectus.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe

any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

It is currently expected that the New Shares will be issued, and Transaction Confirmation Statements in respect of the New Shares dispatched, on 19 September 2011. If you apply for New Shares, it is your responsibility to confirm your holding before trading in those New Shares. If you sell New Shares before receiving confirmation of your holding in the form of your Transaction Confirmation Statement, you do so at your own risk. The Company disclaims all liability, whether in negligence or otherwise, to any person who trades in New Shares before receiving their Transaction Confirmation Statement.

1.3 Investors outside Australia

Investors outside Australia, including New Zealand investors, should refer to Section 4.16 of this Prospectus.

1.4 Disclaimer of representations

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

1.5 Forward-looking statements

This Prospectus contains forward-looking statements that, despite being based on the Company's current expectations about future events, are subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of the Company and the Directors. These known and unknown risks, uncertainties and assumptions, could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by forward-looking statements in this Prospectus. These risks, uncertainties and assumptions include but are not limited to the risks outlined in Section 7 of this Prospectus. Forward-looking statements include those containing such words as "anticipate", "estimate", "opportunity", "plan", "intend", "aim", "seek", "believe", "should", "will", "may" and similar expressions.

1.6 Competent persons statements

Information in this Prospectus that relates to Mineral Resources at the Kwale Project is based on information compiled by the Company's Manager – Geology, Scott Carruthers, who is a member of The Australasian Institute of Mining and Metallurgy. Mr Carruthers has sufficient 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 JORC Code. Mr Carruthers consents to the inclusion in this Prospectus of the information based on his work in the form and context in which it appears.

Information in this Prospectus that relates to Ore Reserves at the Kwale Project is based on information compiled by Scott Carruthers and Per Scrimshaw, both of whom are Members of The Australasian Institute of Mining and Metallurgy. Mr Carruthers is a full time employee of the Company. Mr Scrimshaw is employed by Creative Mined Enterprises. Both Mr Carruthers and Mr Scrimshaw have sufficient 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 JORC Code. Both Mr Carruthers and Mr Scrimshaw consent to the inclusion in this Prospectus of the information based on his work in the form and context in which it appears.

1.7 Diagrams

Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

1.8 Prospectus availability

Eligible Shareholders will be mailed a paper copy of this Prospectus with a personalised Entitlement and Acceptance Form. Eligible Shareholders and Eligible Investors can obtain a copy of this Prospectus before or during the Rights Issue on the website www.baseresources.com.au, or can obtain a hardcopy by contacting the Company Secretary on +61 (0) 8 9413 7400 any time between 8.30am and 5.00pm (Perth time) Monday to Friday until the Closing Date. Any person accessing the electronic version of this Prospectus should ensure that they download and read the entire Prospectus.

1.9 Risk factors

An investment in the Company has risks that you should consider before making a decision to invest. Prospective investors should carefully consider some of these risk factors which are set out in Section 7 of this Prospectus.

1.10 Privacy

Please read the privacy information located in Section 4.19 of this Prospectus. By submitting an Entitlement and Acceptance Form, you consent to the matters outlined in that section.

1.11 Enquiries

If you have any questions, please call the Company Secretary on +61 (0) 8 9413 7400 or Security Transfer Registrars Pty Limited (the Company's Share Registry) on +61 (0) 8 9315 2333 any time between 8.30am and 5.00pm (Perth time) Monday to Friday until the Closing Date. Alternatively, please consult your stockbroker, accountant or other professional adviser.

2. BACKGROUND TO THE RIGHTS ISSUE

2.1 Rights Issue made concurrent with the Share Placement

The Company is seeking to raise a total of approximately \$170 million, comprising:

- (a) \$30.3 million under this Rights Issue, pursuant to the issue of up to approximately 55.1 million New Shares at an issue price of 55 cents per New Share; and
- (b) \$139.7 million pursuant to the placement of approximately 254 million Shares at an issue price of 55 cents per Share (**Share Placement**).

The Share Placement will be conducted in two tranches:

1. the first tranche will seek to raise \$13.64 million through the issue of 24.8 million Shares, which are expected to be issued on or about 11 August 2011 (**First Tranche Share Placement**); and
2. the second tranche will seek to raise approximately \$126.1 million through the issue of approximately 229.2 million Shares which are expected to be issued on or about 1 September 2011 (**Second Tranche Share Placement**), subject to obtaining Shareholder approval to be sought at the General Meeting on 31 August 2011.

Shares to be issued under the First Tranche Share Placement will be issued after the Record Date for the Rights Issue. Therefore, investors who participate in the First Tranche Share Placement will not be granted any Rights with respect to new Shares issued under the First Tranche Share Placement.

The Rights Issue is conditionally underwritten by RFC for \$12.5 million (being \$12.5 million of the Shortfall (if any)). As set out in Section 8.5 of this Prospectus, the underwriting is conditional upon the Company's Shareholders approving the Second Tranche Share Placement at the General Meeting, as without the Second Tranche Share Placement the Company would not have the necessary funding to proceed with its planned development of the Kwale Project and would therefore need to pursue alternative funding routes (refer to Sections 2.2 and 5 of this Prospectus).

A summary of the Rights Issue and the two tranches of the Share Placement (together the **Share Issues**), and the impact of these issues on the Company's share capital, is detailed below:

| | Rights Issue Fully Subscribed | | Rights Issue Minimum Subscription ¹ | |
|--------------------------------|-------------------------------------|-------------------------------------|--|------------------------|
| | Shares (m) approximate ² | \$m raised approximate ² | Shares (m) approximate | \$m raised approximate |
| First Tranche Share Placement | 24.8 | 13.6 | 24.8 | 13.6 |
| Second Tranche Share Placement | 229.2 | 126.1 | 229.2 | 126.1 |
| Total of Share Placement | 254.0 | 139.7 | 254.0 | 139.7 |
| Rights Issue | 55.1 | 30.3 | 22.7 | 12.5 |
| Total of Share Issues | 309.1 | 170.0 | 276.7 | 152.2 |

| | | | |
|--------------------------------|--------------|--|--------------|
| Existing Shares on issue | 165.3 | | 165.3 |
| Total post Share Issues | 474.4 | | 442.0 |

Notes:

1. The minimum subscription under the Rights Issue is based on the assumption that the conditional underwriting of \$12.5 million becomes unconditional. Refer to Section 8.5 of this Prospectus for an outline of the terms and conditions of the underwriting.
2. Assuming that the maximum number of Shares are issued under the First Tranche Share Placement.

2.2 Purpose of the Share Issues

The Company intends to apply the funds raised from the Rights Issue and the Share Placement primarily towards funding the equity component of the development of the Kwale Project in Kenya, East Africa.

Greater detail on the purpose and effect of the Rights Issue and the Share Placement is provided in Section 5 of this Prospectus.

The Company has also secured credit approved commitments for a US\$170 million debt package, which will be applied, together with the funds raised by the Share Issues, to the development of the Kwale Project. This debt package is subject to agreeing definitive documentation, further details of which are provided in Sections 3.11 and 8.3 of this Prospectus.

2.3 Shareholder approval is required for the Second Tranche Share Placement to proceed and the underwriting of the Rights Issue is conditional on this approval

The Second Tranche Share Placement is subject to approval of Shareholders at the General Meeting. The underwriting of the Rights Issue is also conditional on obtaining Shareholder approval of the Second Tranche Share Placement (refer to Section 8.5 of this Prospectus).

The outcome of the Shareholder vote to approve the Second Tranche Share Placement will be known following the General Meeting to be held on 31 August 2011, which is:

- (a) seven days prior to the end of Rights trading on ASX, which ceases on 7 September 2011; and
- (b) 14 days prior to the Closing Date for acceptances under the Rights Issue, being 14 September 2011.

If Shareholder approval is not obtained, then the Second Tranche Share Placement and the conditional underwriting of the Rights Issue will not proceed. If these circumstances were to arise, the Company would need to seek alternate means to raise the new capital necessary to proceed with its planned development of the Kwale Project. Investors should note that there can be no guarantee that the Company could raise this capital through other means or, if it can, on what terms and conditions such capital might be raised. Refer to Section 5 of this Prospectus for information regarding how the funds raised from the Rights Issue and the First Tranche Share Placement will be used.

The outcome of the General Meeting will be released to ASX in the ordinary course following the meeting. It is recommended that Applicants have regard to this matter when determining how they deal with their Rights and the timing of any application for New Shares (refer to Section 4 of this Prospectus for an outline of your options for dealing with your Rights).

3. OVERVIEW OF THE COMPANY

3.1 Introduction to the Kwale Project

The Company acquired the Kwale Project in Kenya, East Africa during mid 2010 and the current core focus of the Company is the development of this mineral sands project.

A full Definitive Feasibility Study on the Kwale Project was completed in 2006 by the project's previous owner (**2006 DFS**), and an Enhanced Definitive Feasibility Study commissioned by the Company was completed in May 2011 (**EDFS**). The EDFS incorporated a number of design updates over the 2006 DFS and was based on an updated Mineral Resource following an extensive drilling program undertaken in late 2010.

All material project approvals, permits and licences required for development of the Kwale Project are in place (refer to Section 3.14 of this Prospectus for more detail).

The Kwale Project is located 10 kilometres inland from the Kenyan coast and is 50 kilometres south of Mombasa, Kenya's principal port facility. The Kwale Project is well supported by existing physical infrastructure and enjoys a high level of support from the Government of Kenya as well as the local community.

Mineral sands market fundamentals present an opportunity for new supply to enter in an environment of supply shortfall and increasing prices. The Company currently expects to have the Kwale Project in production from mid 2013.

The initial development of the Kwale Project is to be based on Ore Reserves of 140.6 Mt at 4.9% Total Heavy Minerals (**THM**) at the Central and South Dunes, providing an expected 13 year mine life with production scheduled to commence during the 3rd quarter of 2013. Over the first 7 years of operations, production volumes are expected to average 330 Ktpa for ilmenite, 79 Ktpa for rutile and 30 Ktpa for zircon. Over the final 6 years, production volumes are expected to average 200 Ktpa for ilmenite, 55 Ktpa for rutile and 19 Ktpa for zircon.

The estimated capital development cost of the Kwale Project is US\$256.3 million (including a 8.7% estimating provision and a US\$20 million project contingency) with the EDFS projecting the Kwale Project will generate a life-of-mine (**LOM**) free cash flow (post-tax real) of US\$930 million, representing an internal rate of return of 42% (real). The LOM free cash flow projection incorporates the estimated capital costs (including the US\$20 million project contingency), operating costs and revenue assumptions outlined in Sections 3.7, 3.8 and 3.9 of this Prospectus.

On the basis of the EDFS, payback of capital will occur 21 months after first production.

3.2 Kwale Project – Mineral Resources

The Kwale Project is comprised of three mineralised zones, Central, South and North, which occur as unconsolidated dunes. The Kwale Project EDFS is based upon the Central and South Dunes only, with a combined JORC Code compliant Mineral Resource of 86.2 Mt at 5.5% THM in the Measured category and 59.8mt at 4.0% THM in the Indicated category (at a HM cut-off grade of 1%). These Resource estimates are summarised in the table below. All tonnes and grade information have been rounded, hence small differences may be present in the totals, and all of the Mineral Resource information is inclusive of Ore Reserves.

Mineral Resource estimate for the Kwale Project

| Dune | Classification | Resource (Mt) | HM | | Ilmenite | | Rutile | | Zircon | |
|----------|----------------|------------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | (%) | (Mt) | (%) | (Mt) | (%) | (Mt) | (%) | (Mt) |
| Central | Measured | 46.2 | 7.1 | 3.3 | 4.01 | 1.85 | 0.93 | 0.43 | 0.43 | 0.20 |
| | Indicated | 29.9 | 4.6 | 1.4 | 2.47 | 0.74 | 0.61 | 0.18 | 0.26 | 0.08 |
| | Total | 76.2 | 6.1 | 4.6 | 3.40 | 2.59 | 0.81 | 0.61 | 0.36 | 0.28 |
| South | Measured | 40.0 | 3.8 | 1.5 | 1.95 | 0.78 | 0.54 | 0.22 | 0.22 | 0.09 |
| | Indicated | 29.8 | 3.4 | 1.0 | 1.36 | 0.40 | 0.39 | 0.12 | 0.17 | 0.05 |
| | Total | 69.9 | 3.6 | 2.5 | 1.70 | 1.18 | 0.47 | 0.33 | 0.20 | 0.14 |
| Combined | Measured | 86.2 | 5.5 | 4.8 | 3.05 | 2.63 | 0.75 | 0.65 | 0.33 | 0.29 |
| | Indicated | 59.8 | 4.0 | 2.4 | 1.91 | 1.14 | 0.50 | 0.30 | 0.22 | 0.13 |
| | Total | 146.0 | 4.9 | 7.1 | 2.59 | 3.78 | 0.65 | 0.95 | 0.29 | 0.42 |

3.3 Kwale Project – Ore Reserves

Based upon pit optimisation, detailed design and scheduling for both the Central and South Dunes at the Kwale Project, an updated Reserve estimate was prepared as part of the EDFs in 2011.

The current Reserves (see table below) have been reported based on the resource classification and material densities used in the resource estimate and the cost, revenue and productivity assumptions as detailed in the EDFs. They are estimated using all available geological, relevant drill hole and assay data, including mineralogical sampling and test work on mineral recoveries and final product qualities. The Ore Reserve estimates are determined after consideration of all of the modifying factors in accordance with the JORC Code, and for example, may include but are not limited to, product prices, mining costs, mining dilution and recovery, metallurgical recoveries, environmental considerations, access and approval. The mineral assemblage is reported as a percentage of in situ ore.

Ore Reserve estimate for the Kwale Project

| Dune | Classification | Tonnes (Mt) | THM (%) | Slime (%) | Oversize (%) | Ilmenite (%) | Rutile (%) | Zircon (%) |
|--------------|----------------------------|----------------|------------|--------------|-----------------|-----------------|---------------|---------------|
| | | | | | | | | |
| Central | Proven | 46.3 | 6.9 | 24.6 | 0.4 | 3.93 | 0.91 | 0.42 |
| | Probable | 29.2 | 4.5 | 24.5 | 1.0 | 2.45 | 0.61 | 0.26 |
| | Proven and Probable | 75.5 | 6.0 | 24.6 | 0.7 | 3.36 | 0.80 | 0.36 |
| South | Proven | 39.9 | 3.7 | 26.5 | 1.7 | 1.89 | 0.52 | 0.22 |
| | Probable | 25.2 | 3.4 | 29.2 | 4.8 | 1.42 | 0.40 | 0.17 |
| | Proven and Probable | 65.1 | 3.6 | 27.6 | 2.9 | 1.71 | 0.48 | 0.20 |
| Total | Proven | 86.2 | 5.4 | 25.5 | 1.0 | 2.99 | 0.73 | 0.33 |
| | Probable | 54.4 | 4.0 | 26.6 | 2.7 | 1.97 | 0.51 | 0.22 |
| | Proven and Probable | 140.6 | 4.9 | 25.9 | 1.7 | 2.59 | 0.65 | 0.29 |

3.4 Mining

A dozer trap mining unit (**DMU**) has been selected as the optimum mining method for the Kwale Project. The DMU is a simple cost effective method of mining, best suited to free-flowing, friable, incompetent material as present at the Kwale Project, and is preferred over the use of a large bucket wheel excavator as previously contemplated by the prior owner of the Kwale Project.

Over the 13 year LOM, it is expected that 1.2 Mt of waste will be relocated and 140.6 Mt of ore will be mined and processed, producing 4.7 Mt of final product for sale.

3.5 Processing

A series of metallurgical test programs, including pilot plant testwork and closed-circuit trials, were conducted between 1997 and 2005, culminating in the design of a wet concentrator plant (**WCP**) and a mineral separation plant (**MSP**) as part of the previous owner's 2006 DFS.

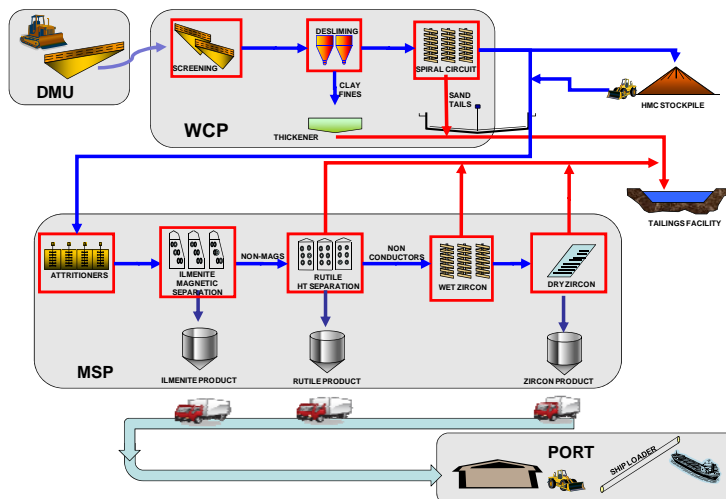
The Company reviewed this previous testwork and plant design and determined that potential existed to simplify the circuits, with subsequent testwork confirming the performance of a simplified circuit design. This revised flowsheet was used as the basis for the redesign of the MSP conducted during the EDFs.

The processing plant for the Kwale Project is designed to process ore to recover three separate products, ilmenite, rutile and zircon, and generate a number of reject streams.

Ore will be received at the WCP from the DMU via a slurry pipeline. The WCP is designed to remove slimes, at a particle size less than 45 µm, concentrate the valuable HM (ilmenite, rutile and zircon) and reject most of the non-valuable, lighter gangue minerals. The WCP is designed to contain a number of gravity separation steps, utilising spiral concentrators. The HM concentrate is specified to contain 90% HM.

The HM concentrate will be processed in the MSP. The MSP will clean and separate the ilmenite, rutile and zircon minerals from one another and remove any remaining gangue. This will be accomplished by a combination of attritioning, electrostatic separation, magnetic separation, classification and gravity separation.

The process route is depicted in the simplified block diagram below.



3.6 Infrastructure

(a) Process water supply

All available water is intended to be recovered from the tailings facilities and reused within the operation. Water balance modelling indicates that the make-up water demand for the Kwale Project is expected to be 5.2 Mm³ per annum, or 14 000 m³ per day, for the first four years and approximately 8 Mm³ per annum, or 22 000 m³ per day thereafter.

The primary source for make-up water for the Kwale Project is intended to be from a dam constructed on the Mukurumudzi River between the Central and South Dunes. This dam is intended to have a capacity of 8.8 Mm³ and be supplemented from the Gongoni borefield. The Gongoni borefield targets the Msambweni Aquifer and has been designed to be able to produce 2.0 Mm³.

Modelling has indicated that only during prolonged drought conditions will lack of water result in loss of production.

(b) Power supply

Power to the site is intended to be supplied from the Kenyan national grid via a 132 kilovolt power line from the nearest substation at Galu, 14 kilometres from the Kwale Project. The average power demand over the first six years of production is expected to be approximately 6 megawatts per annum. This is expected to increase as the ore pumping distance increases to peak at about 13 megawatts per annum in 2024.

(c) Roads

A new 8 kilometre paved site access road is intended to be constructed by the Company, predominantly along existing road reserves, to connect the Kwale Project to the existing A14 highway from Msambweni to Mombasa.

(d) Port facility

A port facility is intended to be constructed by the Company at Likoni, approximately 50 kilometres north of the mine site along the A14 highway and on the southern side of the existing shipping channel servicing Mombasa Port. This facility is intended to consist of:

- a storage shed capable of holding 45,000 tonnes of ilmenite and 15,000 tonnes of rutile;
- reclaim facilities;
- wharf facilities capable of handling up to 45,000 deadweight tonnage (DWT) vessels; and
- shiploading facilities.

Bulk ilmenite and rutile is intended to be transported from the processing facility at the Kwale Project by truck and off-loaded in the storage shed where they will be stacked separately in preparation for shipping. The product will be reclaimed from the stockpiles by front end loaders and transferred by conveyor to one of the two shiploaders at up to 1,000 tonnes per hour.

Zircon and some rutile are intended to be shipped in containers through the Kenya Port Authority container terminal on Mombasa Island.

3.7 Capital cost estimate

The Company's estimate of the total pre-production capital costs of the Kwale Project is summarised in the table below. The estimate covers the design and construction of the Kwale Project DMU facility, WCP and MSP, supporting site infrastructure and off-site infrastructure such as port facilities at Likoni, access road and power supply. The overall capital cost estimate is presented in US dollars (**US\$**), as the functional currency of the Kwale Project, and has a base date of the first quarter 2011. The EDFs estimate has an accuracy range of $\pm 15\%$ for the scope indicated.

Kwale Project capital cost summary

| Area | Preproduction (US\$ m) |
|---|---------------------------|
| Mining | 8.3 |
| Process Plant | 64.6 |
| Tailings Storage Facility | 17.2 |
| Onsite Infrastructure | 20.1 |
| Off Site Infrastructure | 16.4 |
| Marine Loading Facilities | 17.8 |
| Temporary Construction Facilities | 12.7 |
| EPCM Fees | 37.2 |
| Process Plant and Infrastructure | 194.2 |
| | |
| Mobile Equipment/Spares/First Fills | 18.0 |
| Owners Costs | 24.1 |
| Total Below the Line Costs | 42.1 |
| Capital Cost Estimate | 236.3 |
| Project Contingency | 20.0 |
| | 256.3 |

The capital costs in the above table include an 8.7% estimating provision. This is in addition to the separate US\$20 million project contingency.

In addition, sustaining capital expenditure totalling US\$32.5 million as well as future capital expenditure associated with increases in throughput and the move of the DMU to the South pit have also been factored into the Kwale Project financial evaluation.

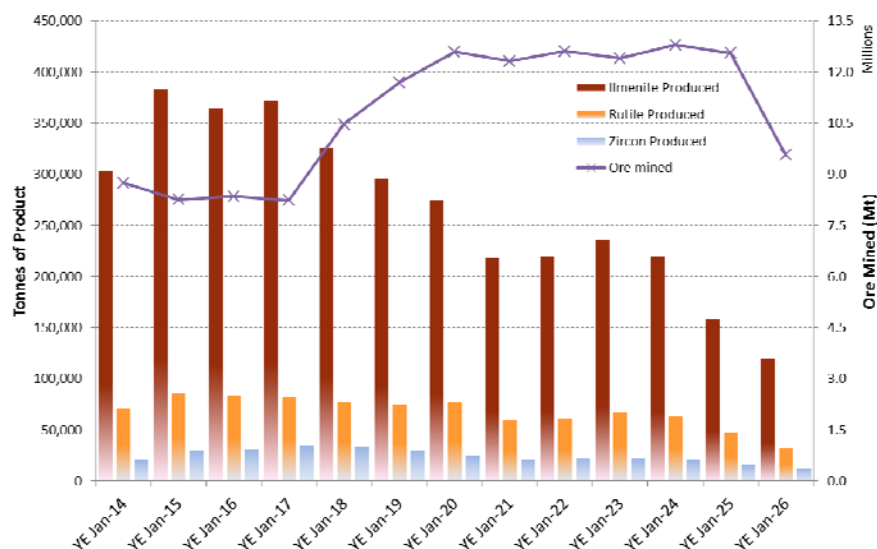
Given the current exchange rate volatility, it is important to note that, while the base currency of expenditure is the US\$, a number of currencies were involved in the build-up of the capital cost estimate. The most significant of these is the A\$, due to the significant proportion of A\$-denominated costs in the capital estimate – totalling approximately \$80 million. The A\$:US\$ exchange rate used in calculating the base case capital cost estimate is 0.9906. At the currently prevailing A\$:US\$ exchange rate of approximately 1.10, the capital cost estimate would be approximately US\$8.7 million higher.

As set out in Section 3.10 below, to the extent the capital cost of the Kwale Project increases as a consequence of variations in the A\$:US\$ exchange rate, it is expected the increase will be covered within the US\$20 million capital cost contingency which will be funded (if required) by the US\$20 million Cost Overrun Facility (see details in Section 8.3 of this Prospectus).

3.8 Operations

The average estimated unit operating cost for the LOM estimated in the EDFs, including mining, tailings and rehabilitation, WCP, MSP, port, royalties and Kenyan overheads is US\$4.67 per tonne of ore. Ore mining and production are scheduled to commence in the 3rd quarter of 2013 with the expected annual mining and product volumes over the 13 year LOM shown in the chart below.

Expected mining and production schedule



3.9 Product prices

The following long term price forecasts were adopted as the basis for pricing assumptions used in the financial analysis in the EDFs. All prices were expressed in 2010 terms and on an FOB basis. A summary of the pricing assumptions utilised in the EDFs is shown in the diagram below.

Figure 10 –Product Price Assumptions (Real US\$ 2010 Basis)



3.10 Total development funding

The total estimated cost of developing the Kwale Project and the sources of funding are summarised below:

Total funding for Kwale Project

| Kwale Project Funding | US\$ m |
|---|--------------|
| Estimated project capital cost (per EFDS) including US\$20 million contingency (refer to Section 3.7 above) | 256.3 |
| Estimated working capital and funds required to meet project finance costs | 53.7 |
| Estimated total funding required for Kwale Project | 310.0 |

Sources of Kwale Project funding

| Kwale Project Funding | US\$ m |
|---|--------------|
| Equity to be provided by the Company | 140.0 |
| Debt facility including the US\$20 million Cost Overrun Facility (see Section 3.11 below) assumed as drawn to match the US\$20 million capital cost contingency | 170.0 |
| Total funding available for Kwale Project | 310.0 |

Any increase in the US dollar based capital cost of the Kwale Project arising from the variations in the A\$:US\$ exchange rate are expected to be covered within the US\$20 million capital cost contingency which will be funded (if required) by the US\$20 million Cost Overrun Facility (see details in Section 3.11 of this Prospectus).

The US\$140 million in equity which the Company is required to provide to the Kwale Project, is to be funded from the Share Issues.

3.11 Kwale Project development debt financing

The Company has received credit approvals for Kwale Project development debt finance facilities totalling US\$170 million. These facilities comprise a US\$150 million term debt facility and a US\$20 million Cost Overrun Facility. The Project Debt Facilities are subject to agreeing definitive documentation. Refer to Section 8.3 of this Prospectus for further details of these facilities.

3.12 Intended arrangements for product sales

The Company is in the process of negotiating product sales contracts with various counterparties.

There is strong interest from parties seeking to enter into arrangements to purchase ilmenite, rutile and zircon production from the Kwale Project and the goal is that by the end of 2011 arrangements will have been entered into with a small number of counterparties for the sale of at least 70% of the product from the Kwale Project (in terms of revenue projected in the

EDFS) over the first 5-6 years of production. This is also likely to be a condition to drawdown under the Project Debt Facilities.

For a large portion of the product from the Kwale Project, the Company will seek for its off-take arrangements to be structured such that the Company receives the prevailing market price for the product, subject to certain floor prices.

Any material update with respect to sales contracts will be announced to ASX in the ordinary course.

3.13 Kwale Project implementation

It is intended that the Kwale Project be implemented on an engineering, procurement and contract management (**EPCM**) basis with an integrated management team co-ordinating and integrating a suite of separate contract packages. Indicative key milestones in the implementation schedule are:

| | |
|-----------------------------------|-----------|
| Project Funding Completed | Sept 2011 |
| Commence EPCM Detailed Design | Oct 2011 |
| Site earthworks commence | Apr 2012 |
| WCP at practical completion | Q2 2013 |
| MSP at practical completion | Q3 2013 |
| Commissioning | Q3 2013 |
| Port ready to receive concentrate | Q3 2013 |
| First product shipment | Q4 2013 |

3.14 Approvals to mine the Kwale Project

(a) Kwale Project Special Mining Lease

Exploration and mining activities in Kenya are regulated principally by the Mining Act, Cap 306 of 1940. Under Section 55 of this legislation, a Special Mining Lease represents the overarching authorisation under which mining rights are granted. The right to mine the Kwale Project's Central and South deposits was granted to the project's previous owner by the Government of Kenya under Special Mining Lease No. 23 on 6 July 2004 (**Kwale SML**). The Kwale SML was assigned to Base Titanium (a wholly-owned subsidiary of the Company) in July 2010, with consent from the Commissioner of Mines and Geology of the Government of Kenya.

The principal provisions and conditions of the Kwale SML (as amended) are summarised below:

- (i) The term of the lease is 21 years from the date of grant on 6 July 2004. It is renewable for a further period as may be agreed by the parties to cover continued mining operations that extend beyond the nominal expiry date of the initial term.
- (ii) The Company is granted the full and exclusive right to carry out mining operations for the production of ilmenite, rutile and zircon.
- (iii) A royalty of 2.5% on gross sales value (FOB) will be levied by the Government of Kenya during the first five years from the date of commencement of commercial production.
- (iv) Compliance with the provision of the Forest Act Cap 385, Wildlife Act Cap 376 and Environmental Management and Coordination Act No. 8 of 1999.

- (v) The area allocated to the Kwale SML is approximately 1,355 hectares.

Following the recent drilling program undertaken by Base Titanium, the resource outline for the South Dune at the Kwale Project has been extended in some areas such that there will be a requirement to further extend the Kwale SML to a limited extent. This will be pursued prior to commencement of project development.

(b) Fiscal agreement

The Fiscal Agreement, which has been assigned to Base Titanium, provides for certain rights and concessions with respect to the development and operation of the Kwale Project. Refer to Section 8.2 of this Prospectus for further details.

(c) Other approvals

All material project approvals, permits and licenses required for development of the Kwale Project are in place, however, Base Titanium is awaiting the outcome of the following outstanding approvals:

- (i) five borehole permits (in addition to the three bore hole permits held by Base Titanium included in the Kwale Project);
- (ii) the Environmental Impact Assessment License for the Kwale Project is revalidated on an annual basis by way of independent environmental audit reviewed by the National Environmental Management Authority. The annual audit is currently being conducted, and the Directors do not anticipate any issues with this audit; and
- (iii) emissions licence, for which air quality regulations and standards are yet to be gazetted by the Government of Kenya. A comfort letter has been received from the National Environment Management Authority confirming that a license will be issued once regulations are published.

The Company is confident that it will receive the above outstanding approvals in due course.

3.15 Exploration projects

Pursuant to the Kwale Project Asset Purchase Agreement, Base Titanium has options to acquire three mineral sands exploration projects, Mambrui, Kilifi and Vipingo on the Kenyan coast north of Mombasa (**Exploration Projects**). These options are exercisable at a price of US\$1 million per project, with the options being exercisable up to 31 May 2014 (refer to Section 8.1 of this Prospectus for further details).

The Directors currently believe it likely that the Company will exercise its options to acquire Mambrui and Kilifi, as the Directors consider they demonstrate potential worth further consideration. It is intended that evaluation of these projects will commence in late 2011, and will be funded from part proceeds of the Share Issues (refer to Section 5.1 of this Prospectus).

4. DETAILS OF THE RIGHTS ISSUE AND HOW TO APPLY

4.1 Rights Issue of New Shares

By this Prospectus, the Company offers for subscription an estimated 55,113,705 New Shares pursuant to a prorata renounceable entitlement issue to Eligible Shareholders of 1 New Share for every 3 Shares held at an issue price of \$0.55 per Share. Fractional entitlements will be rounded up to the nearest whole number.

Your Rights are set out in the personalised Entitlement and Acceptance Form that accompanies the copy of this Prospectus.

Note: The Rights stated on your Entitlement and Acceptance Form may be in excess of the actual Rights you may be permitted to take up where, for example, you are holding Shares on behalf of a US Person.

Based on the capital structure of the Company as at the date of this Prospectus (and assuming no existing Options are exercised prior to the Record Date), the maximum number of New Shares to be issued pursuant to the Rights Issue is 55,113,705 (subject to rounding). The Rights Issue will raise up to approximately \$30.3 million. The purpose of the Rights Issue and the use of funds raised are set out in Section 5 of this Prospectus.

The Rights Issue is only open to Eligible Shareholders and Eligible Investors who have acquired Rights (together, **Eligible Rights Holders**). The Company reserves the right to reject any application that it believes comes from a person who is not an Eligible Rights Holder.

The Company currently has 18,000,000 Options on issue with 17,000,000 of these Options being subject to vesting conditions which mean they will not vest until after the Rights Issue closes. The terms and conditions attaching to all Options do not allow for the participation by those Option holders in new issues of securities. Option holders will, subject to the terms of their Options, be entitled to exercise their Options and will be able to participate in the Rights Issue in respect of Shares issued on exercise of those Options that are issued prior to the Record Date.

4.2 Eligible Shareholders

The Rights Issue is being extended to Eligible Shareholders (and any Eligible Investor that acquires Rights). Eligible Shareholders are those Shareholders who:

- are the registered holder of Shares as at 5:00pm (Perth time) on the Record Date;
- have a registered address in Australia or New Zealand;
- subject to certain limited exceptions, are not in the United States or a US Person or acting for the account or benefit of a US Person (to that extent); and
- are eligible under all applicable securities laws to receive an offer under the Rights Issue,

or, in the Company's absolute discretion, they are persons resident in any other country who are reasonably able to demonstrate to the Company that they are otherwise eligible to participate in the Rights Issue relying on a relevant exemption from, or are not otherwise subject to, the lodgement, filing, registration or other requirements of any applicable securities laws in the jurisdiction in which they are resident or have a registered address.

By returning the accompanying Entitlement and Acceptance Form along with the application money, or by making a payment in respect of an Application by BPay®, you will be taken to have represented and warranted that you satisfy the criteria above to be an Eligible Shareholder. The Company reserves the right to reject any Application that it believes comes from a person who is not an Eligible Shareholder or an Eligible Investor.

It is the responsibility of each Applicant to ensure compliance with the laws of any country relevant to their Application.

The foreign selling restrictions under the Rights Issue summarised in Section 4.16 of this Prospectus apply to the underlying beneficial holder. Nominees, trustees and custodians must not apply on behalf of any beneficial holder that would not itself be an Eligible Shareholder or Eligible Investor. Shareholders and holders of Rights who are nominees, trustees or custodians are advised to seek independent advice as to how they should proceed. Shareholders who hold Shares or Rights on behalf of persons whose registered address is not in Australia or New Zealand are responsible for ensuring that taking up or selling Rights does not breach securities laws in the relevant overseas jurisdictions.

The Company, in its absolute discretion, reserves the right to determine whether a person is an Eligible Shareholder or Eligible Investor and therefore able to participate in the Rights Issue, or an Ineligible Shareholder or Ineligible Investor and therefore unable to participate in the Rights Issue. To the maximum extent permitted by law, the Company disclaims all liability in respect of any determination as to whether a person is an Eligible Shareholder or an Eligible Investor.

However, in limited circumstances, and in the Company's absolute discretion, the Company may elect to treat as Eligible Shareholders or Eligible Investors certain institutional or sophisticated persons who would otherwise not be Eligible Shareholders or Eligible Investors because their registered addresses are not in Australia or New Zealand.

4.3 Rights trading

The Rights Issue is renounceable. This means that Eligible Shareholders who do not wish to take up all or some of their Rights may sell or transfer their Rights in order to realise the value that may attach to their Rights.

Information on how Rights may be sold or transferred is set out below in Section 4.4 of this Prospectus. The Rights will be quoted on ASX and trading of the Rights will commence on ASX on 4 August 2011 and cease at the close of trading on 7 September 2011 unless extended.

4.4 How to accept the Rights Issue

What are your options?

If you are an Eligible Shareholder, you may take one of the following five options:

- take up all of your Rights;
- sell all of your Rights on ASX;
- take up some of your Rights and sell some of your Rights on ASX;
- transfer all or some of your Rights other than on ASX; or
- do nothing and allow your Rights to lapse.

Before deciding which option to take, you should first read this Prospectus in its entirety, the Entitlement and Acceptance Form and other available public information about the Company, including the Company's interim and annual reports (including the 31 December 2010 half yearly report and 2010 Annual Report and other announcements made available at www.baseresources.com.au and on ASX's website www.asx.com.au). In particular you should consider the key risks factors described in Section 7 of this Prospectus that could affect the performance of the Company or the value of an investment in the Company.

4.5 How to take up some or all of your Rights by applying for New Shares

If you want to take up all or part of your Rights, you must:

- (a) complete the personalised Entitlement and Acceptance Form accompanying this Prospectus in accordance with the instructions set out in that form, and indicate the number of New Shares you wish to subscribe for or, if you have an Australian bank

account, by making a BPay® payment in accordance with the instructions set out on the Entitlement and Acceptance Form; and

- (b) attach your cheque for the application monies (being 55 cents multiplied by the number of New Shares you wish to subscribe for) or pay your application monies via BPay® pursuant to the instructions that are set out on the Entitlement and Acceptance Form.

The number of your Rights is set out in the accompanying Entitlement and Acceptance Form and has been calculated on the basis of 1 New Share for every 3 Shares you held as at 5.00pm (Perth time) on the Record Date, rounded up to the nearest whole share. If you have more than one holding of Shares, you will be sent more than one Entitlement and Acceptance Form and you will have separate Rights for each holding.

The Company will treat you as applying for as many New Shares as your payment will pay for in full.

If you accept and pay for all or part of your Rights before the close of the Rights Issue at 5.00 pm (Perth time) on 14 September 2011, you will be issued your New Shares on or about 19 September 2011.

The Company reserves the right (in its absolute discretion) to reduce the number of New Shares allocated to Eligible Shareholders, or persons claiming to be Eligible Shareholders, if their claims prove to be overstated or if they or their nominees fail to provide information to substantiate their claims.

You do not have to pay any brokerage or other transaction costs to the Company on the issue of New Shares.

4.6 How to sell some or all of your Rights on ASX

If you wish to sell all or some of your Rights, you must provide appropriate instructions to your stockbroker and provide them with any information requested by them in order to effect your instructions as soon as possible. You must allow sufficient time for your instructions to be carried out.

Trading in Rights on ASX starts on 4 August 2011 and must be completed by the close of trading on ASX on 7 September 2011, when trading in Rights will end.

4.7 If you wish to sell some or all of your Rights other than on ASX

Issuer sponsored holdings

If you are an issuer sponsored holder and you want to make an off-market transfer of all or some of your Rights to another person, you and the transferee will need to complete and sign a standard renunciation and transfer form. You can obtain a standard renunciation and transfer form from your stockbroker or by requesting a form from the Company by calling the Company Secretary on +61 (08) 9413 7400 or the Share Registry on +61 (0) 8 9315 2333 at any time between 8.30am and 5.00pm (Perth time) Monday to Friday during the Rights Issue period.

After the standard renunciation and transfer form has been completed, you or the transferee must:

- forward the completed renunciation and transfer form, together with your completed Entitlement and Acceptance Form for any Rights that the transferee wishes to take up, and payment of the relevant application monies payable to “Base Resources Ltd – Capital Raising Account” and crossed “Not Negotiable”, as instructed below; and
- ensure that the completed renunciation and transfer form, completed Entitlement and Acceptance Form and application monies cheque reaches one of the addresses set out below and on the Entitlement and Acceptance Form by no later than 5.00pm (Perth time) on 14 September 2011.

You should note that the transferee cannot use BPay® and your unique Customer Reference Number (**CRN**) to make payment of the application monies due in respect of the Rights that the transferee wishes to take up. Application monies to take up renounced Rights must be paid by cheque, bank cheque or bank draft.

If you hold your existing Shares on the Company's Issuer Sponsored Subregister but the transferee wishes their Rights to be held on the Company's CHESS Subregister you must contact a CHESS controlling participant, such as a stockbroker. The Company's Share Registry cannot effect a transfer of Rights to or from a CHESS holding.

If the Company's Share Registry receives both a completed renunciation and transfer form and a completed Entitlement and Acceptance Form in favour of the same Shareholder in respect of the same Rights, the first document received will be given priority (unless the Company in its absolute discretion decides otherwise).

If you hold your existing Shares on the Company's Issuer Sponsored Subregister and you want to make an off-market transfer of some of your Rights to another person and take up some or all of the balance of your entitlement, you should contact the Share Registry for assistance on +61 (0) 8 9315 2333 at any time between 8.30am and 5.00pm (Perth time) Monday to Friday during the Rights Issue period.

CHESS holdings

If you are a CHESS Holder and you want to make an off-market transfer of all or part of your Rights to another person (or you hold your existing Shares on the Company's Issuer Sponsored Subregister but the transferee wishes their Rights to be held on the Company's CHESS Subregister) you must contact the CHESS controlling participant, normally your broker. The Company's Share Registry cannot effect a transfer of Rights to or from a CHESS holding.

Your controlling participant will need to be instructed to manage the application for New Shares on the transferee's behalf.

The off-market transfer of your Rights should be completed and the application by the transferee to take up any of the Rights acquired must be received by the Company's Share Registry at one of the addresses set out below and on the Entitlement and Acceptance Form and by no later than 5.00 pm (Perth time) on 14 September 2011.

You should note that the transferee cannot use BPay® or your unique CRN to make payment of the application monies due in respect of any Rights that the transferee wishes to take up. Application monies to take up renounced Rights must be paid by cheque, bank cheque or bank draft by the buyer's CHESS controlling participant.

4.8 If you wish to do nothing

If you decide to either not take up any of your Rights, and not to trade your Rights, you should take no action and allow them to lapse.

4.9 How do I lodge my Entitlement and Acceptance Form and pay for my New Shares?

If you are making payment by cheque you must deliver your Entitlement and Acceptance Form, together with a cheque, bank cheque or bank draft, or if you are lodging a renunciation and transfer form you must lodge that form, by post or by hand (during normal business hours) to the Company's Share Registry, to be received by no later than 5.00 pm (Perth time) on 14 September 2011 at the following addresses:

By post

Security Transfer Registrars Pty
Limited
PO Box 535
APPLECROSS WA 6953

By hand

Security Transfer Registrars Pty
Limited
770 Canning Highway
APPLECROSS WA 6153

A reply paid envelope is enclosed for Eligible Shareholders in Australia. Eligible Shareholders outside Australia will need to affix the correct postage. You should post your Entitlement and Acceptance Form and payment early to ensure that it is received at the address set out above by no later than 5.00 pm (Perth time) on 14 September 2011.

4.10 Payment methods

Application monies (being \$0.55 multiplied by the number of New Shares you wish to subscribe for) are payable in full on application.

Cheque or bank draft

If you are paying for your New Shares by cheque, bank cheque or bank draft, complete and return your Entitlement and Acceptance Form with your payment. The Company's Share Registry must receive your completed Entitlement and Acceptance Form together with full payment for your New Shares by no later than 5.00 pm (Perth time) on 14 September 2011.

Your cheque, bank cheque or bank draft must be paid in Australian dollars and be drawn on an Australian branch of an Australian financial institution. Your cheque, bank cheque or bank draft must be for the full amount required to pay for your New Shares. Payments in cash will not be accepted. Cheques must be made payable to "Base Resources Ltd - Capital Raising Account" and crossed "Not Negotiable".

You must ensure that your cheque account has sufficient funds to cover your payment, as your cheque will be presented for payment on receipt. If your bank dishonours your cheque your application will be rejected. The Company will not represent any dishonoured cheques.

If the amount of your cheque for application monies (or the amount for which the cheque clears in time for allocation) is insufficient to pay in full for the number of New Shares you have applied for in your Entitlement and Acceptance Form, you will be taken to have applied for such lower number of whole New Shares as your cleared application monies will pay for (and to have specified that number of New Shares on your Entitlement and Acceptance Form). Alternatively, the Company may reject your application.

You may not apply for more than the entitlement shown on the Entitlement and Acceptance Form accompanying this Prospectus. Any application monies received for more than your total entitlement shown will be refunded without interest.

BPay®

If you are paying for your New Shares by BPay®, refer to your personalised instructions on your Entitlement and Acceptance Form. You can only make a payment via BPay® if you are the holder of an account with an Australian financial institution.

If you make your payment by BPay® you do not need to return the Entitlement and Acceptance Form.

Please note should you choose to pay by BPay®:

- you do not need to complete or return the Entitlement and Acceptance Form, but will be taken to have made the confirmations, declarations and warranties referred to in that form; and
- if you do not pay for your full entitlement, you will be taken to have applied for such lower whole number of New Shares as your application monies will pay for.

Payment must be received by no later than 4.00 pm (Perth time) on 14 September 2011.

Make sure you use the specific Biller Code and unique CRN on your personalised Entitlement and Acceptance Form.

If you have more than one shareholding of Shares and consequently receive more than one Entitlement and Acceptance Form, when taking up your Rights in respect of one of those shareholdings only use the CRN specific to that shareholding as set out in the applicable

Entitlement and Acceptance Form. Do not use the same CRN for more than one of your shareholdings. This can result in your application monies being applied to your Rights in respect of only one of your shareholdings (with the result that any application in respect of your remaining shareholdings will not be recognised as valid).

You should be aware that your own financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment. It is your responsibility to ensure that funds submitted through BPay® are received by 4.00pm (Perth time) on 14 September 2011.

Cash payments will not be accepted. Receipts for payment will not be issued.

4.11 Shortfall

The number of New Shares comprising the Shortfall will equal the number of New Shares not taken up under the Rights Issue, together with any New Shares that would have been offered to Ineligible Shareholders if they had been entitled to participate in the Rights Issue.

The Shortfall will be taken up, in whole or part, pursuant to the Underwriting Agreement described in Section 8.5 of this Prospectus.

4.12 Underwriting

The Rights Issue is conditionally underwritten by RFC Corporate Finance Limited for \$12.5 million (being \$12.5 million of the Shortfall (if any)). Refer to Section 8.5 of this Prospectus for further details of the terms and conditions of the underwriting.

4.13 Control

As a result of the underwriting and sub-underwriting arrangements in place, no single party will emerge with a voting power in the Company in excess of 20% through the combination of participating in the Rights Issue and/or the Share Placement. As a result, the Company does not expect there will be any effect on the control of the Company.

4.14 Australian Securities Exchange listing

Application for official quotation by ASX of the Shares offered pursuant to this Prospectus will be made within 7 days after the date of this Prospectus. If approval is not obtained from ASX before the expiration of 3 months after the date of issue of the Prospectus, (or such period as modified by ASIC), the Company will not issue any New Shares and will repay all application monies for the New Shares within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant official quotation to the New Shares is not to be taken in any way as an indication of the merits of the Company or the New Shares now offered for subscription.

4.15 Issue of New Shares

New Shares issued pursuant to the Rights Issue will be issued as soon as practicable after the Closing Date. The Company will issue the New Shares on the basis of a Shareholder's Rights.

Pending the issue of the New Shares or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

4.16 Overseas Shareholders

General

This Rights Issue does not, and is not intended to, constitute an offer in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or

to issue this Prospectus. No action has been taken to register Shares or otherwise permit a public offering of the New Shares in any jurisdiction outside of Australia or New Zealand.

The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law. Persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. To the maximum extent permitted by law, the Company and the underwriter disclaim all liability in respect of such contraventions.

New Zealand

Shareholders resident in New Zealand should consult their professional advisers as to whether any government or other consents are required, or other formalities need to be observed, to enable them to exercise their Rights under the Rights Issue.

This Prospectus contains an offer to Eligible Shareholders and Eligible Investors in Australia or New Zealand of continuously quoted securities (as defined in the Corporations Act) and has been prepared in accordance with Section 713 of the Corporations Act. The New Shares being offered under this Prospectus are being offered to Eligible Shareholders and Eligible Investors in New Zealand in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002* (New Zealand). This Prospectus is not an investment statement and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with New Zealand law. This Prospectus may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

There are differences in how securities are regulated under Australian law. The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities. The taxation treatment of Australian securities is not the same as for New Zealand securities.

The Rights Issue may involve a currency exchange risk. The currency for the New Shares is Australian dollars, not New Zealand dollars. The value of the New Shares will go up or down according to changes in the exchange rate between Australian dollars and New Zealand dollars. These changes may be significant. If you expect the New Shares to pay any amounts in a currency that is not New Zealand dollars, you may incur fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

As noted in Section 4.14 of this Prospectus, the Company will apply to the ASX for quotation of the New Shares offered under this Prospectus. If quotation is granted, the New Shares offered under this Prospectus will be able to be traded on the ASX. If you wish to trade the New Shares through that market, you will have to make arrangements for a participant in that market to sell the New Shares on your behalf. As the ASX does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

United States

This Prospectus does not constitute an offer of shares for sale in the United States, or to any person that is or is acting for the account or benefit of any US Person, or in any other place in which, or to any person to whom, it would not be lawful to make such an offer.

The Rights and the New Shares have not been and will not be registered under the US Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be directly or indirectly offered, sold, taken up, exercised, resold, renounced, transferred or delivered to or for the account of a US Person, or in or into the United States except pursuant to an applicable exemption form, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer of the Rights or the New Shares in the United States.

Accordingly the Company is not extending the Rights Issue or the Share Placement into the United States unless an exemption from the registration requirements of the US Securities Act is available and, subject to certain exceptions, none of this document and/or the Entitlement and Acceptance Form constitutes, or will constitute, or form part of any offer, or an invitation to apply for or an offer or an invitation to acquire any Rights or New Shares in the United States. Subject to certain limited exceptions, this document and/or the Entitlement and Acceptance Form will not be sent to, nor will any Rights be credited to a stock account on behalf of, any Shareholder with a registered address in the United States.

The Company reserves the right to treat as invalid any Entitlement and Acceptance Form that appears to the Company or its agents to have been executed in or despatched from the United States, or that provides an address in the United States from the acceptance or renunciation of the Rights Issue, or which does not make the warranty set out in the Entitlement and Acceptance Form to the effect that the person is not a US Person or located outside the United States.

In addition, until 40 days after the commencement of the Rights Issue, an offer, sale or transfer of the Rights or New Shares within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the US Securities Act.

4.17 Taxation implications

This Section summarises certain of the general Australian taxation implications of the Rights Issue for Eligible Shareholders and Ineligible Shareholders that hold their Shares on capital account for Australian income tax purposes.

Eligible Shareholders (potentially including a Shareholder with a New Zealand registered address) are directed to the discussion under the heading "Eligible Shareholders" for a discussion of certain of the Australian taxation implications of the Rights Issue which are applicable to them. Ineligible Shareholders are directed to the discussion under the heading entitled "Ineligible Shareholders" for a discussion of certain of the Australian taxation implications of the Rights Issue which are applicable to them.

These comments do not apply to Shareholders who:

- are a bank, insurance company, tax exempt organisation or superannuation fund that are subject to special tax rules;
- carry on a business of trading in shares, or otherwise hold their Shares or Rights on revenue account or as trading stock;
- acquired their Shares under an employee share scheme; or
- are regarded as a "temporary resident" for Australian tax purposes.

These comments are general in nature and are based on the law in force and administrative practice as at the time of issue of this Prospectus. The precise income taxation implications of the Rights Issue will depend upon each Shareholder's own specific circumstances. Accordingly, all Shareholders should seek their own independent taxation advice before reaching any conclusions as to the possible taxation consequences of the Rights Issue. Neither the Company, nor any of its officers, nor its taxation or other advisors, accepts any liability or responsibility in respect of any statement concerning the taxation consequences of the Rights Issue.

Eligible Shareholders

Issue of Rights

The issue of the Rights should not itself result in any amount being included in the assessable income of an Eligible Shareholder.

Disposal of Rights

The Australian tax consequences of a disposal of the Rights will depend on whether an Eligible Shareholder is an Australian resident for tax purposes.

For Australian resident Eligible Shareholders, the disposal of Rights will constitute a capital gains tax (**CGT**) event for Australian income tax purposes. An Eligible Shareholder will make a capital gain if the capital proceeds from the disposal exceed the cost base of the Rights. As Eligible Shareholders do not pay anything to acquire their Rights, the first element of the cost base of the Rights for CGT purposes should be nil.

Capital gains and capital losses of a Shareholder in a year of income are aggregated to determine whether there is a net capital gain. If there is a net capital gain, it is included in the assessable income of the Shareholder and is subject to income tax. However, a capital gains tax discount may be available to reduce the taxable gain for certain Shareholders (refer below).

For non-Australian resident Eligible Shareholders, the disposal of the Rights should not be subject to CGT unless the following two criteria are satisfied:

- the non-resident Eligible Shareholder holds a direct interest in the Company (together with their associates) of at least 10% at the time of disposal or throughout a 12 month period that began within 24 months of the time of the disposal; and
- 50% or more of the value of the Company's assets is attributable to "real property" situated in Australia (which includes mining, quarrying or prospecting rights in Australia).

As the majority of the Company's non-cash assets are located in Kenya, the second criterion is currently unlikely to be satisfied. However, Eligible Shareholders should seek updated valuation information and their own independent taxation advice at the relevant disposal time.

If an Eligible Shareholder is an individual or trust (other than a trust that is a complying superannuation entity), the Eligible Shareholder may be entitled to discount CGT treatment in respect of a capital gain made on the disposal of their Rights where the Eligible Shareholder has held the Rights for at least 12 months prior to the disposal. For CGT purposes, an Eligible Shareholder should be taken to have acquired its Rights at the time that the Eligible Shareholder acquired the existing Shares to which the Rights relate. Generally, this means that to benefit from the CGT discount in respect of a disposal of their Rights, the Shares to which the Rights relate must have been held for at least 12 months before the disposal of the Rights occurs.

If a CGT discount is applicable, the amount of the capital gain remaining after the application of any capital losses is reduced by 50% in the case of an individual or a trust (other than a trust that is a complying superannuation entity).

Rights not taken up

Eligible Shareholders who do nothing and allow their Rights to lapse should not, by that inaction alone, have any amount included in their assessable income.

Exercise of Rights

Eligible Shareholders who exercise their Rights and subscribe for New Shares, will acquire those Shares with a cost base for CGT purposes equal to the issue price payable by them for those Shares plus certain non-deductible incidental costs they incur in acquiring them.

Eligible Shareholders should not make any capital gain or loss, or derive any assessable income, from exercising the Rights or subscribing for and acquiring the New Shares.

New Shares

Eligible Shareholders who exercise their Rights will acquire New Shares. Any future dividends or other distributions made in respect of those New Shares will be subject to the same taxation treatment as dividends or other distributions made on Shares held in the same circumstances.

On any future disposal of New Shares, the Australian tax consequences will depend on whether an Eligible Shareholder is an Australian resident for tax purposes. The consequences are similar to those for a disposal of Rights, with the following modifications:

- Eligible Shareholders may make a capital gain or capital loss, depending on whether the capital proceeds of that disposal are more than the cost base or less than the reduced cost base of the New Shares. The cost base of those Shares is described above.
- If an Eligible Shareholder is an individual or trust (other than a trust that is a complying superannuation entity), the Eligible Shareholder may be entitled to discount CGT treatment in respect of a capital gain made on the disposal of New Shares (see above). New Shares will be treated for the purposes of the CGT discount as having been acquired when the Eligible Shareholder exercised the Right to subscribe for them. Accordingly, in order to benefit from the CGT discount in respect of a disposal of New Shares, the New Shares must have been held for at least 12 months after the date on which the Eligible Shareholder exercised the Right to subscribe for the New Shares before the disposal occurs.

Ineligible Shareholders

Ineligible Shareholders may receive an amount of proceeds from the sale of Rights that would otherwise have been issued to Ineligible Shareholders had they been Eligible Shareholders. The taxation treatment of this amount in these circumstances is unclear.

The Commissioner of Taxation (**Commissioner**) has released a draft ruling TR 2010/D8 which relates to the tax treatment of retail premiums paid to shareholders as a result of a book build process, in circumstances where:

- the shareholders are ineligible to receive share entitlements under a rights issue;
- the company issuing the share entitlements issues a number of shares, equivalent to those which would have been issued under the share entitlements that would otherwise have been received (but for the shareholders being ineligible), typically in a book build process; and
- if the price paid for the issue of the shares exceeds a set amount (typically the exercise price of the share entitlements), the premium is paid to the ineligible shareholders.

The circumstances of the Rights Issue are different. In particular, the procedure for the Rights Issue involves the payment of the net proceeds from the sale of Rights, rather than part proceeds from an issue of shares. Nevertheless, there remains some risk that the Commissioner would apply the same view and that any amount received by Ineligible Shareholders may not be treated as a capital gain eligible for the CGT discount. Instead, the Commissioner's reasoning suggests that the amount received may be treated as either an unfrankable dividend or otherwise as ordinary income.

If this view is correct, amounts paid to non-Australian resident Ineligible Shareholders may be subject to withholding tax. Given the Commissioner's position, the Company considers that it may be obliged to withhold tax in relation to amounts received by non-Australian resident Ineligible Shareholders under the Rights Issue. Therefore, an amount may be withheld from any amount paid to non-Australian resident Ineligible Shareholders such that the ultimate receipt may be net of any withholdings. The rate of withholding will be determined having regard to the terms of any applicable double tax agreement.

Australian resident Ineligible Shareholders will be required to include the amount in their assessable income. If the amount is treated as an unfrankable dividend or otherwise as ordinary income, Shareholders will not have the benefit of any tax offsets that might otherwise arise under the dividend imputation rules.

In addition, the law requires that tax be withheld from dividends paid to certain Shareholders (for example, subject to certain exceptions, Australian resident Ineligible Shareholders who have not provided their Tax File Number (TFN) or Australian Business Number (ABN)). Given the Commissioner's position, the Company considers that it may be obliged to withhold tax in relation to amounts received by Australian resident Ineligible Shareholders under the Rights Issue. Therefore, an amount may be withheld from any amount paid to Ineligible Shareholders such that the ultimate receipt may be net of any withholdings.

If you are an Australian resident Ineligible Shareholder, and you have not previously provided your TFN or ABN to the Company, you may wish to do so as soon as possible to enable the Company's share registry to process the details prior to the close of the Rights Issue to ensure that withholding tax is not deducted from any amount payable to you. If you do not provide your TFN or ABN, withholding tax may be deducted from such payment at the rate of 46.5%.

The position adopted by the Commissioner has not been tested in the courts and it is unclear whether it is a correct interpretation of the law. As such, resident and non-resident Ineligible Shareholders who receive an amount as a result of the Rights Issue are strongly advised to obtain professional advice as to the taxation treatment of the amount received.

Taxation of Financial Arrangements (TOFA)

The *Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009* (Cth) (**TOFA Act**) made amendments to the Australian income tax law that operate to tax gains and losses arising from certain "financial arrangements" on revenue account and in some cases on a compounding accruals basis. The amendments will apply for tax years commencing on or after 1 July 2010.

Certain types of taxpayers may be exempt from the application of the TOFA Act unless they make an election for it to apply. As the application of the TOFA Act is dependent on the facts and circumstances of the taxpayer, Eligible Shareholders should obtain their own advice in relation to the potential applicability of the amendments contained in the TOFA Act, in light of their own individual facts and circumstances.

Other Australian taxes

No Australian Goods and Services Tax (**GST**) is payable in respect of the grant or exercise of the Rights or the acquisition of New Shares. No stamp duty will apply to the acquisition, exercise or transfer of Rights or the acquisition or transfer of New Shares by a Shareholder alone or with one or more associates provided that no Shareholder alone or with such associates comes to hold an interest of 90% (or 50% in certain circumstances) or more in the Company.

4.18 CHESS and Issuer Sponsorship

The Company will not be issuing share certificates. The Company will apply to ASX to participate in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of Shares allotted to them under this Prospectus. The notice will also advise holders of their Holder Identification Number or Security Holder Reference Number and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

4.19 Privacy

If you complete an application for New Shares, you will be providing personal information to the Company (directly or by the Share Registry). The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Share Registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its share registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the *Privacy Act 1988* (Cth) (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the application for Shares, the Company may not be able to accept or process your application.

4.20 Ineligible Shareholders and appointment of nominee

The Company is of the view that it is unreasonable to extend the Rights Issue to Ineligible Shareholders, having regard to:

- the number of Ineligible Shareholders;
- the number and value of the New Shares which would be offered to Ineligible Shareholders if they were Eligible Shareholders; and
- the cost of complying with the legal requirements, and requirements of the regulatory authorities, in the respective overseas jurisdictions.

Accordingly, the Rights Issue is not being extended to Ineligible Shareholders. The Company will send all Ineligible Shareholders details of the Rights Issue and advise that the Company is not extending the Rights Issue to them.

The Company has, however, appointed Euroz as a nominee (**Nominee**) to arrange the sale of those Rights that would otherwise have been issued to Ineligible Shareholders had they been Eligible Shareholders. The Nominee will direct the net proceeds (if any) to the Company or another party on its instruction to facilitate pro rata payments to Ineligible Shareholders.

The Nominee will have the absolute and sole discretion to determine the timing and the price at which the Rights may be sold and the manner in which any sale is made. After deduction for any withholding required by law (in the Company's reasonable opinion) the proceeds of sale (if any) will be distributed to the Ineligible Shareholders for whose benefit the Rights have been sold in proportion to the number of Rights they would have been issued had they been Eligible Shareholders (after deducting brokerage commission and other expenses).

The ability to procure subscribers for Rights or to sell Rights on ASX, and the price at which Rights can be sold, will depend on various factors, including market conditions. To the maximum extent permitted by law, neither the Company nor the Nominee, nor their respective related bodies corporate, nor the Directors, officers, employees, agents or advisers of any of them, will be liable for a failure to sell Rights at any particular price.

Any interest earned on the proceeds of the sale of these Rights will firstly be applied against expenses of such sale, including brokerage, and any balance will accrue to the Company.

In limited circumstances, and in the Company's absolute discretion, the Company may elect to treat as Eligible Shareholders or Eligible Investors certain institutional or sophisticated persons who would otherwise not be Eligible Shareholders or Eligible Investors because their registered addresses are not in Australia or New Zealand.

5. PURPOSE AND EFFECT OF THE OFFER

5.1 Purpose of the Rights Issue and the Placement

The purpose of the Rights Issue and the Share Placement is to raise a combined total of up to approximately \$170 million, to be used in accordance with the table set out below:

| Funds raised from Share Issues | Rights Issue outcome | |
|--|----------------------|-------------------------|
| | Max - \$ m | Min - \$ m ¹ |
| Approximately US\$140 million equity contribution to Kwale Project development (refer to Section 3.10 of this Prospectus) at assumed exchange rate of US\$1.10 = A\$1.00 | 127.3 | 127.3 |
| Corporate costs of the Company until positive cash flows are available from the Kwale Project | 10.3 | 10.3 |
| Funds for advancing the Exploration Projects and for general corporate purposes | 24.6 | 7.0 |
| Variable costs of the Share Issues | 7.8 | 7.6 |
| Total funds raised | 170.0 | 152.2 |

Notes:

1. The minimum subscription under the Rights Issue is based on the assumption that the conditional underwriting of \$12.5 million becomes unconditional. Refer to Section 8.5 of this Prospectus for an outline of the terms and conditions of the underwriting.

The above table is a statement of the Company's current intentions as at the date of this Prospectus. As with any budget, intervening events and new circumstances have the potential to affect the ultimate way funds will be applied. The Company reserves the right to alter the intended use of funds on this basis.

The Rights Issue is conditionally underwritten for \$12.5 million (being the first \$12.5 million of the Shortfall (if any)) as this represents the minimum level of capital which the Company needs to raise through the Rights Issue, combined with the proceeds of the Share Placement, in order to fund the proposed activities set out in this Prospectus (and principally, the development of the Kwale Project).

If Shareholders do not approve the Second Tranche Share Placement at the General Meeting, the Second Tranche Share Placement and the conditional underwriting of the Rights Issue will both not proceed (refer to Sections 2.1 and 8.5 of this Prospectus). In these circumstances, the Company will only raise:

- \$13.6 million from the First Tranche Share Placement; and
- any amounts raised under the Rights Issue.

The Company would, therefore, need to raise the new capital through other means to proceed with development of the Kwale Project (and there can be no guarantee that the Company could raise this capital through other means). In these circumstances the \$13.6 million raised from the First Tranche Share Placement, together with any amounts raised under the Rights Issue, would instead be applied primarily to fund:

- the costs of the Rights Issue;

- costs associated with sourcing alternative funds to develop the Kwale Project;
- the ongoing administration costs of the Company; and
- additional working capital.

5.2 Consolidated balance sheet

Set out below is an unaudited consolidated statement of financial position of the Company as at 31 May 2011, incorporating and assuming:

Pro forma 1 - the Share Placement and the Rights Issue complete on the basis that (i) the Second Tranche Share Placement is approved by Shareholders and completes and (ii) the Rights Issue is fully subscribed;

Pro forma 2 - the Share Placement and the Rights Issue complete on the basis that (i) the Second Tranche Share Placement is approved by Shareholders and completes and (ii) the Rights Issue is subscribed to the minimum level only (being the underwritten amount of \$12.5 million of the Shortfall); and

Pro forma 3 – only the First Tranche Share Placement proceeds, on the basis that (i) Shareholders do not approve the Second Tranche Share Placement and it does not complete, (ii) the conditional underwriting does not proceed and (iii) there are nil acceptances of the Rights Issue.

The unaudited pro-forma consolidated statements of financial position have been prepared on the basis of accounting policies normally adopted by the Company to provide Shareholders with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below. The historical and pro forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

Consolidated Statement of Financial Position and Consolidated Pro-forma Statements of Financial Position as at 31 May 2011

| | Actual \$'000 | Pro-forma 1 \$'000 | Pro-forma 2 \$'000 | Pro-forma 3 \$'000 |
|----------------------------------|------------------|--------------------------|--------------------------|--------------------------|
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 8,525 | 170,464 | 152,834 | 21,500 |
| Trade and other receivables | 240 | 240 | 240 | 240 |
| Other current assets | 117 | 117 | 117 | 117 |
| TOTAL CURRENT ASSETS | 8,882 | 170,821 | 153,191 | 21,607 |
| NON-CURRENT ASSETS | | | | |
| Exploration and evaluation costs | 7,825 | 7,825 | 7,825 | 7,825 |
| Property, plant and equipment | 436 | 436 | 436 | 436 |
| TOTAL NON-CURRENT ASSETS | 8,261 | 8,261 | 8,261 | 8,261 |

| | | | | |
|----------------------------------|----------------|----------------|----------------|----------------|
| TOTAL ASSETS | <u>17,143</u> | <u>179,082</u> | <u>161,452</u> | <u>29,868</u> |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | 877 | 877 | 877 | 877 |
| Employee benefits | <u>59</u> | <u>59</u> | <u>59</u> | <u>59</u> |
| TOTAL CURRENT LIABILITIES | <u>936</u> | <u>936</u> | <u>936</u> | <u>936</u> |
| TOTAL LIABILITIES | <u>936</u> | <u>936</u> | <u>936</u> | <u>936</u> |
| NET ASSETS | <u>16,207</u> | <u>178,146</u> | <u>160,516</u> | <u>28,932</u> |
| EQUITY | | | | |
| Issued capital | 21,883 | 183,822 | 166,192 | 34,608 |
| Reserves | (331) | (331) | (331) | (331) |
| Accumulated losses | <u>(5,345)</u> | <u>(5,345)</u> | <u>(5,345)</u> | <u>(5,345)</u> |
| TOTAL EQUITY | <u>16,207</u> | <u>178,146</u> | <u>160,516</u> | <u>28,932</u> |

5.3 Consolidated effect on capital structure

A comparative table of changes in the capital structure of the Company as a consequence of the Rights Issue and the Share Placement is set out below:

| Shares on issue | Rights Issue outcome | |
|--|----------------------|----------------------|
| | Maximum | Minimum ¹ |
| On issue as at the date of this Prospectus | 165,341,114 | 165,341,114 |
| To be issued under the First Tranche Share Placement | 24,800,000 | 24,800,000 |
| To be issued under the Second Tranche Share Placement ² | 229,190,909 | 229,190,909 |
| To be issued under the Rights Issue | 55,113,705 | 22,727,273 |
| Final post Share Issues | 474,445,728 | 442,059,296 |

Notes:

1. The minimum subscription under the Rights Issue is based on the assumption that the conditional underwriting of \$12.5 million becomes unconditional. Refer to Section 8.5 of this Prospectus for an outline of the terms and conditions of the underwriting.

2. Assuming the Second Tranche Share Placement is approved by Shareholders at the General Meeting.

If Shareholders do not approve the Second Tranche Share Placement, the number of Shares on issue would increase only by (i) the number of Shares issued under the First Tranche Share Placement and (ii) the number of New Shares issued under the Rights Issue.

5.4 Options

The Company has on issue the Options set out in the table below:

| Class of Option | Number |
|--|-------------------|
| Options exercisable at \$0.25 each on or before 30 July 2015. | 1,000,000 |
| Options exercisable on or before 9 July 2015 vesting upon the Company making a decision to commence construction at the Kwale Project with the required development financing in place and then exercisable at \$0.09 each upon the 30 day VWAP for the Company's shares being at least \$0.15 each. | 4,250,000 |
| Options exercisable on or before 9 July 2015 vesting upon the Company making a decision to commence construction at the Kwale Project with the required development financing in place and then exercisable at \$0.25 each upon the 30 day VWAP for the Company's shares being at least \$0.35 each. | 4,250,000 |
| Options exercisable on or before 9 July 2015 vesting on first production from the Kwale Project being achieved and then exercisable at \$0.09 each upon the 30 day VWAP for the Company's shares being at least \$0.15 each. | 4,250,000 |
| Options exercisable on or before 9 July 2015 vesting on first production from the Kwale Project being achieved and then exercisable at \$0.25 each upon the 30 day VWAP for the Company's shares being at least \$0.35 each. | 4,250,000 |
| Total | 18,000,000 |

6. RIGHTS AND LIABILITIES ATTACHING TO SHARES

New Shares issued pursuant to the Prospectus will be fully paid and will rank equally with existing Shares in all respects.

The following is a summary of the more significant rights and liabilities attaching to the Shares issued pursuant to this Prospectus. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

The rights attaching to ownership of Shares are:

- set out in the Constitution; and
- in certain cases regulated by the Corporations Act, Listing Rules and the general law.

A copy of the Company's Constitution is available for inspection at the Company's registered office during normal business hours.

6.1 General meetings and notice

Shareholders are entitled to notice of, to be present in person, or by proxy, attorney or representative and to vote at general meetings of the Company.

Quorum for a general meeting of members is at least two Shareholders (in person or by representative).

6.2 Voting rights

Subject to any rights or restrictions attached to any class or classes of Shares, at general meetings of Shareholders or classes of Shareholders:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for each Share held.

6.3 Dividend rights

The Board may from time to time declare and pay a dividend. No dividends will be payable except out of profits. No dividend will carry interest against the Company.

Subject to any special right as to dividends attaching to a share, all dividends will be declared and paid according to the proportion which the amount paid on the share is to the total amount payable in respect of the shares.

The Board may from time to time grant to Shareholders or any class of Shareholders the right to elect to reinvest cash dividends paid by the Company, by subscribing for Shares in the Company, on terms as determined by the Board. The Board may resolve to capitalise the whole or a part of the profits of the Company to be set aside as the reserve account, and applied in any manner permitted by the Constitution, or the Listing Rules.

6.4 Winding-up

The assets of the Company must on a winding up be applied to the Shareholders in proportion to their respective holdings. If at the commencement of a winding up the Company has issued Shares which are classified under the Listing Rules or by ASX as restricted securities and the Shares are subject to escrow restrictions, on a return of capital the holders of those Shares rank behind all other Shares in the Company.

6.5 Transfer of Shares

Generally, Shares in the Company are transferable, subject to the formal requirements contained in the Constitution. The Board may refuse to register a transfer of shares that is not an ASX Settlement Operating Rules regulated transfer, as permitted by the Listing Rules.

The Board must refuse to register a transfer (that is not an ASX Settlement Operating Rules regulated transfer) if the Listing Rules require the Company to do so, or the transfer might be in breach of Listing Rules or an escrow agreement in relation to those shares.

If the Board refuses to register a transfer, the Board must give written notice of the refusal to the person who lodged the transfer.

6.6 Alterations to capital

The issue of Shares is under the control of the Board. The Board may issue or otherwise dispose of Shares, subject to the restrictions contained in the Constitution, the Listing Rules and the Corporations Act as they determine.

The Company may do anything in respect of its share capital, as permitted by the Listing Rules, the Constitution and the Corporations Act, including authorising any form of capital reduction or buy back, increasing any limit on the number of shares that may issued by a Shareholders resolution, or converting all or any shares into a larger or smaller number of shares by a Shareholders resolution.

6.7 Variation of rights

If there are different classes of shares on issue, the rights attaching to a class of shares (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied by:

- the consent in writing of the holders of three quarters of the issued shares of that class; or
- with the sanction of a special resolution passed at a separate group meeting of the holders of the shares of the class.

6.8 Unmarketable parcels

If the Board proposes to reduce or eliminate unmarketable holdings, it may give notice to each Shareholder with an unmarketable holding. The notice must comply with the requirements of the Listing Rules and the ASX Settlement Operating Rules. Shareholders who desire to retain their unmarketable holding must give notice of their desire to the Company within 42 days of the notice. A Shareholder who does not give that notice is to be regarded as irrevocable appointing the Company as the Shareholder's agent to sell the Shareholder's unmarketable holding.

6.9 Constitution

The Constitution of the Company can be modified or repealed by way of a special resolution of Shareholders. A special resolution needs to be passed by at least 75% of the votes cast by Shareholders who are entitled to vote on the resolution.

7. RISK FACTORS

An investment in New Shares offered under this Prospectus should be considered speculative. Applicants should consider the risk factors described below, together with information contained elsewhere in the Prospectus and consult their professional advisers before deciding whether to apply for New Shares.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

7.1 Specific risks

There are specific risks associated with the Company's existing and proposed business operations. These include the following:

(a) Shareholder approval required for the Second Tranche Share Placement

As set out in Section 2.3 of this Prospectus the Second Tranche Share Placement, and the conditional underwriting of the Rights Issue, are both conditional upon Shareholders approving the Second Tranche Share Placement at the General Meeting to be held 31 August 2011.

If the Second Tranche Share Placement is not approved by Shareholders, and therefore the Second Tranche Share Placement and the conditional underwriting of the Rights Issue do not proceed, the Company will have insufficient funds to develop the Kwale Project in the manner set out in this Prospectus. The Company would need to seek alternate means to raise the new capital necessary to proceed with development of the Kwale Project. This would likely cause delays in the proposed development timeline, and there is no guarantee that the necessary new capital can be obtained on terms satisfactory to the Company.

(b) Overseas assets

The Company's Kwale Project is located in Kenya, Africa. The Kwale Project is subject to risks particular to its extraterritoriality, such as changes in laws, practices and policies in the relevant jurisdiction, including laws that deal with overseas investors.

(c) Operating in Kenya

Operations in Kenya may be subject to a number of risks, including:

- potential difficulties in enforcing agreements through foreign local systems;
- restrictive governmental actions, such as imposition of trade quotas, tariffs and other taxes;
- potential difficulties in enforcing rights and obtaining effective legal redress in the courts of Kenya (which has a less developed legal system than Australia), if needed; and
- although the Government and economy of Kenya has been relatively stable in recent years, property ownership (including rights of access) in a foreign country is generally subject to the risk of expropriation or nationalisation with inadequate compensation.

Any of these factors could materially and adversely affect the Company's business, results of operations and financial condition.

(d) Foreign exchange risks

The Company's revenues, majority of costs (both capital and operating) and debt funding are all denominated in United States dollars. Because the majority of costs

and revenues are both denominated in the same currency a natural hedge will exist in terms of operating foreign exchange risk.

Investments in the New Shares offered under this Prospectus are made in Australian dollars, however the profits and losses of the Company will be United States dollar based. As such, Shareholders returns will, in Australian dollar terms, be subject to risks associated with variations in the US\$:A\$ exchange rate.

(e) Legislative changes, Government policy and approvals

Changes in government regulations and policies in Australia and in Kenya may adversely affect the financial performance of the Company. For example, the Company's capacity to explore and mine, and in particular the Company's ability to explore and mine any reserves, may be affected by changes in government policy which are beyond the control of the Company.

The Minerals and Mining Bill 2011 (Kenya), which is designed to regulate the Kenyan mining industry will soon be presented before the Kenyan Parliament (**Bill**). As the Bill has not been passed by the Kenyan Parliament, it is not yet law in Kenya. Broadly speaking, the Bill seeks to regulate the mining industry and streamline licensing, including how royalties from the mining industry will be distributed.

The Company has reviewed the Bill and notes that it will likely apply to the Kwale Project if enacted by the Kenyan Parliament in its draft form. Assuming the Bill is enacted in terms substantially similar to its draft form, the Company does not expect this legislation will have a material effect on the development or operation of the Kwale Project. However, the exact impact of the Bill will not be known until it has passed through the Kenyan Parliament. It is expected that the Bill will be presented in Parliament in late 2011.

(f) Title risk

Minerals licences are granted subject to various conditions. Failure to comply with conditions may lead to forfeiture.

All of the mineral properties in which the Company has or may, upon exercise of options to acquire, have an interest in will be subject to renewal. If any of the mineral properties are not renewed for any reason, the Company may suffer damage through loss of opportunity to develop. The Directors are not aware of any reason why renewal of any mineral properties will not occur.

(g) Mine development, construction and commissioning

There is a risk that the development and construction of the Kwale Project is not completed on schedule, or that construction cost exceeds budget, or that significant problems in constructing the Kwale Project may arise.

Furthermore, the Company will depend on third party contractors to undertake construction, equipment supply, installation, commission and operation. There is a risk that one or more of these third party contractors will not perform its contractual obligations.

(h) Operating history

The Company does not currently conduct mining production operations. There can be no assurance that it can bring its projects into production or operate any such projects profitably. While the Company aims to generate working capital through future mineral sands mining operations, there is no assurance that the Company will be capable of producing positive cash flow on a consistent basis or that any such funds will be available for further exploration and development programs.

(i) Project finance

As referred to in Sections 3.11 and 8.3 of this Prospectus, the Company has received credit approvals for provision of the Kwale Project Debt Facilities. However, the Project Debt Facilities are subject to agreeing definitive documentation, which will likely include certain conditions precedent to drawdown of the debt. There is no guarantee that definitive documentation will be agreed, nor that the Company will be able to satisfy all conditions precedent to drawdown of those facilities. In these circumstances, the Company would be required to seek alternate sources of funding for development of the Kwale Project. There is no guarantee that alternate sources of funding will be available on terms acceptable to the Company.

(j) Product sales agreements

As referred to in Sections 3.12 and 8.9 of this Prospectus, the Company is in the process of negotiating contracts with various counterparties with respect to the sale of product from the Kwale Project. No binding agreement has been entered with respect to the sale of product from the Kwale Project. There is no guarantee that the Company will be able to reach agreement on terms satisfactory to it. If it cannot reach agreement on satisfactory terms, this may have an adverse effect on the Company's future revenues.

(k) Resource and Reserve estimates

Mineral Resource and Ore Reserve estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource and reserve estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change. This may result in alterations to development and mining plans which may, in turn, adversely affect the Company's operations.

There can be no guarantee, and Shareholders should not assume, that:

- anticipated tonnages and grades of ore will be achieved during production or, even if they could be, that they will be sufficient to sustain a profitable mining operation; or
- there will not be significant increases in costs in contractors, labour, plant, materials or utility charges (or the availability of any of these) in a manner that will adversely impact on anticipated capital, development or operating costs.

(l) Operating risks

The current and future operations of the Company, including exploration, appraisal and possible production activities may be affected by a range of factors, including:

- adverse geological conditions;
- limitations on activities due to seasonal weather patterns and cyclone activity;
- unanticipated operational and technical difficulties encountered in geophysical surveys, drilling and production activities;
- mechanical failure of operating plant and equipment;
- industrial and environmental accidents, industrial disputes and other force majeure events;
- unexpected shortages or increases in the costs of labour, consumables, spare parts, plant and equipment; and

- inability to obtain necessary consents or approvals.

(m) Environmental risks and regulations

The Company's projects are subject to laws and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with all mining projects, these projects would be expected to have a variety of environmental impacts should development proceed.

The Company's policy is to conduct its activities in an environmentally responsible manner and in accordance with applicable laws and industry standards. Areas disturbed by the Company's activities will be rehabilitated as required. However, there is always a risk of environmental damage arising from the Company's operations, including through accident, which may give rise to liabilities and costs for the Company, including through the imposition of fines and the potential for operations to be delayed, suspended or shut down.

(n) Future exploration success

The Company's mineral properties in Australia and Kenya are at various stages of exploration, and investors should understand that mineral exploration and development are high-risk undertakings.

There can be no assurance that exploration of the mineral properties, or any other mineral properties that may be acquired in the future, will result in the discovery of an economic ore deposit. Even if an apparently viable deposit is identified, there is no guarantee that it can be economically exploited.

The future exploration activities of the Company may be affected by a range of factors including geological conditions, limitations on activities due to seasonal weather patterns, unanticipated operational and technical difficulties, industrial and environmental accidents, native title process, changing government regulations and many other factors beyond the control of the Company.

The success of the Company will also depend upon the Company having access to sufficient development capital, being able to maintain title to its mineral properties and obtaining all required approvals for its activities. In the event that exploration programs prove to be unsuccessful this could lead to a diminution in the value of the mineral properties, a reduction in the cash reserves of the Company and possible relinquishment of the mineral properties.

(o) Insurance

Insurance against all risks associated with mine development and operation are not always available or affordable. The Company intends to maintain insurance where it is considered appropriate for its needs. However, it will not be insured against all risks either because appropriate cover is not available or because the Directors consider the required premiums to be excessive in the circumstances.

(p) Volatility of mineral prices

The mining industry is competitive and there is no assurance that a profitable market for the sale of the products from the Kwale Project will be sustained.

Mineral prices are subject to volatile price changes from a variety of factors including international economic trends, expectations of inflation, global and regional demand, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods or increased exploration.

7.2 General

In addition to the specific risks outlined above, the following are some general risk factors associated with investing in the Company.

(a) General risks

The value of the Company's Shares and prices at which they trade in the market are affected by a number of general factors which are beyond the control of the Company and its Directors.

Factors such as inflation, currency fluctuation, interest rates, supply and demand and industrial disruption have an impact on operating costs, commodity prices, local and international economic conditions and general investor sentiment.

(b) Economic risks

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's exploration, development and future production activities, as well as on its ability to fund those activities.

(c) Market conditions

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities and in particular, resources stocks. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(d) Security investments

Applicants should be aware that there are risks associated with any securities investment. Securities listed on the stock market, and in particular securities of mining and exploration companies have experienced extreme price and volume fluctuations that have often been unrelated to the operating performances of such companies. These factors may materially affect the market price of the securities regardless of the Company's performance.

Exploration in itself is a speculative endeavour, while mining operations can be hampered by force majeure circumstances and cost overruns for unforeseen events.

(e) Reliance on key personnel and employees

The Company's prospects depend in part on the ability of its executive officers, senior management and key consultants to operate effectively, both independently and as a group. To manage its growth, the Company must attract and retain additional highly qualified management, technical, sales and marketing personnel and continue to implement and improve operational, financial and management information systems. Investors must be willing to rely to a significant extent on management's discretion and judgement, as well as the expertise and competence of outside contractors.

(f) War and terrorist attacks

War or terrorist attacks anywhere in the world could result in a decline in economic conditions worldwide or in a particular region. There could also be a resultant material adverse effect on the business, financial condition and financial performance of the Company.

(g) Future capital requirements

The Company may be adversely affected in a material way if, for any reason, access to capital is not available to fund its future development and exploration objectives. There can be no assurance that additional funds will be available when and if required.

(h) Dilution

The Company may undertake additional offerings of securities in the future. The increase in the number of Shares issued and the possibility of sales of such shares may have a depressive effect on the price of Shares already on issue. In addition, as a result of the issue of such additional Shares, the voting power of existing Shareholders may be diluted.

(i) Liquidity risk

There can be no guarantee that there will continue to be an active market for the Company's shares or that the price of Shares will increase. There may be relatively few buyers or sellers of Shares on ASX at any given time. This may affect the volatility of the market price of Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price paid under the Rights Issue.

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the New Shares offered under this Prospectus. Therefore, the New Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

8. MATERIAL CONTRACTS

The following are summaries of the significant terms of the material agreements which relate to the business of the Company.

8.1 Kwale Project Asset Purchase Agreement

The Company, through its wholly owned subsidiary Base Titanium, acquired the Kwale Project in 2010 pursuant to the Kwale Project Asset Purchase Agreement, for a total purchase price of US\$3 million. This acquisition was completed on 30 July 2010.

Pursuant to the Kwale Project Asset Purchase Agreement, Base Titanium was also granted an option to purchase all the shares in Tiomin Kenya Limited for US\$1, and therefore obtain access to that's company key assets, comprising the existing special prospecting licenses in respect of the Kilifi, Mambrui and Vipingo projects (see Section 3.15 of this Prospectus for more detail). If Base Titanium exercises the option, it will pay US\$1 million in respect of each of the three projects to Pangea Goldfields Inc (up to US\$3 million in total). This option may be exercised on or before 31 May 2014.

During the term of the option, Base Titanium is obliged to conduct exploration activities on the areas covered by the Kilifi, Mambrui and Vipingo projects (see Section 3.15 of this Prospectus for further detail), and is granted an exclusive licence to do so.

Refer also to Section 8.4, outlining the royalty arrangements associated with the Kwale Project Asset Purchase Agreement.

8.2 Fiscal Agreement

Under the Fiscal Agreement, which has since been assigned to Base Titanium, the Government of Kenya granted previous owner of Kwale Project the following key rights:

- to undertake mining operations on the area covered by the Kwale SML (which rights are described as "unhindered", subject to the laws of Kenya);
- to construct or utilise existing infrastructure;
- to market, sell and export minerals;
- to enter into off-take arrangements; and
- to freely convert funds into any currency and transfer out of Kenya profits, funds relating to the payment of debts and funds received from a transfer or clearing of the assets of the Kwale Project.

The following are the key concessions granted to Base Titanium under the Fiscal Agreement:

- (a) a 50% reduction in corporate income tax on profits or gains derived from mining operations, for a period of 10 years beginning on the date of first commercial production;
- (b) the remission of customs duty, excise duty and value added tax on special mining, processing and infrastructure equipment imported into Kenya;
- (c) an exemption from stamp duty on all land transactions resulting from the Kwale Project;
- (d) an exemption from rates and taxes levied by government or local authorities on matters that are not based on profit from mining operations or the value of land used for the mine, mining infrastructure or installations; and
- (e) a permission to export minerals obtained from the area covered by the Kwale SML free of any tax, duty or other fees or charges.

The concessions set out at paragraphs (a) to (e) above are subject to being gazetted by the Government of Kenya, which the Company understands to be a procedural step.

Base Titanium's key obligations under the Fiscal Agreement are to:

- spend US\$150 million in the first 10 years following the grant of the Kwale SML (ie before 6 July 2014);
- give priority to Kenyans in employment, where possible, and establish training programs, so that Kenyans are trained to take a majority of key positions within five years; and
- use reasonable endeavours to purchase goods and materials available in Kenya and accord fair opportunities to Kenyan service sub-contractors, where possible and where these are of an internationally comparable standard.

The term of the Fiscal Agreement is 21 years from the date of grant of the Kwale SML (being 6 July 2004), with a right of renewal, subject to mutual agreement.

8.3 Project development debt financing agreements

The Company is the sponsor for Base Titanium's US\$170 million debt finance facility, arranged to assist with funding the development of the Kwale Project (**Project Debt Facilities**). The mandated lead managers for this debt financing are CAT Finance, Deutsche Investitions- und Entwicklungsgesellschaft mbH, Nedbank Limited, Standard Bank of South Africa Limited and WestLB AG, London Branch.

The Company and Base Titanium have received credit approvals for the Project Debt Facilities. These facilities comprise a US\$150 million senior debt facility (**Senior Debt Facility**) (US\$5 million of which is subject to final board approval from one bank's board, expected to be received in August 2011) and a US\$20 million cost overrun facility (**Cost Overrun Facility**).

The Senior Debt Facility has the following key terms:

- A US\$80 million 6 year term loan (**Tranche A**) and a US\$70 million 8 year term loan (**Tranche B**).
- Interest at a margin of approximately 6.0% per annum above LIBOR pre-project completion and 5.5% per annum post-project completion (inclusive of a premium for political risk insurance).
- A 2.5% upfront fee payable in various stages with the first being 60 days following the receipt of credit approvals.
- Commitment fees of 1.5% per annum payable on undrawn amounts from the signing date of the loan documents.

The Cost Overrun Facility has the following key terms:

- To be repaid (if drawn) pro-rata with Tranche A.
- To carry an additional 0.5% per annum margin over the Senior Debt Facility on drawn amounts.
- The same upfront fee as the Senior Debt Facility (being a 2.5% upfront fee payable in various stages, the first being 60 days following the receipt of credit approvals).
- Commitment fees of 2.0% per annum payable on undrawn amounts from the signing date of the loan documents.

Finalisation of the Project Debt Facilities is subject to the agreement and execution of final documentation (which will likely include certain conditions to drawdown of the debt), which is intended to be concluded during September 2011.

Tranche A and Tranche B will be used to fund, in part, the development, construction and working capital costs of the Kwale Project and interest during construction. The Cost Overrun Facility will be used to fund qualifying capital cost overruns in the development and construction of the Kwale Project.

8.4 Royalty agreement

As part of the acquisition of the Kwale Project (and as contemplated by the Kwale Project Asset Purchase Agreement), Base Titanium agreed to pay a royalty to Vaaldiam Mining Inc and Pangea Goldfields Inc.

Under the Kwale Project Royalty Deed, the royalty is 2% (1.5% to Vaaldiam Mining Inc and 0.5% to Pangea Goldfields Inc) of the Kwale Project gross revenue, being the amount received by Base Titanium from the sale of product on an FOB Mombasa basis produced or won from the Kwale Project (Central deposit and South deposit) excluding, without limitation, any revenues, gains or losses from forward sales, puts, calls and options (or any similar arrangement), provided that any such transactions are not used in a manner to otherwise reduce the price paid by customers for the product, and after deduction of all costs of transport and insurance incurred in delivering the product to the point of FOB Mombasa sale.

The royalty will be paid net of any withholding tax that Base Titanium is obliged to withhold on behalf of the recipients.

8.5 Offer Management and Underwriting Agreement

The Offer Management and Underwriting Agreement sets out the terms on which RFC agrees to manage the Share Placement, and manage and underwrite the Rights Issue. In addition to conditions considered usual for this type of agreement, RFC's obligations are conditional on the Company passing the Shareholder Resolutions in general meeting. If the conditions are not fulfilled (or waived by RFC) by the time specified for each condition, (or such later time as agreed by RFC), then RFC's obligation to manage the Share Placement, and manage and underwrite the Rights Issue, is at an end as to its future operation.

Pursuant to the Offer Management and Underwriting Agreement, the Company has agreed to pay RFC the following fees:

- (a) 5% of the proceeds of the Share Placement;
- (b) 1% of the gross proceeds of the Rights Issue; and
- (c) 4% of the Underwritten Amount (being 4% of \$12.5 million).

RFC may terminate its obligations under the Offer Management and Underwriting Agreement if any of the following events occurs at any time prior to 1.00pm (Perth time) on the later to occur of (i) the Rights Issue Settlement Date and (ii) the earlier of the Second Tranche Share Placement Settlement Date and the rejection by the Shareholders of the Shareholder Resolutions:

- (a) **(ASIC action) If:**
 - (i) ASIC gives notice of an intention to hold a hearing under Section 739(2) of the Corporations Act or issues an order under Section 739(1) of the Corporations Act or an interim order under Section 739(3) of the Corporations Act or ASIC applies for an order under Sections 1324B or 1325 of the Corporations Act in relation to the Share Placement or the Rights Issue or the Offer Documents or gives notice of an intention to prosecute the Company or any of their directors;
 - (ii) an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Share Placement or the Rights Issue or the Offer Documents, and any such application becomes public or is not withdrawn within two Business Days after it is made or where it is made less than two Business Days before a Settlement Date it has not been withdrawn by that Settlement Date as the case may be; or

- (iii) ASIC commences any investigation or hearing under Part 3 of the *Australian Securities and Investments Commission Act 2001* (Cth) in relation to the Share Placement or the Rights Issue or the Offer Documents and any such investigation or hearing becomes public or is not withdrawn within two Business Days after it is commenced or where it is commenced less than two Business Days before a Settlement Date it has not been withdrawn by that Settlement Date as the case may be.
- (b) **(ASX approval)** If:
 - (i) unconditional approval by the ASX for official quotation of the New Shares or Shares issued under the Share Placement is refused, or is not granted (subject only to conditions acceptable to RFC acting reasonably); or
 - (ii) such approval, once granted, is withdrawn, qualified (other than by way of customary conditions) or withheld on or before the relevant Settlement Date.
- (c) **(Consent)** If:
 - (i) any accounting or legal adviser to the Company refuses to give its consent or having previously consented to the issue of the Prospectus withdraws such consent; or
 - (ii) any other person (other than RFC) whose consent to the issue of the Prospectus is required by Section 716 of the Corporations Act refuses to give their consent or having previously consented to the issue of the Prospectus withdraws such consent,

and any such withdrawal becomes public or consent is not given again within 24 hours after it is withdrawn or where it is withdrawn less than 24 hours before the Rights Issue Settlement Date.
- (d) **(Prospectus)** In the reasonable opinion of RFC, the Prospectus omits any material required by the Corporations Act or any other applicable law or contains a material statement which is misleading or deceptive (including misleading statements within the meaning of Section 728(2)) or otherwise fails to comply with the Corporations Act or any other applicable law.
- (e) **(Listing)** The ASX announces that the Company will be removed from the official list of ASX or the Shares cease to be quoted on ASX.
- (f) **(Director)** A director of the Company:
 - (i) is charged with an indictable offence relating to any financial or corporate matter or any regulatory body commences any public action against the director in his or her capacity as a director of the Company or announces that it intends to take any such action; or
 - (ii) is disqualified from managing a corporation under Sections 206B, 206C, 206D, 206E, 206F or 206G of the Corporations Act.
- (g) **(Withdrawal)** The Company withdraws the Prospectus, the Share Placement or the Rights Issue.
- (h) **(Insolvency)** The Company or any member of the Company's corporate group is, or any step is taken which will or is likely to result in the Company or any member of the Group becoming, insolvent.
- (i) **(Supplementary Offer Document)** The Company is required to lodge a Supplementary Offer Document where, in the reasonable opinion of RFC, a Supplementary Offer Document must be lodged with ASIC under Section 719 of the Corporations Act or the Company lodges a Supplementary Offer Document without the prior written approval of RFC (such approval not to be unreasonably withheld or delayed), save where such Supplementary Offer Document relates solely to whether

the Shareholder Resolutions have been passed or the completion of the First Tranche Share Placement or the Second Tranche Share Placement.

- (j) **(Material breach of placement subscription letters)** Any applicant under the Share Placement or the Sub-Underwritten Subscription is in material breach of the terms of its Valid Placement Application or its Valid Sub-Underwritten Subscription Application (as those terms are defined in the Offer Management and Underwriting Agreement).
- (k) **(misrepresentation)** A representation or warranty made or given, or deemed to have been made or given, by the Company under this document proves to be, or has been, or becomes, untrue, misleading or incorrect.
- (l) **(breach)** The Company fails to perform or observe any of its obligations under this document.

The events referred to at items (k) and (l) above do not entitle RFC to exercise its rights to terminate the Offer Management and Underwriting Agreement, unless, in the actual and reasonable opinion of RFC, the event:

- (a) has, or is likely to have, a material adverse effect on the success of the Share Placement or Rights Issue; or
- (b) leads, or is likely to lead:
 - (i) to a contravention by RFC of, or RFC being involved in a contravention of, the Corporations Act or any other applicable law or regulation including, without limitation, the *U.S. Securities Act of 1933*; or
 - (ii) to a liability for RFC under the Corporations Act or any other applicable law or regulation.

In this context, the effect of any event on the **success of the Share Placement or the Rights Issue** is determined by assessing the likely effect of that event on a decision of an investor to invest in the shares issued under the Share Placement or the New Shares (respectively) as if that decision to invest were made after the occurrence of that event and not by considering the number and extent of applications received before the occurrence of that event.

The Offer Management and Underwriting Agreement also contains a number of indemnities, representations and warranties from the Company to RFC that are considered standard for an agreement of this type.

8.6 Euroz co-lead manager agreement

RFC, Euroz and the Company have entered into the Co-Lead Manager Agreement pursuant to which Euroz has agreed to:

- (a) act as co-lead manager of the Share Placement (**Co-Lead Manager**); and
- (b) on a best endeavours basis, seek to procure applications for Shares under the Share Placement and seek to procure commitments from Eligible Shareholders to take up their Rights.

Subject to Euroz complying with its obligations under the Co-Lead Manager Agreement, Euroz will be paid a fixed fee of \$2 million. This fee forms part of, and will be deducted from, the 5% Share Placement fee payable by the Company to RFC pursuant to the Offer Management and Underwriting Agreement (refer to Section 8.5 of this Prospectus).

Euroz may by notice terminate its obligations under the Co-Lead Manager Agreement if: prior to 1.00pm (Perth time) on the later to occur of (i) the Rights Issue Settlement Date and (ii) the earlier of the Second Tranche Share Placement Settlement Date and the rejection by the Shareholders of the Shareholder Resolutions, RFC becomes entitled to terminate its obligations under the Offer Management and Underwriting Agreement.

8.7 RFC mandate agreement

The Company and RFC entered into the Mandate Letter, which sets out the scope of services to be provided by RFC to the Company in relation to securing finance required to develop the Kwale Project.

RFC's role, as set out in the Mandate Letter, is to have the primary carriage of the financing arrangements, under the direction of the Company's managing director. RFC's appointment to this role is exclusive.

RFC's fees include a retainer of \$20,000 per month commencing 1 July 2010 and ending on the finalisation of the financing arrangements, plus transaction fees of:

- (a) joint venture arrangements - 2% of the contribution committed to by the joint venture partner;
- (b) bank or quasi bank debt - 1% of the loan facility; and
- (c) convertible notes and equity - an arranger fee of 1% of the total amount raised plus 4% of funds arranged directly by RFC.

The transaction fee referred to in paragraph (c) above is superseded by the fees specified in the Offer Management and Underwriting Agreement, so far as those fees relate to the Share Issues.

The Company and RFC can both terminate the Mandate Letter by notice at any time. However, if the Company terminates the Mandate Letter (other than for fraud, wilful misconduct or gross negligence by RFC), but proceeds to complete a transaction of the nature contemplated by the Mandate Letter before 31 December 2011, RFC will be entitled to all fees as though the Mandate Letter had not been terminated.

The Company agrees not to make any claim against RFC for any loss suffered by the Company as a result of RFC's performance under the Mandate Letter. The Company also indemnifies RFC against any loss RFC suffers that is directly or indirectly attributable to RFC's performance under the Mandate Letter. However, neither of these extends to loss suffered as a result of wilful misconduct, fraud or gross negligence by RFC (which does not include reliance by RFC on information provided by the Company or its advisers). If the indemnity is not valid at law, RFC's liability to the Company is limited to the amount of fees paid in cash by the Company to RFC under the Mandate Letter.

8.8 Placement agreements

Proposed investors in the Share Placement have entered into binding agreements to subscribe for Shares at the issue price of \$0.55, with the obligation to subscribe for Shares under the Second Tranche Share Placement being subject to obtaining Shareholder approval at the General Meeting. These agreements also contain undertakings, representations and warranties typical for placements of this kind.

8.9 Offtake agreements

The Company is currently in negotiations with a shortlist of companies to establish offtake agreements between the Company (through Base Titanium) and one or more of them with respect to product from the Kwale Project. No binding agreement for offtake has been reached as at the date of this Prospectus. The Company will provide further information about the terms of the proposed offtake agreement(s) via the ASX announcements platform once those terms become reasonably certain or negotiations have concluded. Refer to Section 3.12 of this Prospectus for further detail.

8.10 EPCM contracting

The Company is currently in negotiations with respect to the EPCM contracts for the Kwale Project. No binding agreements with respect to the EPCM contracts have been reached as at the date of this Prospectus. The Company will provide further information about the terms of the EPCM contracts via the ASX announcements platform once those terms become reasonably certain or negotiations have concluded.

9. ADDITIONAL INFORMATION

9.1 Nature of this Prospectus

This document is a prospectus to which the special content rules under Section 713 of the Corporations Act apply. That provision allows the issue of a more concise prospectus in relation to offers of securities in a class which have been continuously quoted on ASX for the three months prior to the date of the prospectus.

The information in this Prospectus contains the terms and conditions on which the Rights Issue will be made and information necessary for investors to make an informed assessment of the effect of the Rights Issue on the Company and the rights and liabilities attaching to the New Shares.

This Prospectus contains information only to the extent to which it is reasonable for investors and their professional advisers to expect to find the information in it. It does not include all of the information that would be included in a prospectus for an initial public offering of shares.

9.2 Continuous disclosure obligations

The Company is a “disclosing entity” (as defined in Section 111AC of the Corporations Act) for the purposes of Section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquires as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 12 months before the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act, states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with ASIC in relation to the Company (not being documents referred to in Section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the Closing Date:
 - (i) the financial statements of the Company for the financial year ended 30 June 2010;
 - (ii) the half year financial statements of the Company for the half year ended 31 December 2010; and
 - (iii) any other document used to notify ASX of information relating to the Company under the continuous disclosure provisions of the Listing Rules and the Corporations Act after the date of lodgement with ASIC of the annual

financial report referred to in paragraph (c)(i) above and before lodgement of this Prospectus with ASIC.

Copies of all documents lodged with ASIC in relation to the Company can be obtained from, or inspected at any office of ASIC or the registered office of the Company during normal office hours.

The Company has lodged the following announcements with ASX since the lodgement of the 2010 audited financial statements:

| Date | Description of announcement |
|------------------|--|
| 1 August 2011 | Presentation |
| 1 August 2011 | Reinstatement to Official Quotation |
| 1 August 2011 | Equity Capital Issues |
| 29 July 2011 | Suspension from Official Quotation |
| 27 July 2011 | Credit Approvals Received for Debt Finance Facilities |
| 27 July 2011 | Trading Halt |
| 25 July 2011 | Quarterly Cashflow Report |
| 25 July 2011 | Quarterly Activities Report |
| 11 July 2011 | Kwale Project Financing Update |
| 10 June 2011 | Becoming a substantial holder |
| 8 June 2011 | Mukurumudzi Dam Permit Renewed |
| 26 May 2011 | Change of Director's Interest Notice x 4 |
| 26 May 2011 | Appendix 3B and Notice under Section 708 - Option Exercise |
| 25 May 2011 | Change in substantial holding |
| 23 May 2011 | Becoming a substantial holder |
| 23 May 2011 | Appendix 3B and Notice under Section 708 |
| 16 May 2011 | Ceasing to be a substantial holder |
| 13 May 2011 | Kwale Enhanced Definitive Feasibility Study Completed |
| 21 April 2011 | Quarterly Activities Report |
| 21 April 2011 | Quarterly Cashflow Report |
| 13 April 2011 | Becoming a substantial holder |
| 5 April 2011 | Ceasing to be a substantial holder |
| 30 March 2011 | Base Appoints Mandated Lead Arranger for Debt Facility |
| 16 March 2011 | Appendix 3B and Notice under Section 708 - Option Exercise |
| 11 March 2011 | Half Yearly Report and Accounts |
| 25 February 2011 | Kwale Project Resource Update |
| 23 February 2011 | Appendix 3B and Notice under Section 708 |
| 14 February 2011 | Ceasing to be a substantial holder |
| 14 February 2011 | Change in substantial holding |

| Date | Description of announcement |
|-------------------|--|
| 11 February 2011 | Becoming a substantial holder |
| 31 January 2011 | Quarterly Cashflow Report |
| 31 January 2011 | Appendix 3B and Section 708 Notice |
| 25 January 2011 | Quarterly Activities Report |
| 24 January 2011 | Appendix 3B and Section 708 Notice - Option Exercise |
| 24 January 2011 | Results of Meeting |
| 5 January 2011 | Response to ASX Price Query |
| 22 December 2010 | Security Trading Policy |
| 14 December 2010 | Notice of General Meeting/Proxy Form |
| 8 December 2010 | Ceasing to be a substantial holder |
| 8 December 2010 | Change in substantial holding |
| 6 December 2010 | Amended Appendix 3B |
| 3 December 2010 | Appendix 3B and Section 708 Notice |
| 30 November 2010 | Share Placement to Advance Kwale Development |
| 25 November 2010 | Results of Meeting |
| 25 November 2010 | AGM Presentation |
| 12 November 2010 | Change in substantial holding |
| 2 November 2010 | Change in substantial holding |
| 29 October 2010 | Quarterly Activities Report |
| 29 October 2010 | Quarterly Cashflow Report |
| 26 October 2010 | Rising Market and Project Developments Enhance Kwale |
| 21 October 2010 | Correction: Ceasing to be a substantial holder |
| 21 October 2010 | Becoming a substantial holder |
| 15 October 2010 | Change in substantial holding |
| 15 October 2010 | Annual Report to Shareholders |
| 15 October 2010 | Notice of Annual General Meeting/Proxy Form |
| 4 October 2010 | Appendix 3B - Release from Escrow |
| 29 September 2010 | Presentation |
| 15 September 2010 | Release of Securities from Escrow |

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours.

The announcements are also available through the Company's website www.baseresources.com.au or the ASX website www.asx.com.au.

9.3 Directors' interests

Other than as set out below or elsewhere in this Prospectus, no Director nor any firm in which such a Director is a partner, has or had within 2 years before the lodgement of this Prospectus with ASIC, any interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Rights Issue pursuant to this Prospectus; or
- the Rights Issue pursuant to this Prospectus, and

no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any Director or to any firm in which any such Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in connection with the formation or promotion of the Company or Rights Issue pursuant to this Prospectus.

Directors' interests in securities of the Company and annual remuneration, paid or accrued, (inclusive of superannuation) at the date of this Prospectus are as follows:

| Name | Shares (direct and indirect) | Options (direct and indirect) | Rights | Remuneration | | | |
|-----------------|-------------------------------------|--------------------------------------|---------|-------------------------|------------------------|-------------------------|------------------------|
| | | | | Year ended 30 June 2010 | | Year ended 30 June 2011 | |
| | | | | Short term ¹ | Long term ² | Short term ¹ | Long term ² |
| Andrew King | 740,000 | 800,000 | 246,667 | \$64,000 | \$94 | \$71,000 | \$34,267 |
| Tim Carstens | 950,000 | 5,000,000 | 316,667 | \$299,750 | \$587 | \$300,870 | \$214,167 |
| Winton Willesee | 440,000 | 600,000 | 146,667 | \$84,000 | \$70 | \$99,000 | \$25,700 |
| Sam Willis | 200,000 | 600,000 | 66,667 | \$30,000 | \$70 | \$45,000 | \$25,700 |
| Colin Bwyne | 667,869 | 10,000,000 | 222,623 | Nil | \$1,174 | \$364,989 | \$428,333 |

Notes:

1. Short term remuneration includes cash, fees, salary, commissions, non-cash benefits, fringe benefits tax paid, or accrued, and superannuation payments.

2. Long term remuneration includes share based payments, being the issues of Options to Directors.

Section 5.4 of this Prospectus sets out a summary of the Options on issue as at the date of this Prospectus.

The Constitution of the Company provides that the non-executive Directors may be paid for their services as Directors, a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the Directors and in default of agreement then in equal shares.

The Company paid to the executive and non-executive Directors a total of \$479,745 during the year ended 30 June 2010 and \$1,609,026 for the year ended 30 June 2011. The executive and non-executive Directors have also been paid, or have accrued, fees and salaries totalling approximately \$74,146 from the end of the previous financial year until the date of this Prospectus. Directors, companies associated with the directors or their associates are also

reimbursed for all reasonable expenses properly incurred in the course of conducting their duties which include, but are not in any way limited to, out of pocket expenses, travelling expenses, disbursements made on behalf of the Company and other miscellaneous expenses.

The Company has entered into indemnity, insurance and access deeds with each of its Directors (**Deeds**). Under the Deeds, the Company agrees to indemnify each of the Directors to the extent permitted by the Corporations Act against certain liabilities incurred by the Directors while acting as an officer of the Company, and to insure each Director against certain risks to which the Director is exposed as an officer of the Company. The Deeds also grant each Director a right of access to certain records of the Company for a period of up to seven years after the Director ceases to be an officer of the Company.

The Company also pays premiums to insure all of the Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of Director of the Company.

9.4 Interests of other persons

Other than as set out below or elsewhere in this Prospectus, no expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner, nor any company with which any of those persons is or was associated, has or had within two years before the lodgement of this Prospectus with ASIC, any interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Rights Issue of securities pursuant to this Prospectus; or
- the Rights Issue of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash, Shares or otherwise) to any expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus, or to any firm in which any of those persons is or was a partner, or to any company with which any of those persons is or was associated, for services rendered by that person, or by the firm or the company, in connection with the formation or promotion of the Company or the Rights Issue pursuant to this Prospectus.

9.5 Consents

Each of the parties referred to in this Section of the Prospectus:

- (a) has not authorised or caused the issue of this Prospectus;
- (b) has not made, or purported to make, any statement in this Prospectus other than as specified in this section;
- (c) has not made any statement on which a statement in this Prospectus is based, other than as specified in this section; and
- (d) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Prospectus other than the reference to its name and the statement (if any) included in this Prospectus with the consent of that party as specified in this Section.

RFC has given and has not withdrawn its consent to being named in this Prospectus as Corporate Adviser to the Company and Underwriter to the Rights Issue in the form and context in which it is named. RFC will be paid such fees determined in accordance with the terms of the Offer Management and Underwriting Agreement (refer to Section 8.5 of this Prospectus).

Blake Dawson has given, and has not withdrawn its consent to being named in this Prospectus as Australian Lawyers to the Company in the form and context in which it is

named. Blake Dawson has provided advice to the Company on certain Australian legal matters in relation to the Rights Issue. The Company estimates it will pay Blake Dawson \$240,000 (excluding disbursements and GST) in respect of this work. Further amounts may be paid to Blake Dawson in accordance with its normal time-based charges.

Security Transfer Registrars Pty Limited has given, and has not withdrawn its consent to being named in this Prospectus as Share Registry to the Company in the form and context in which it is named. Security Transfer Registrars Pty Limited will be paid \$4,400 in respect of its role as Share Registry with respect to the Rights Issue.

Euroz has given, and has not withdrawn its consent to being named in this Prospectus as Nominee and Co-Lead Manager in the form and context in which it is named. Euroz will be paid fees determined in accordance with the terms of the Co-Lead Manager Agreement with respect to its role as Co-Lead Manager (refer to Section 8.6 of this Prospectus).

Scott Carruthers has given, and has not withdrawn his consent to being named in this Prospectus as a Competent Person in the form and context in which he is named, and to the inclusion of the information referred to in Section 1.6 of this Prospectus.

Per Scrimshaw has given, and has not withdrawn his consent to being named in this Prospectus as a Competent Person in the form and context in which he is named, and to the inclusion of the information referred to in Section 1.6 of this Prospectus.

There are a number of persons referred to elsewhere in this Prospectus who are not experts and who have not made statements included in this Prospectus nor are there any statements made in this Prospectus on the basis of any statements made by those persons. These persons did not consent to being named in the Prospectus and did not authorise or cause the issue of this Prospectus.

9.6 Legal proceedings

There is no litigation, arbitration or proceedings pending against or involving the Company as at the date of this Prospectus.

9.7 Estimated expenses of Rights Issue

In the event that the Rights Issue is fully subscribed, the estimated expenses of the Rights Issue are as follows:

| | |
|---|--------------------|
| ASIC fees | \$2,137 |
| ASX fees | \$27,075 |
| Offer management fees | \$303,125 |
| Underwriting fees | \$500,000 |
| Printing and other expenses (including legal and share registry fees) | \$253,100 |
| Total | \$1,085,437 |

9.8 Market price of Shares

The highest and lowest market sale prices of the Company's Shares on ASX during the three months immediately preceding the date of lodgement of this Prospectus with ASIC and the respective dates of those sales were:

| | | |
|---------|------------|---|
| Highest | 65 cents | 6 June 2011 14 June 2011 15 June 2011 |
| Lowest | 48.5 cents | 5 May 2011 |

The latest available closing sale price of the Company's Shares on ASX prior to the lodgement of this Prospectus with ASIC was \$0.575 on 26 July 2011.

9.9 Governing law

This Prospectus, the Rights Issue and the contracts formed on acceptance of Applications are governed by the laws applicable in Western Australia, Australia. Each Applicant for New Shares submits to the non-exclusive jurisdiction of the courts of Western Australia, Australia.

10. AUTHORITY OF DIRECTORS

Each of the Directors of Base Resources Ltd has consented to the lodgement of this Prospectus with ASIC in accordance with Section 720 of the Corporations Act.

Dated 1 August 2011.

A handwritten signature in black ink, appearing to read 'Tim Carstens', with a stylized, cursive script.

Tim Carstens

Managing Director

BASE RESOURCES LTD

11. DEFINITIONS

2006 DFS means the full Definitive Feasibility Study on the Kwale Project completed in 2006 by the previous owner of the project, as described in Section 3.1 of this Prospectus.

Applicant means an investor who applies for New Shares pursuant to the Rights Issue.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691, or the market operated by it, the Australian Securities Exchange, as the context requires.

ASX Settlement Operating Rules means the operating rules of ASX Settlement Pty Ltd ABN 49 008 504 532 and, to the extent that they are applicable, the operating rules of each of ASX and ASX Clear Pty Limited ABN 48 001 314 503.

Base Titanium means the Company's wholly owned subsidiary, Base Titanium Limited (a company incorporated in Kenya).

Board means the board of Directors unless the context indicates otherwise.

Business Day means a day on which trading takes place on ASX.

CHESS means the ASX Clearing House Electronic Subregister System.

Closing Date means the closing date of the Rights Issue, being 5.00pm (Perth time) on 14 September 2011 (unless extended).

Co-Lead Manager Agreement means the co-lead manager agreement between RFC, Euroz and the Company dated 27 July 2011, as described in Section 8.6 of this Prospectus.

Company means Base Resources Ltd ABN 88 125 546 910.

Constitution means the Company's Constitution as at the date of this Prospectus.

Corporations Act means the *Corporations Act 2001*(Cth).

Cost Overrun Facility means the US\$20 million debt facility to cover overruns in the capital cost of developing the Kwale Project (see Section 8.3 of this Prospectus for details).

CRN means your customer reference number as specified on your Entitlement and Acceptance Form.

Directors means the directors of the Company at the date of this Prospectus.

DMU means a dozer trap mining unit, as referred to in Section 3.4 of this Prospectus.

Dollar or "\$" or **A\$** means Australian dollars, unless otherwise annotated.

EDFS means the enhanced definitive feasibility study on the Kwale Project commissioned by the Company, and as announced to ASX on 13 May 2011 and as described in Section 3.1 of this Prospectus.

Eligible Investor means a person who is:

- resident in Australia;
- subject to certain limited exceptions, not in the United States or a US Person or acting for the account or benefit of a US Person (to that extent); and
- is eligible under all applicable securities laws to receive an offer under the Rights Issue, or

in the Company's absolute discretion, they are persons resident in any other country who are reasonably able to demonstrate to the Company that they are otherwise eligible to participate

in the Rights Issue relying on a relevant exemption from, or are not otherwise subject to, the lodgement, filing, registration or other requirements of any applicable securities laws in the jurisdiction in which they are resident or have a registered address.

Eligible Shareholder means a person who is:

- a registered holder of Shares as at 5:00pm (Perth time) on the Record Date;
- has a registered address in Australia or New Zealand;
- subject to certain limited exceptions, not in the United States or a US Person or acting for the account or benefit of a US Person (to that extent); and
- is eligible under all applicable securities laws to receive an offer under the Rights Issue,

or, in the Company's absolute discretion, they are persons resident in any other country who are reasonably able to demonstrate to the Company that they are otherwise eligible to participate in the Rights Issue relying on a relevant exemption from, or are not otherwise subject to, the lodgement, filing, registration or other requirements of any applicable securities laws in the jurisdiction in which they are resident or have a registered address.

Entitlement and Acceptance Form means the entitlement and acceptance form either attached to or accompanying this Prospectus.

EPCM means engineering, procurement and contract management.

Euroz means Euroz Securities Limited ABN 23 089 314 983.

Exploration Projects means the exploration projects listed in Section 3.15 of this Prospectus.

First Tranche Share Placement has the meaning described in Section 2.1 of this Prospectus.

Fiscal Agreement means the Agreement in Relation to a Special Mining Lease Granted by the Government of Kenya to Tiomin Resources Inc. et al (Investment Agreement for the Exploration, Mining and Process of Titanium Minerals, in Kwale District, Coast Province, Kenya) between the Government of Kenya, Tiomin Kenya Ltd, Kenya Titanium Minerals Ltd, Tiomin Minerals Ltd and Tiomin Resources Ltd, dated 2 February 2005, as varied by a deed of variation dated 30 August 2009 and as assigned to Base Titanium (as described in Section 8.2 of this Prospectus).

General Meeting means the extraordinary general meeting of the Shareholders to be held on 31 August 2011, and for the avoidance of doubt, includes any meeting arising from the adjournment or postponement of that meeting.

HM means heavy minerals.

Indicated Resource or **Indicated Mineral Resource** has the meaning given to Indicated Mineral Resource in the JORC Code.

Ineligible Investor means an investor that is not an Eligible Investor.

Ineligible Shareholder means a Shareholder that is not an Eligible Shareholder.

Inferred Resource or **Inferred Mineral Resource** has the meaning given to Inferred Mineral Resource the JORC Code.

JORC Code means the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves".

Ktpa means thousand tonnes per annum.

Kwale Project means the Company's minerals sands project located in Kenya, East Africa, approximately 50 kilometres south of Mombasa.

Kwale Project Asset Purchase Agreement means the Asset Purchase Agreement between Base Titanium, Tiomin Kenya Limited, Vaaldiam Mining Inc, Tiomin Minerals Limited and Pangea Goldfields, dated 13 July 2010 (as described in Section 8.1 of this Prospectus).

Kwale Project Royalty Deed means the royalty deed entered into by Base Titanium, the Company, Vaaldiam Mining Inc and Pangea Goldfields Inc on 30 July 2010 (as described in Section 8.4 of this Prospectus).

Kwale SML means the special mining lease No. 23, granted by the Commissioner of Mines and Geology of the Republic of Kenya on 6 July 2004, pursuant to section 55 of the Mining Act Chapter 306 of the Laws of Kenya (as described in Section 3.14(a) of this Prospectus).

LIBOR means the London Inter-Bank Offer Rate.

Listing Rules or **ASX Listing Rules** means the Listing Rules of the ASX.

LOM means life of mine.

m³ means cubic metre.

Mandate Letter means the agreement between the Company and RFC dated 9 July 2010 (as described in Section 8.7 of this Prospectus).

Measured Resource or **Measured Mineral Resource** has the meaning given to Measured Mineral Resource in the JORC Code.

Mm³ means million cubic metres.

Mt means million tonnes.

New Shares means the Shares offered under the Rights Issue.

Offer Documents means the documents issued or published by or on behalf of the Company in respect of the Share Placement and the Rights Issue, including:

- (a) the announcement relating to the Share Placement and the Rights Issue made by the Company on the date the Share Placement and the Rights Issue are announced;
- (b) a notice (if any) given to the ASX in accordance with Section 708A(5)(e) and (6) of the Corporations Act in respect of each of the Shares issued under the First Tranche Share Placement and (if any) the Second Tranche Share Placement;
- (c) the Prospectus, any Entitlement and Acceptance Form and any Supplementary Offer Document;
- (d) all correspondence delivered to Shareholders in respect of the Rights Issue; and
- (e) any announcements, advertisements, publicity or investor presentations relating to the Share Placement and the Rights Issue published by the Company or on its behalf.

Official List means the official list of ASX.

Option means an option to acquire a Share.

Perth time means standard time in Perth, Western Australia.

Probable Reserve or **Probable Ore Reserve** has the meaning given to Probable Ore Reserve in the JORC Code.

Project Debt Facilities means the US\$170 million debt facilities described in Section 8.3 of this Prospectus.

Prospectus means this prospectus.

Proved Reserve or **Proved Ore Reserve** has the meaning given to Proved Ore Reserve in the JORC Code.

Quotation and **Official Quotation** means official quotation on ASX.

Record Date means 5.00pm (Perth time) on 10 August 2011.

Reserve or **Ore Reserve** has the meaning given to Ore Reserve in the JORC Code.

Resource or **Mineral Resource** has the meaning given to Mineral Resource in the JORC Code.

RFC or **Underwriter** means RFC Corporate Finance Limited ABN 59 009 153 888.

Right or **Rights** means the number of New Shares for which an Eligible Shareholder is entitled to subscribe for under the Rights Issue in accordance with the terms set out in this Prospectus.

Rights Issue means the pro rata renounceable entitlement offer of 1 New Share for every 3 Shares held by Eligible Shareholders at an issue price of 55 cents per New Share to raise up to \$30,312,538 pursuant to this Prospectus.

Second Tranche Share Placement has the meaning described in Section 2.1 of this Prospectus, and which is conditional upon Shareholder approval.

Settlement Date means (as the context requires) the settlement date in respect of Shares issued under the First Tranche Share Placement, Second Tranche Share Placement or the Rights Issue.

Share means a fully paid ordinary share in the capital of the Company.

Share Issues mean the Share Placement and the Rights Issue.

Share Placement means the First Tranche Share Placement together with the Second Tranche Share Placement.

Share Registry means Security Transfer Registrars Pty Limited ACN 008 894 488.

Shareholder means a shareholder of the Company.

Shareholder Resolutions means resolutions put to a general meeting of Shareholders, seeking approval under Listing Rule 7.1 of the issue of Shares under the Second Tranche Share Placement and/or Listing Rule 7.4 for the previous issue of Shares under the First Tranche Share Placement, so that Shares may be issued under the Second Tranche Share Placement without breaching Listing Rule 7.1.

Shortfall means those New Shares under the Rights Issue not applied for by Eligible Shareholders or Eligible Investors, together with any New Shares that would have been offered to Ineligible Shareholders if they had been entitled to participate in the Rights Issue.

Supplementary Offer Document means any supplementary or replacement prospectus to the Prospectus lodged with ASIC in connection with the Rights Issue.

THM means total heavy minerals.

Transaction Confirmation Statements means a statement issued to holders of New Shares by the Share Registry setting out their holdings of New Shares.

Underwritten Amount means \$12,500,000.

United States and **US** means the United States of America, its territories and possessions, each state of the United States and the District of Columbia.

US\$ means United States dollars.

US Person has the meaning given in Rule 902(k) of Regulation S under the US Securities Act.

US Securities Act means the *US Securities Act of 1933*, as amended

12. CORPORATE DIRECTORY

Directors

Andrew King

Non-Executive Chairman

Tim Carstens

Managing Director

Colin Bwye

Executive Director – Operations and Development

Sam Willis

Non-Executive Director

Winton Willesee

Non-Executive Director

Company Secretary

Winton Willesee

Registered Office

Level 1
50 Kings Park Road
WEST PERTH WA 6005

General Enquiries:

Telephone: +61 8 9413 7400
Facsimile: +61 8 9322 8912

Corporate Adviser and Underwriter

RFC Corporate Finance Ltd
Level 15, QV1 Building
250 St Georges Terrace
PERTH WA 6000

Share Registry

Security Transfer Registrars Pty Limited
770 Canning Highway
Applecross WA 6153

Telephone: +61 8 9315 2333

Australian Lawyers

Blake Dawson
Level 32 Exchange Plaza
2 The Esplanade
PERTH WA 6000

Auditors*

KPMG

235 St Georges Terrace
PERTH WA 6000

Principal Place of Business

Level 1
50 Kings Park Road
WEST PERTH WA 6005

*These parties have been included for information purposes only. They have not been involved in the preparation of this Prospectus.