

# **BASE RESOURCES LTD**

ABN 88 125 546 910

**Annual Financial Report  
For the Year ended  
30 June 2012**

# **BASE RESOURCES LIMITED**

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## **BASE RESOURCES LIMITED**

### **CORPORATE DIRECTORY**

#### **DIRECTORS**

Mr Andrew King *Non-Executive Chairman*

Mr Tim Carstens *Managing Director*

Mr Colin Bwyne *Executive Director*

Mr Samuel Willis *Non-Executive Director*

Mr Winton Willesee *Non-Executive Director*

Mr Michael Anderson *Non-Executive Director*

Mr Trevor Schultz *Non-Executive Director*

Mr Mike Stirzaker *Non-Executive Director – alternate for Trevor Schulz*

#### **COMPANY SECRETARY**

Mr Winton Willesee

#### **PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE**

Level 1

50 Kings Park Road

WEST PERTH, WA 6005

#### **CONTACT DETAILS**

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PERTH WA 6000

#### **AUDITORS**

KPMG

235 St Georges Terrace

PERTH WA 6000

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# BASE RESOURCES LIMITED

## DIRECTORS REPORT

Your directors present their report, together with the financial statements of the Group, being the Company, Base Resources Limited, and its controlled entities for the financial year ended 30 June 2012.

### Directors

The names of the directors in office at any time during or since the end of the half-year are:

*Mr Andrew King*

*Mr Tim Carstens*

*Mr Colin Bwye*

*Mr Winton Willesee*

*Mr Samuel Willis*

*Mr Michael Anderson*

*Mr Trevor Schultz*

*Mr Mike Stirzaker – alternate for Trevor Schulz*

Directors have been in office since the start of the financial year to the date of this report with the exception of Mr Trevor Schultz and Mr Michael Anderson who were appointed on 28 November 2011.

### Company secretary

The following person held the position of company secretary at the end of the financial year:

*Mr Winton Willesee*

### Principal activities and significant changes in nature of activities

The principal activities of the Group during the financial year were the development of the Kwale Mineral Sands Project in Kenya.

### Operating results

The profit of the Group after providing for income tax amounted to \$331,213 (2011: loss of \$3,259,732).

### Dividends paid or recommended

There were no dividends paid or declared for payment during the financial year.

### Review of operations

The Company has made significant progress in the development of the Kwale Mineral Sands Project over the period. Project implementation commenced in October 2011, and today, construction is underway across each of the six elements comprising the project – processing plant, port facility, power line, dam, tailings storage facility and access road and camp. Overall, development is now approximately 21.3% complete at the end of August 2012, and the project remains on schedule to achieve first production and product shipments in the latter half of 2013.

In July 2011, the Company received confirmations of formal credit approval from an international syndicate of banks for a US\$170 million project financing (Debt Finance Facility), comprising a US\$150 million senior debt facility and a US\$20 million cost overrun facility, to form part of the overall funding package for the development of Kwale. Execution of formal documentation to implement the debt finance facility took place in November. The key conditions precedent to utilization of the finance facility have now been satisfied, with first drawdown anticipated in the December quarter.

The equity capital raisings required to complete the primary Kwale development funding package were finalised during the year under review, with the proceeds totalling \$162.6 million received in September 2011. The capital raisings, which also provided the Company with corporate funding, comprised the following elements:

- \$140 million placement at \$0.55 per share approved by shareholders on 31 August and completed on 2 September 2011; and
- A 1:3 renounceable rights issue at \$0.55 per share completed on 16 September 2011 which raised \$22.6 million.

Completion of the capital raisings and securing the debt facilities during the financial year, together with the supplementary financing currently being evaluated (refer to after balance date events), ensure that the Company has the funding required to take Kwale through development and to positive cash flow.

# BASE RESOURCES LIMITED

## DIRECTORS REPORT

Reflecting the continuing positive market dynamics for mineral sands producers, the Company is making good progress in assembling a portfolio of off-take arrangements for the production from Kwale. To date the Company has been able to successfully establish a portfolio of off-take agreements with quality counterparties covering 70% of projected revenue over the first 5 years of operations. These off-take agreements represent 100%, 30% and 52% of Kwale's forecast production volumes, for rutile, ilmenite and zircon respectively.

Discussions in relation to further ilmenite sales contracts are well underway with a number of parties and further arrangements will be completed ahead of the commencement of production in the second half of 2013.

In November 2011, Trevor Schultz and Michael Anderson were appointed to the Board, both of whom bring significant project development and African experience to the company. These appointments are part of the development of a team at all levels of the organization with the requisite capability to deliver on the significant opportunities in front of us.

### Financial position

The net assets of the Group have increased by \$154.2 million from \$15.6 million at 30 June 2011 to \$169.8 million at 30 June 2012. This net increase is predominantly due to a \$162.3 million capital raising completed on 20 September 2011 for the ongoing development of the Kwale Project.

The Group's working capital, being current assets less current liabilities, has increased from \$6.7 million at 30 June 2011 to \$101.2 million at 30 June 2012, largely due to funds received from the capital raising for the development of the Kwale Project.

On 22 November 2011 the US\$170 million Kwale Project finance facility agreements were executed, which in conjunction with the \$162.3 million equity raising completed and the supplementary funding currently being evaluated provide the necessary funding to develop the Kwale mineral sands mine. At 30 June 2012 the project finance facility had not been draw down and the Company had cash reserves of \$105.8 million. The Directors believe the Group is in a strong and stable financial position to continue to progress its current business plan which includes the financing and development of the Kwale Project.

In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

### Significant changes in state of affairs

The significant changes in the state of affairs of the Company during the year and to the date of this report were:

- a.** The raising of approximately \$330 million in development funding and project finance for the Kwale Mineral Sands Project;
- b.** Commencement of development of the Kwale Project in October 2011; and
- c.** Securing of Off-take agreements representing 70% of projected revenue over the first 5 years of operations.

There were no other significant changes in the state of affairs of the Company during the financial period.

### After balance date events

On 24 September 2012, the Company announced that key conditions precedent to utilization of the US\$170 million Kwale Project finance facility are satisfied and that a Kwale Project capital cost re-estimate has been completed.

#### *Project finance facility*

Under the terms of the US\$170 million Kwale Project financing facility, first utilisation is subject to the satisfaction of a number of conditions precedent ("CP's"). With the key CP's effectively now satisfied and a number of remaining minor CP's the subject of a waiver request on which lender confirmation is expected shortly, the final procedural steps required to make the first drawdown can now be completed. These steps are expected to be completed in a timeframe to allow a drawdown in the fourth quarter of 2012.

#### *Kwale Project revised capital cost forecast*

With detailed design nearing completion and the procurement and contracting phase 70% complete, a review of the capital cost estimate has been completed. This review, which has included a risk assessment on all outstanding contracts and procurement items, has resulted in a revised capital cost estimate for the Kwale

## **BASE RESOURCES LIMITED**

### **DIRECTORS REPORT**

Project of US\$275 million plus additional total contingencies of US\$23 million. This total project forecast of US\$298 million represents a 14% increase over the original budget.

A number of alternative funding sources are being considered to accommodate the increased capital cost estimate and provide an appropriate level of contingency funding.

Other than the above, no events have arisen in the interval between the end of the financial year and the date of this report that are of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly, the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

#### **Future developments, prospects and business strategies**

The Group's strategy is to develop the Kwale Mineral Sands Project and to continue to explore for other economic deposits.

#### **Environmental issues**

The Group is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

National Greenhouse and Energy Reporting Act (NGER) legislation was considered and determined not to be applicable to the Company at the current stage.

# BASE RESOURCES LIMITED

## DIRECTORS REPORT

### INFORMATION ON DIRECTORS

**Mr Andrew King** *Non-Executive Chairman*

**Qualifications:** DipMinEng, GradCertAcc&FinMgt, MAusIMM, MIEAust, MAICD

**Appointed:** 28 May 2008

**Experience:** A mining engineer with over 35 years experience in the mineral resources industry, Mr King brings to Base Resources Limited a considerable depth of knowledge and expertise in technical disciplines as well as in the successful establishment of new companies including Goldstar Resources NL and Alcyone Resources Limited. In addition to experience covering corporate, strategic and operational roles in gold, iron ore, coal and base metals, he holds qualifications in accounting and financial management.

Mr King is also the Managing Director of Alcyone Resources Limited (appointed 21 August 2009).

**Interests in shares and options:** 820,000 ordinary shares and options to acquire a further 800,000 ordinary shares.

**Past public company directorships held over the last three years:** None.

**Mr Tim Carstens** *Managing Director*

**Qualifications:** BCom, ACA

**Appointed:** 5 May 2008

**Experience:** Mr Carstens brings a diverse and substantial skill set to the development of Base Resources Limited, having previously held senior executive roles with Perilya Limited, North Limited, Robe River Iron Associates, Iron Ore Company of Canada and St Barbara Mines Limited in operations, strategy, corporate development and finance, both in Australia and overseas. A chartered accountant by profession, he has successfully managed all aspects of business strategy development and implementation, acquisitions and divestments, debt and equity financing, organisational development and operational performance.

**Interests in shares and options:** 1,148,334 ordinary shares and options to acquire a further 5,000,000 ordinary shares.

**Past public company directorships held over the last three years:** None.

**Mr Colin Bwye** *Executive Director – Operations & Development*

**Qualifications:** BEng(Hons)

**Appointed:** 12 July 2010

**Experience:** Mr Bwye has over 20 year's experience in the mineral sands sector, having commenced his professional career with RGC Mineral Sands (since consolidated into Iluka Resources) as a plant metallurgist in 1988. Most recently he was Managing Director of Western Australian mineral sands producer, Doral Mineral Industries Limited, a subsidiary of Iwatani Corporation of Japan. Mr Bwye has an extensive knowledge of all aspects of the mineral sands industry, including downstream processing and marketing of mineral sands products and he has also been integral in bringing a number of development projects into production. He was born in Kenya and lived there prior to migrating to Australia in 1987 and so brings a deep understanding of the country and its culture.

**Interests in shares and options:** 778,980 ordinary shares and options to acquire a further 10,000,000 ordinary shares.

**Past public company directorships held over the last three years:** None.

# BASE RESOURCES LIMITED

## DIRECTORS REPORT

**Mr Samuel Willis** *Non-Executive Director*

**Qualifications:** BCom

**Appointed:** 23 May 2007

**Experience:** Mr Willis is an experienced company director in the resources and energy sectors. He is currently Managing Director of oil and gas explorer New Standard Energy Limited (appointed 28 July 2008).

With a background in the capital and corporate advisory fields with Hartleys, Red Dingo, Deutsche Bank and Schroders Investment Management, Mr Willis also provides Base Resources Limited with expertise in company management, specifically in relation to ASX listing, M&A assessment, deal co-ordination and capital raisings.

**Interests in shares and options:** 200 000 ordinary shares and options to acquire a further 600,000 ordinary shares.

**Past public company directorships held over the last three years:** Northern Energy Corporation Limited (NEC).

**Mr Winton Willesee** *Non-executive Director / Company Secretary*

**Qualifications:** BBus, DipEd, PGDipBus, MCom, FFin, CPA, MAICD, ACIS/ACSA.

**Appointed:** 23 May 2007

**Experience:** Mr Willesee is an experienced company director. Mr Willesee brings a broad range of skills and experience in strategy, company administration, corporate governance, company public listings, merger and acquisition transactions, reconstructions and corporate finance from his background with listed and unlisted public and other companies.

Mr Willesee holds a Master of Commerce, Post-Graduate Diploma in Business (Economics and Finance), a Graduate Diploma in Applied Corporate Governance, a Graduate Diploma in Applied Finance and Investment, a Graduate Diploma in Education and a Bachelor of Business. He is a Fellow of the Financial Services Institute of Australasia, a Member of CPA Australia and a Chartered Secretary.

As well as his position with Base Resources Limited, Mr Willesee is currently the Chairman of Cove Resources Limited (appointed 4 June 2008), Mining Group Limited (appointed 14 March 2011) and Bioprospect Limited (appointed 16 September 2011), and a Director of Coretrack Limited (appointed 4 October 2010), Newera Resources Limited (appointed 31 March 2007), Otis Energy Limited (appointed 18 Jan 2008) and Torrens Energy Limited (appointed 21 March 2012).

**Interests in shares and options:** 550,000 ordinary shares and options to acquire a further 600,000 ordinary shares.

**Past public company directorships held over the last three years:** Boss Energy Limited (now Boss Resources Limited) and Incitive Limited (now Hawkley Oil and Gas Limited).

**Mr Michael Anderson** *Non-executive Director*

**Qualifications:** BSc (Hons), PhD

**Appointed:** 28 November 2011

**Experience:** Mr Anderson has 20 years' industry experience, largely in southern Africa and Australia. His career commenced as a geologist with Anglo American, followed by roles in the metallurgical and engineering industries with Mintek, Bateman and Kellogg Brown & Root. He subsequently held senior management positions including Corporate Development Manager at Gallery Gold Limited, and most recently as Managing Director at Exco Resources Limited, where he oversaw the successful development of the White Dam Gold Project, and the sale of the Company's Cloncurry Copper Project to Xstrata. He joined Taurus Funds Management as a Director in August 2011. Mr Anderson is also a director of Hot Chili Limited (appointed 13 December 2011) and Ampella Mining Limited (appointed 18th June 2012).

**Interests in shares and options:** Nil

**Past public company directorships held over the last three years:** Exco Resources Limited



# BASE RESOURCES LIMITED

## DIRECTORS REPORT

**Mr Trevor Schultz** *Non-executive Director*

**Qualifications:** M.A (ECON), M.Sc (Min Eng)

**Appointed:** 28 November 2011

**Experience:** Mr Schultz has over 40 years' experience at the executive management and board level with leading international mining companies, including BHP, RTZ/CRA, Pegasus Gold and Ashanti Goldfields. His roles have included the development of several new mining operations in Africa, South America and the U.S.A., negotiations with various governments and their agencies and project financing and capital raisings. Mr Schultz has extensive experience operating in Africa and is currently Executive Director of Operations for Centamin Egypt Limited (appointed 15 August 2008), where he had responsibility for the development and expansion of the Sukari Gold Mine in the eastern desert of Egypt.

Mr Schultz has a Masters Degree in Economics from Cambridge University, a Master of Science Degree in Mining from the Witwatersrand University and he completed the Advanced Management Programme at Harvard University. Mr Schultz is currently a director of Pacific Road Capital Management Pty Limited.

**Interests in shares and options:** Nil

**Past public company directorships held over the last three years:** Guinor Gold Corporation,

**Mr Michael Stirzaker** *Alternate for Trevor Schultz*

**Qualifications:** BCom

**Appointed:** 28 November 2011

**Experience:** Mr Stirzaker has 30 years' commercial experience, mainly in mining finance and mining investment. He began his career in Sydney as a Chartered Accountant with KPMG, having obtained a B.Com from the University of Cape Town. He moved into investment banking with Wardley James Capel (part of the HSBC Group) and then Kleinwort Benson Limited in London. From 1993 to 2007 he was part of the natural resource advisory and investment firm, RFC Group Limited, where he became Joint Managing Director. He has also been a shareholder and Director of Tennant Metals Pty. Limited, a privately owned physical metal trader and investor, and was the Finance Director of Finders Resources Limited, an ASX listed company with copper & gold projects in Indonesia. In 2010, Mike joined the private equity mining fund manager, Pacific Road Capital Management Pty Limited as an Executive Director.

**Interests in shares and options:** Nil

**Past public company directorships held over the last three years:** Finders Resources Limited.

### Meetings of directors

During the financial year eleven meetings of the full board of directors were held. Attendances by each director during the year were as follows:

Directors	Directors' meetings	
	Number eligible to attend	Number attended
Andrew King	11	11
Tim Carstens	11	11
Colin Bwe	11	11
Samuel Willis	11	11
Winton Willesee	11	11
Michael Anderson	4	4
Trevor Schultz	4	4

Andrew King, Sam Willis and Winton Willesee attended two meetings of the Audit committee and eight meetings of the Remuneration committee.

# BASE RESOURCES LIMITED

## DIRECTORS REPORT

### Indemnifying officers or auditor

During or since the end of the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The Company has paid 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, other than conduct involving a wilful breach of duty in relation to the Company. The policies prohibit disclosure of details of the policies or the premiums paid.

### Options

At the date of this report, the unissued ordinary shares of Base Resources Limited under option are as follows:

Grant date	Date of expiry	Exercise price	Number under option
9.7.2010	9.7.2015	\$0.25	8,500,000
9.7.2010	9.7.2015	\$0.09	8,500,000
30.7.2010	30.7.2015	\$0.25	1,000,000
			<hr/> 18,000,000

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

1,000,000 options were issued to RFC Corporate Finance on 30 July 2010 for services provided in connection with the acquisition of the Kwale Mineral Sands Project. Refer to note 21 for further details.

During the year ended 30 June 2012, no ordinary shares in Base Resources Limited were issued on the exercise of options granted.

### Shares issued since the end of the financial year

No shares in Base Resources Limited have been issued since year end and no amounts are unpaid on any of the issued shares.

### Proceedings on behalf of company

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

### Non-audit services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit Committee to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to external auditors for non-audit services provided during the year ended 30 June 2012:

	2012	2011
	\$	\$
Taxation services	91,653	10,252

## **BASE RESOURCES LIMITED**

### **DIRECTORS REPORT**

#### **Auditor's independence declaration**

The lead auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 28 of the Annual Report.

## BASE RESOURCES LIMITED

### REMUNERATION REPORT - AUDITED

This remuneration report sets out the remuneration arrangements for Base Resources Limited for year ended 30 June 2012. This Remuneration Report forms part of the Directors' Report and has been audited in accordance with the *Corporations Act 2001*.

#### Details of key management personnel

The remuneration report details the remuneration arrangements for key management personnel ('KMPs') who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, and comprise the Directors (whether executive or otherwise) of the Company and other executive management as detailed in the table below. The Executive Directors and executive management listed in the table below are collectively defined as the Senior Executives for the purposes of this report.

Name	Position	Appointed during the period
<i>Senior Executives</i>		
T Carstens	Managing Director	
C Bwe	Executive Director - Operations & Development	
K Balloch	Chief Financial Officer	14 May 2012
D Vickers	General Manager - Operations	31 October 2011
J Schwarz	General Manager - External Affairs & Development	
C Forbes	General Manager - Environment & Community Affairs	17 April 2012 <sup>(i)</sup>
<i>Non-Executive Directors</i>		
A King	Chairman	
S Willis	Director	
W Willesee	Director and Company Secretary	
M Anderson	Director	28 November 2011
T Schultz	Director	28 November 2011

(i) Prior to his appointment as General Manager Environment & Community Affairs Mr Forbes held the position of Manager – Community.

#### Changes since the end of the reporting period

None.

#### Role of the Remuneration Committee

The Remuneration Committee is responsible for oversight of the remuneration policy and system. It is also responsible for evaluating the performance of the Executive Directors and monitoring performance of the executive management team. The Board, upon recommendation of the Remuneration Committee, determines the remuneration of the Executive Directors and approves the remuneration of the executive management team.

The objective of the Remuneration Committee is to ensure that remuneration policies and systems attract and retain executives and directors who will create value for shareholders. As part of this process, the Remuneration Committee may seek advice from independent remuneration consultants, the details of which during the 2012 financial year are provided below.

The Corporate Governance Statement provides further information on the role of this committee.

#### Use of remuneration consultants

To ensure the remuneration committee is fully informed when making remuneration decisions, it seeks external remuneration advice.

During the 2012 financial year the Remuneration Committee engaged the services of the following consultants:

- Godfrey Remuneration Group Pty Limited ("Godfrey") to review the structure of the Company's remuneration components, advise on the policy positioning objectives and to provide recommendations in respect of executive long-term incentive plan design. In addition, Godfrey provided their 2012 resources KMP remuneration guide. Under the terms of the engagement, Godfrey was paid \$9,220 for these services;

## BASE RESOURCES LIMITED

### REMUNERATION REPORT - AUDITED

- PJ Kinder Consulting Pty Limited to provide advice in relation to Executive Director remuneration packages and Non-Executive Director and Board committee fees. Under the terms of the engagement, PJ Kinder Consulting Pty Limited provided remuneration recommendations and was paid \$11,500 for these services; and
- Taribon Pty Limited ("Taribon") to independently undertake evaluations of Executive Directors' performance based on '360' interview feedback process from selected stakeholders and provide the Remuneration Committee with recommendations as to their individual performance to areas of role accountability for the 2012 financial year. Under the terms of the engagement, Taribon is entitled to be paid fees based on a daily rate. At the time of this report the Company had not received an invoice from Taribon, however the cost is anticipated to be approximately \$15,000.

In order to ensure the Remuneration Committee is provided with advice, and as required, remuneration recommendations, free from undue influence by members of the KMP to whom the recommendations may relate, the engagement of the above consultants by the Remuneration Committee was based on an agreed set of protocols that would be followed by each external remuneration consultant, members of the Remuneration Committee and members of KMP. Those protocols included:

- External remuneration consultants were engaged by, and reported directly to, the Remuneration Committee. The agreement for the provision of remuneration consulting services was executed by a member of the Remuneration Committee under delegated authority on behalf of the board;
- Reports containing the remuneration recommendations are provided directly to the Remuneration Committee; and
- External remuneration consultants were permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives. However, the external remuneration consultants were prohibited from providing advice or recommendations to Senior Executives before the advice or recommendations was given to members of the Remuneration Committee and not in any case unless the external remuneration consultants had approval to do so from members of the Remuneration Committee.

As a consequence, the board is satisfied that the recommendations were made free from undue influence from any members of the KMP.

#### **Remuneration policy**

Base Resources is committed to the close alignment of remuneration to shareholder return, particularly that of the Senior Executives. To this end, the Company's remuneration system is designed to attract, motivate and retain people by identifying and rewarding high performers and recognising their contribution to the continued growth and success of the Company.

Key objectives of the Company's remuneration policy are to ensure that remuneration practices:

- Facilitate the achievement of the Company's objectives;
- Provide strong linkage between executive incentive rewards and creation of value for shareholders;
- Are simple to understand and implement, openly communicated and are equitable across the Company;
- Attract, retain and motivate employees of the required capabilities; and
- Comply with applicable legal requirements and appropriate standards of governance.

#### *Developments for 2012 Financial Year*

The Company has undergone considerable corporate and commercial change during the financial year and this has been reflected in the changes to the Company's remuneration policy and practices.

The Company undertook a major review of the structure of remuneration components during the 2012 financial year. As a result, the Company has, with effect from 1 July 2011, introduced the following remuneration components to ensure Policy target remuneration package positioning:

- Performance based remuneration system;
- Short-Term Incentive Plan ("STIP") with performance criteria assigned for both individual and Company performance; and
- Long-Term Incentive Plan ("LTIP") utilising Performance Rights with performance hurdles linked to both relative and absolute total shareholder return ("TSR").

## BASE RESOURCES LIMITED

### REMUNERATION REPORT - AUDITED

#### Key principles of Senior Executive remuneration

Remuneration comprises fixed remuneration, and variable (or 'at-risk') remuneration, which is determined by individual and Company performance. The Company targets total fixed remuneration ("TFR") at the 50<sup>th</sup> market percentile and total remuneration package ("TRP"), including 'at target' variable remuneration, at the 75<sup>th</sup> market percentile, for Senior Executives. As a consequence, the Company's Senior Executives have a higher proportion of remuneration at-risk than industry averages.

Questions and answers about Senior Executive remuneration:

#### Remuneration mix

**What is the balance between fixed and 'at-risk' remuneration?**

The mix of fixed and at-risk remuneration varies depending on the organisational level of executives, and also depends on the performance of the Company and individual executives. More senior positions have a greater proportion of their remuneration at-risk.

If overall Company performance fails to meet a minimum standard, no executives will be entitled to receive any at-risk remuneration. For all executives, it is therefore possible that no at-risk remuneration will be earned and that fixed remuneration will represent 100 per cent of total remuneration.

If target at-risk remuneration is earned, the proportion of total remuneration represented by fixed and at-risk remuneration would be:

- Executive Directors (includes Managing Director): 36% fixed and 64% at-risk.
- Other Senior Executives who are KMP: 53% fixed and 47% at-risk.

#### Fixed remuneration

**What is included in fixed remuneration?**

TFR includes a base salary plus superannuation. Allowances and other benefits may be provided and are as agreed, including leased motor vehicles and additional superannuation, provided that no extra cost is incurred by the Company.

In order to attract and retain people of the requisite capability to key roles located in Kenya, an additional market allowance may be paid. The market allowance, while fixed in nature, does not form part of TFR for the purposes of calculating at-risk remuneration entitlements.

**When and how is fixed remuneration reviewed?**

TFR is reviewed annually. Any adjustments to the TFR for the Executive Directors must be approved by the Board after recommendation by the Remuneration Committee. The Executive Directors determine the TFR of other Senior Executives within specified guidelines approved by the Board. The Company seeks to position the fixed remuneration at the 50<sup>th</sup> percentile of salaries for comparable companies within the mining industry, utilising datasets and specific advice provided by independent remuneration consultants.

#### STIP

**What is the STI Plan?**

The STI is the cash component of the at-risk remuneration, payable based on a mix of Company and individual annual performance standards.

**Why does the Board consider an STI is appropriate?**

At-risk remuneration strengthens the link between pay and performance. The purpose of these programs is to reward executives for annual performance relative to expectations of their role accountabilities, required behaviours and KPI's as well as the delivery of annual business plans. A reward structure that provides at-risk remuneration is also necessary as a competitive remuneration package in the Australian and global marketplace for executives.

## BASE RESOURCES LIMITED

### REMUNERATION REPORT - AUDITED

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**Does the STI take into account different levels of performance compared to objectives?**

The size of any payment is linked to the extent of achievement. Levels of performance required for target levels of STI are set such that they are challenging but achievable.

Required performance levels for each performance criteria are set at three levels being:

- **Threshold** - A performance level that is below optimal but nevertheless acceptable. It is the minimum for which a small STI award would be payable. The STI Plan is designed such that there is an 80% probability the executive will achieve or exceed this level of achievement.
- **Target** - A performance level that represents a challenging but achievable level of performance. The STI Plan is designed such that there is an 50% to 60% probability the executive will achieve or exceed this level of achievement.
- **Stretch** - A performance level that is clearly at the upper limit of what may be achievable. The STI Plan is designed such that there is an 10% to 20% probability the executive will achieve or exceed this level of achievement.

The probabilities of achievement are set at these levels such that, over time, awards approximately equal to the target level would become payable, assuming performance to role. The achievement of this target level of award would support 75<sup>th</sup> percentile total remuneration package policy objective for executives.

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**What are the performance criteria?**

Performance criteria are assigned for both individual and Company performance. Performance criteria may change from year to year.

For Senior Executives, 50% of the STI is attached to individual performance criteria and 50% to corporate performance criteria.

Reflecting the importance attached to role clarity within Base Resources, individual performance criteria are drawn directly from the role accountabilities in the participant's role description. Each performance criteria is allocated a weighting that reflects the relative importance of that performance criteria for the year.

Corporate performance criteria are set at the commencement of each financial year and are derived from the annual operating plan and may vary from time to time to include other aspects of performance for which there is shared accountability and which the Company wishes to emphasise.

The corporate performance (50% STI component) criteria for Senior Executives and relative weightings for 2012 comprised:

- Delivery of the Kwale Project on budget – 70%.
- Delivery of the Kwale Project on time – 30%.

This component of the 2012 STI will be assessed and paid once the development of the Kwale Project is completed in 2013.

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**Is there an overriding financial performance or other conditions?**

For each year, a "gate" or "gates" may be determined by the Board. The gate may be a minimum level of earnings for the Company or a safety performance threshold that must be achieved for any awards to become payable under the STI Plan.

Irrespective of whether a gate is achieved, the Board retains discretion to increase or decrease awards in its absolute discretion. It is intended that the exercise of this discretion is used sparingly to take account of significant events and/or factors that were not anticipated when the year commenced and the performance criteria were set.

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## BASE RESOURCES LIMITED

### REMUNERATION REPORT - AUDITED

<b>What is the value of the STI award opportunity?</b>	<p>Executive Directors have a target STI opportunity of 60% of TFR, with a minimum opportunity (if only threshold level is met) of 20% and a maximum opportunity (if the stretch targets are achieved) of 100% of TFR.</p> <p>Other Senior Executives have a target STI opportunity of 30% of TFR, with a minimum opportunity (if only threshold level is met) of 15% and a maximum opportunity (if the stretch targets are achieved) of 60% of TFR.</p> <p>These percentages are set based on external advice to achieve the remuneration policy intent of 75<sup>th</sup> percentile total remuneration package market positioning.</p>
<b>How is STI assessed?</b>	<p><b>Individual performance criteria</b> - are assessed using a performance rating scale. In making the assessment in respect of a particular area of accountability, consideration is given to the extent to which the behaviours and performance indicators identified in the role description have been modelled and observed. This assessment is undertaken by the participant's manager and then signed-off by the manager-once-removed. In the case of the Executive Directors, the assessment is undertaken by the Remuneration Committee and approved by the Board.</p> <p><b>Corporate performance criteria</b> – the Board will determine the extent to which each corporate performance criteria has been achieved once the development of the Kwale Project is completed in 2013.</p>
<b>LTIP</b>	
<b>What is the LTI Plan (LTIP)?</b>	<p>The LTIP is the equity component of at-risk remuneration and is linked to the Company's TSR performance over a 3 year period.</p> <p>The LTIP aims to reward participants for Base Resources TSR performance, both relative to its peer group and in absolute terms.</p>
<b>How often are LTIP awards made?</b>	<p>The LTIP operates on the basis of a series of cycles. Each cycle commences on 1 October and is followed by a 3 year performance period, with a test date on the 3<sup>rd</sup> anniversary of the commencement of the cycle. The first cycle of the LTIP began on 1 October 2011.</p>
<b>Why does the Board consider an LTIP is appropriate?</b>	<p>The Company believes that a well designed LTIP can:</p> <ul style="list-style-type: none"> <li>• Attract executives with the requisite capability;</li> <li>• Retain key talent;</li> <li>• Maintain a stable leadership team; and</li> <li>• Explicitly align and link the interests of Base Resources leadership team and shareholders.</li> </ul>
<b>What types of equity may be granted under the LTIP?</b>	<p>Performance rights are granted under the Base Resources LTIP. Performance rights are a right granted to acquire one share in Base Resources, subject to satisfying the performance criteria outlined below.</p> <p>A participant is not entitled to participate in or receive any dividends or other shareholder benefits until the performance right has vested and a share has been allocated and transferred to the participant.</p>
<b>Was a grant made in 2012?</b>	<p>Performance Rights grants were agreed for eligible participants in the LTIP for the cycle commencing 1 October 2011. The number of performance rights agreed for each executive was calculated by reference to the volume weighted average share price on the twenty trading days up to the start of the cycle, being \$0.4085 per share.</p>



## BASE RESOURCES LIMITED

### REMUNERATION REPORT - AUDITED

#### What are the LTIP performance conditions?

The Company uses two LTIP performance criteria to determine the proportion of performance rights which vest, as follows:

- Half of the performance rights are subject to a relative TSR criteria (the “relative TSR performance rights”); and
- Half of the performance rights are subject to an absolute TSR criteria (the “absolute TSR performance rights”).

The Board considers that TSR is an appropriate performance hurdle because it ensures that a proportion of each participant's remuneration is explicitly linked to shareholder value and ensures that participants only receive a benefit where there is a corresponding direct benefit to shareholders.

#### Relative TSR performance rights

The proportion of relative TSR performance rights which vest will be determined on the basis of Base Resources' TSR relative to the TSR of the comparator group over the performance period, as set out below:

Base Resources relative TSR performance	Percentage of relative TSR performance rights that vest
Less than 50 <sup>th</sup> percentile	Nil
50 <sup>th</sup> percentile	50%
Between 50 <sup>th</sup> and 75 <sup>th</sup> percentile	Pro rata between 50% and 100%
75 <sup>th</sup> percentile and above	100%

Notwithstanding the above, the Board has the absolute discretion to determine that no relative TSR performance rights vest if Base Resources TSR is negative (despite its relative placing within the TSR comparator group).

#### Absolute TSR performance rights

The proportion of absolute TSR performance rights which vest will be determined on the basis of Base Resources' TSR on the following scale:

Base Resources 3-year TSR	Percentage of absolute TSR performance rights that vest
Less than 40.5%	Nil
40.5%	25%
Between 40.5% and 60%	Pro rata between 25% and 50%
60%	50%
>60% and <100%	Pro rata between 50% and 100%
100% or greater	100%

# BASE RESOURCES LIMITED

## REMUNERATION REPORT - AUDITED

### What is the comparator group?

The comparator group is derived from the Gresham Group 150 ranking of the top 150 ASX listed resource companies (excluding oil and gas) by market capitalisation. The TSR comparator group is comprised of the 26<sup>th</sup> to 75<sup>th</sup> ranked companies in the most recent Gresham Group 150 at the time of the offer. For the performance rights granted for the cycle commencing 1 October 2011 the comparator group comprised of the following companies:

Adamus Resources Limited	Kagara Limited
Alkane Resources Limited	Kangaroo Resources Limited
Ampella Mining Limited	Kingroose Mining Limited
Bandanna Energy Limited	Kingsgate Consolidated Limited
Bathurst Resources Limited	Metals X Limited
Beadell Resources Limited	Minara Resources Limited
Bougainville Copper Limited	Mineral Deposits Limited
CGA Mining Limited	Mirabela Nickel Limited
Coalspur Mines Limited	Noble Mineral Resources Limited
Cockatoo Coal Limited	Northern Iron Limited
Discovery Metals Limited	OM Holdings Limited
Energy Resources of Australia Limited	Paladin Energy Limited
FerrAus Limited	Rameluis Resources Limited
Gindalbie Metals Limited	Resolute Mining Limited
Gold One International Limited	Sandfire Resources
Grange Resources Limited	Saracen Mineral Holdings Limited
Gryphon Minerals Limited	Silver Lake Resources Limited
Guildford Coal Limited	Sphere Minerals Limited
Hunnu Coal Limited	St Barbara Limited
Independence Group NL	Summit Resources Limited
Indophil Resources NL	Tiger Resources Limited
Integra Mining Limited	Troy Resources NL
Intrepid Mines Limited	Western Areas NL
Ivanhoe Australia Limited	White Energy Company Limited
Jupiter Mines Limited	WPG Resources Limited

### What happens to performance rights granted under the LTIP when an executive ceases employment?

Where an executive who holds performance rights ceases to be employed by a Group member (and is not immediately employed by another Group member) for any reason other than a qualifying reason, all unvested performance rights of that participant are automatically forfeited.

Where an eligible employee who holds performance rights ceases to be employed by a Group member because of a qualifying reason, then the Board must determine, in its absolute discretion, the number of unvested performance rights of a participant (if any) that will remain on foot and become capable of vesting in accordance with LTIP rules.

The Board will generally exercise its discretion in the following manner:

- Performance rights granted in the cycle beginning on the 1 October immediately prior to the participant ceasing to be employed by a Group member are automatically forfeited; and
- All other performance rights that are not forfeited on the participant ceasing to be employed by a Group member will continue to be held by the participant and will be tested for vesting on the test date for the relevant performance right.

Qualifying reasons include but are not limited to death, total and permanent disablement, retirement or redundancy.

### What happens in the event of a change of control?

Subject to the Board determining otherwise, if a change in control event occurs then a test date arises on the date that the change in control event occurs with the Board to test the extent to which the performance criteria have been satisfied:

- On the basis of the offer price of the relevant transaction; and
- In the case of absolute TSR performance rights, reducing the percentage TSR performance hurdle pro rata to the unexpired portion of the performance period as at the date the change in control event occurs.

## BASE RESOURCES LIMITED

### REMUNERATION REPORT - AUDITED

**Do shares granted upon vesting of performance rights granted under the LTIP dilute existing shareholders' equity?**

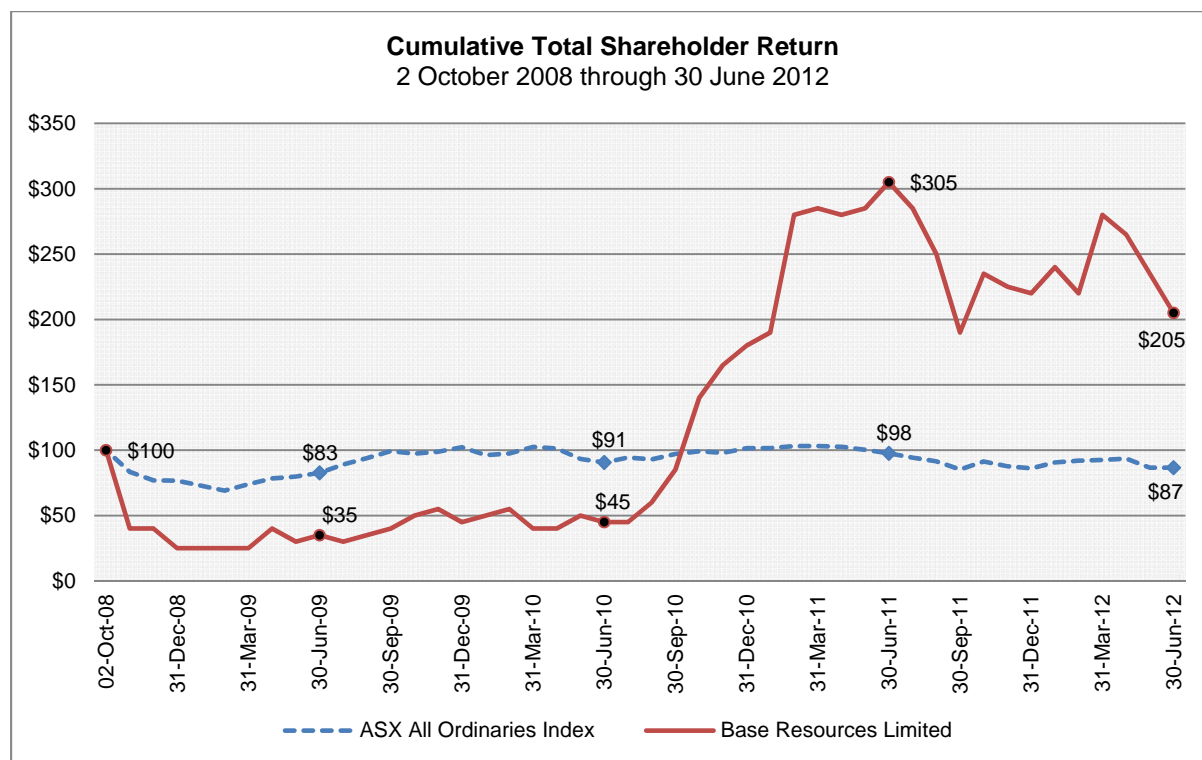
Generally, there is no dilution of shareholders' pre-existing equity as shares allocated to the participants in the LTIP upon vesting of performance rights would usually be satisfied by purchases by the plan trustee on market. In the event the Company issues shares to the plan trustee to satisfy the vesting of performance rights then shareholders' pre-existing equity will be diluted.

**Does the Company have a policy in relation to hedging at-risk remuneration?**

A participant in the LTIP must not enter into an arrangement if the arrangement would have the effect of limiting the exposure of the participant to risk relating to performance rights that have not vested.

#### Company performance and its link to shareholder return

The following graph compares the yearly change in the cumulative TSR on the Base Resources Limited shares during the period 2 October 2008 to 30 June 2012, against the cumulative total return of the ASX All Ordinaries Index over the same period. The graph illustrates the cumulative return from Base Resources Limited initial listing date on 2 October 2008, assuming \$100 was invested. No dividends have been declared during this period.



The Company's principal activities have historically consisted of exploration and evaluation and, during the current financial year, development of its Kwale Mineral Sands Project in Kenya. As a result, previous year's long and short term incentive remuneration has been linked to achieving major milestones relating to these activities and not TSR.

As detailed above, the changes made in the 2012 financial year to Senior Executive remuneration seek to align remuneration with shareholder return with the introduction of the LTIP. The LTIP explicitly links the long term variable component of Senior Executive remuneration with TSR.

## BASE RESOURCES LIMITED

### REMUNERATION REPORT - AUDITED

#### Executive remuneration outcomes for 2012

##### *Short Term Incentives*

At the end of the 2012 financial year, a review of the performance of each executive was undertaken against each of their 2012 individual performance measures as explained above. STI entitlements earned for 2012 performance are paid in the 2013 financial year.

The following table outlines the STI that was earned in comparison with the target STI for the 2012 financial year:

Name	Target STI		STI Awarded	
	Individual performance	Corporate performance	Individual performance	Corporate performance <sup>(i)</sup>
T Carstens	30%	30%	38%	deferred
C Bwye	30%	30%	39%	deferred
K Balloch <sup>(iii)</sup>	15%	15%	n/a <sup>(i)</sup>	deferred
D Vickers	15%	15%	15%	deferred
J Schwarz	15%	15%	15%	deferred
C Forbes	15%	15%	20%	deferred

(i) This component of the 2012 STI will be assessed and paid once the development of the Kwale Project is completed in 2013.

(ii) By mutual agreement, no STI was paid to Mr Balloch due to his appointment close to the end of the financial year. Mr Balloch's pro-rated 2012 STI entitlement will instead carry forward and be assessed in conjunction with his 2013 STI.

##### *Options and LTIP Performance Rights*

Following shareholder approval, share options were granted to Executive Directors and Non-Executive Directors in July 2010. These share options were granted subject to the following vesting conditions related to Kwale Project development objectives:

- 50% vest upon the Company making a decision to commence construction at the Kwale Project following the securing of the required development financing; and
- 50% vest upon first production from the Kwale Project.

During the 2012 financial year, on 22 November 2011, the Company secured the necessary project financing and committed to constructing the Kwale Project resulting in 50% of share options vesting.

Performance Rights issued under the LTIP introduced during the 2012 financial year are subject to a 3 year performance period ending on 30 September 2014. As a result, no performance rights were tested against their vesting conditions during 2012 and none vested.

# BASE RESOURCES LIMITED

## REMUNERATION REPORT - AUDITED

The remuneration for each executive of the Company for the years ending 30 June 2011 and 2012 was as follows:

Key Management Person	Post employment benefits			Share based payment total		Total	Value of options as proportion of remuneration	Proportion performance related
	Salary	Cash bonus <sup>(i)</sup>	Non-cash benefits	Superannuation	Options <sup>(ii)</sup>	Performance Rights <sup>(iii)</sup>		
	\$	\$	\$	\$	\$	\$	%	%
<b>2012</b>								
Executive Directors								
T Carstens	375,000	195,000	-	25,000	52,475	65,802	7.4	43.9
C Bwe	375,000	120,000	-	25,000	104,950	65,802	15.2	42.1
Other Key Management Personnel								
K Balloch <sup>(iv)</sup>	32,436	-	-	2,949	n/a	2,592	-	6.8
D Vickers	246,323	-	-	n/a	n/a	21,364	-	8.0
J Schwarz	267,644	-	-	n/a	n/a	24,676	-	8.4
C Forbes	219,228	-	-	n/a	n/a	11,269	-	4.9
<b>Total</b>	<b>1,515,631</b>	<b>315,000</b>	<b>-</b>	<b>52,949</b>	<b>157,425</b>	<b>191,505</b>	<b>-</b>	<b>-</b>
<b>2011</b>								
Executive Directors								
T Carstens <sup>(v)</sup>	249,416	-	26,704	24,750	214,167	n/a	41.6	41.6
C Bwe	340,319	-	-	24,670	428,333	n/a	54.0	54.0
<b>Total</b>	<b>589,735</b>	<b>-</b>	<b>26,704</b>	<b>49,420</b>	<b>642,500</b>	<b>n/a</b>	<b>-</b>	<b>-</b>

(i) Cash bonuses paid in 2012 relate to 2011 financial year performance and were not paid under the STIP which is effective from 1 July 2011.

(ii) The fair value of options is calculated at the date of grant using Monte Carlo Simulation model and recognised over the period in which the minimum service conditions are fulfilled (the vesting period). The value disclosed is the portion of the fair value of the options recognised in the reporting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual KMP may ultimately receive.

(iii) Performance rights are issued under the LTIP introduced during the 2012 financial year and effective from 1 July 2011. The fair value of performance rights is calculated at the date of grant using Monte Carlo Simulation model and recognised over the period in which the minimum service conditions are fulfilled (the vesting period). The value disclosed is the portion of the fair value of the performance rights recognised in the reporting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual KMP may ultimately receive.

(iv) Appointed 14 May 2012.

(v) Includes fringe benefits tax adjustments.

# BASE RESOURCES LIMITED

## REMUNERATION REPORT - AUDITED

### Non-executive director remuneration

Shareholders approve the maximum aggregate remuneration for non-executive directors. Fees paid to non-executive directors are recommended by the Remuneration Committee and the Board is responsible for ratifying any recommendations, if appropriate. As approved at the Annual General Meeting on 28 November 2011, the aggregate limit of fees payable per annum is \$750,000 in total.

The Company's policy is that non-executive directors remuneration is structured to exclude equity based remuneration. However, historically the Company was small and the full Board, including the non-executive directors, were included in the operations of the Company more closely than may be the case with larger companies and the non-executive directors were entitled to participate in equity based remuneration schemes.

All directors have their indemnity insurance paid by the Company.

Non-executive directors receive a fixed fee remuneration consisting of a cash fee and statutory superannuation contributions made by the company and additional fees for committee roles as set out below:

	2012 <sup>(i)</sup>	2011
<b>Base fees</b>		
Chairman	110,000	71,000
Other non-executive directors	70,000	45,000
<b>Remuneration Committee</b>		
Chair	10,500	-
Committee member	5,250	-
<b>Audit Committee</b>		
Chair	14,000	-
Committee member	7,000	-
<b>Additional fees</b>		
Company secretarial services	54,000	54,000

(i) The 2012 fees were effective from 1 October 2011.

Non-Executive remuneration for the year ended 30 June 2012 and comparative 2011 remuneration:

	Salary and fees	Non- cash benefit	Super- annuation	Options <sup>(iii)</sup>	Total	Value of options as proportion of remuneration
	\$	\$	\$	\$	\$	%
<b>2012</b>						
A King	113,375	-	-	8,396	121,771	6.9
S Willis	78,188	-	-	6,297	84,485	7.5
W Willesee <sup>(i)</sup>	126,938	-	-	6,297	133,235	4.7
M Anderson <sup>(ii)</sup>	41,222	-	-	-	41,222	-
T Schultz <sup>(iii)</sup>	41,222	-	-	-	41,222	-
<b>Total</b>	<b>400,945</b>	<b>-</b>	<b>-</b>	<b>20,990</b>	<b>421,935</b>	<b>-</b>
<b>2011</b>						
A King	71,000	-	-	34,267	105,267	32.6
S Willis	45,000	-	-	25,700	70,700	36.4
W Willesee <sup>(i)</sup>	99,000	-	-	25,700	124,700	20.6
<b>Total</b>	<b>215,000</b>	<b>-</b>	<b>-</b>	<b>85,667</b>	<b>300,667</b>	<b>-</b>

(i) Included in salary and fees for Mr Willesee is \$54,000 for company secretarial services.

(ii) Appointed 28 November 2011

(iii) The fair value of options is calculated at the date of grant using a Monte-Carlo simulation model and recognised over the period in which the minimum service conditions are fulfilled (the vesting period).

# BASE RESOURCES LIMITED

## REMUNERATION REPORT - AUDITED

### Equity instruments

#### Options

Historically options have been issued to directors as part of their remuneration to provide a market linked incentive package. Options are exercisable on a one-for-one basis.

No options were granted or exercised during the 2012 financial year.

During the 2011 financial year the terms of the outstanding options were modified at a General Meeting of the Company on 24 January 2011. The existing terms were amended to provide that the options will vest immediately upon a change in the control of the Company. No options terms were amended during 2012.

The table below outlines movements in options during 2012 and the balance held by each director at 30 June 2012:

Name	Grant Date	Number Granted	Fair value per option at grant date	Exercise Price Per Option	Expiry Date	Number vested during year	Number exercised during year	Balance at end of year
A King	30/06/2010	400,000	\$0.07	\$0.09	9 July 2015	200,000	-	400,000
	30/06/2010	400,000	\$0.06	\$0.25	9 July 2015	200,000	-	400,000
T Carstens	30/06/2010	2,500,000	\$0.07	\$0.09	9 July 2015	1,250,000	-	2,500,000
	30/06/2010	2,500,000	\$0.06	\$0.25	9 July 2015	1,250,000	-	2,500,000
C Bwye	30/06/2010	5,000,000	\$0.07	\$0.09	9 July 2015	2,500,000	-	5,000,000
	30/06/2010	5,000,000	\$0.06	\$0.25	9 July 2015	2,500,000	-	5,000,000
S Willis	30/06/2010	300,000	\$0.07	\$0.09	9 July 2015	150,000	-	300,000
	30/06/2010	300,000	\$0.06	\$0.25	9 July 2015	150,000	-	300,000
W Willesee	30/06/2010	300,000	\$0.07	\$0.09	9 July 2015	150,000	-	300,000
	30/06/2010	300,000	\$0.06	\$0.25	9 July 2015	150,000	-	300,000
Total		17,000,000				8,500,000	-	17,000,000

All options were granted for nil consideration. Options have been valued using a Monte-Carlo Simulation model. Vesting conditions are such that 50% of each tranche vested upon the Company making a decision to commence construction at the Kwale Project following the securing of the required development financing on 22 November 2011; and the remaining 50% will vest upon first production from the Kwale Project which is currently scheduled for the 2014 financial year.

#### Performance Rights

The LTIP was introduced during the 2012 financial year with effect from 1 October 2011, subject to approval of the LTIP at the next meeting of shareholders. Under the plan, the Board may offer performance rights to executives.

During the 2012 financial year performance rights were agreed for executives as part of their 2012 remuneration packages.

The LTIP operates on the basis of a series of cycles. Each cycle commences on 1 October and will be followed by a 3 year performance period, with a test date on the 3<sup>rd</sup> anniversary of the commencement of the Cycle. The first Cycle of the LTIP began on 1 October 2011.

# BASE RESOURCES LIMITED

## REMUNERATION REPORT - AUDITED

The table below outlines movements in performance rights during 2012 and the balance held by each executive at 30 June 2012:

Name	Grant date <sup>(i)</sup>	Number of performance rights	Fair value of each performance right	Vesting date <sup>(ii)</sup>	Number vested during year	Number lapsed during year	Balance at end of year
T Carstens <sup>(iii)</sup>	30/6/2012	1,175,031	\$0.2240	1/10/2014	-	-	1,175,031
C Bwye <sup>(iii)</sup>	30/6/2012	1,175,031	\$0.2240	1/10/2014	-	-	1,175,031
K Balloch	30/6/2012	167,805	\$0.2240	1/10/2014	-	-	167,805
D Vickers	30/6/2012	381,503	\$0.2240	1/10/2014	-	-	381,503
J Schwarz	30/6/2012	440,637	\$0.2240	1/10/2014	-	-	440,637
C Forbes	30/6/2012	201,226	\$0.2240	1/10/2014	-	-	201,226
		<b>3,541,233</b>			<b>-</b>	<b>-</b>	<b>3,541,233</b>

- (i) The notional grant date is the date the LTIP was approved by the Board, being 30 June 2012. The amount expensed per the remuneration table reflects the period since commencement of services when the Company and the Senior Executive had a shared understanding of the award.
- (ii) On the vesting date performance rights are tested against the performance criteria, only those performance rights that satisfy the performance criteria will vest.
- (iii) Subject to approval at the next meeting of shareholders.

### Employment arrangements of directors and senior executives

The employment arrangements of the KMPs are formalised in a standard employment agreements. Details of the termination provisions contained in the agreements are provided below.

Name	Term of contract	Notice period by either party	Termination benefit
T Carstens	Permanent – ongoing until notice has been given by either party	3 months notice 1 months notice for termination by Company if unable to perform duties by reason of illness No notice required for termination by Company for cause	12 months remuneration
C Bwye	Permanent – ongoing until notice has been given by either party	3 months notice 1 months notice for termination by Company for serious breach of employment agreement, incompetence, gross misconduct or refusing to comply with lawful direction given by the Company No notice required for termination by Company if convicted of any major criminal offence Company may elect to make payment in lieu of notice	6 months remuneration (3 months remuneration for C Forbes)

Messrs King and Willis are engaged under formal contracts as employees. Messrs Willesee, Anderson and Schultz are engaged under formal contracts with their respective consulting companies. None of the non-executive director's contracts provide for a termination payment or have a specified notice period and are ongoing unless terminated.

This Report of Directors, incorporating the Remuneration Report is signed in accordance with a resolution of the Board of Directors.



Andrew King,  
Chairman

Dated: 28<sup>th</sup> September 2012



## BASE RESOURCES LIMITED

### CORPORATE GOVERNANCE

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has turned to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The Company is pleased to advise that the Company's practices are largely consistent with those ASX guidelines.

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the financial year ended 30 June 2012.

RECOMMENDATION		BASE RESOURCES LIMITED CURRENT PRACTICE
1.1	Companies should establish the functions reserved for the board and those delegated to senior executives and disclose those functions.	Satisfied. Board Charter is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance Statement.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Satisfied. Board Performance Evaluation Policy is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance Statement.
1.3	Companies should provide the information indicated in the Guide for reporting on Principle 1.	Satisfied. The Board Charter is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance Statement.  During the year the Company adopted a short term incentive plan under which the performance of both the Managing Director and Executive Director – Operations & Development are reviewed against a set of specific performance measures.
2.1	A majority of the board should be independent directors.	Not Satisfied. Since the 2011 AGM, at which Mr Anderson and Mr Schultz were elected to the Board, the Company has not complied with this recommendation. The Board feels the current mix of directors is appropriate for the Company at this time however notes that a suitable consultant has been engaged to conduct a formal board performance review. This review is currently underway.
2.2	The chair should be an independent director.	Satisfied. Mr King, the Chairman, is independent.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Satisfied. Mr King is Chair and Mr Carstens fulfils the role of Managing Director (fulfilling the duties of chief executive officer).
2.4	The board should establish a Nomination Committee.	Not Satisfied. The Board consider that given the current size of the board (7), this function is efficiently achieved with full board participation. Accordingly, the Board has not established a separate nomination committee. The charter for the nomination processes is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance Statement.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Satisfied. Board Performance Evaluation Policy is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance Statement.

## BASE RESOURCES LIMITED

### CORPORATE GOVERNANCE

2.6	<p>Companies should provide the information indicated in the guide to reporting on Principle 2.</p>	<p>Satisfied.</p> <p>The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report.</p> <p>The names of the independent directors of the Company are Mr King, Mr Willis and Mr Willesee.</p> <p>Mr Carstens and Mr Bwye are not considered independent as a consequence of their executive positions and Mr Schultz and Mr Anderson have relationships with substantial shareholders of the Company and accordingly are not considered independent under ASX guidelines.</p> <p>Directors have the right to seek independent professional advice, at the Company's expense, in the furtherance of their duties as directors.</p> <p>The Company's diversity policy is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance Statement.</p> <p>The Board has engaged a suitable consultant to conduct a formal board function and performance review. This review is currently underway.</p>
3.1	<p>Companies should disclose a code of conduct and disclose the code or a summary of the code as to:</p> <ul style="list-style-type: none"> <li>• The practices necessary to maintain confidence in the Company's integrity;</li> <li>• The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>• The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	<p>Satisfied. The Code of conduct is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance Statement.</p>
3.2	<p>Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.</p>	<p>Satisfied. The Diversity Policy is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance Statement.</p>
3.3	<p>Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.</p>	<p>Satisfied. The Diversity Policy is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance Statement.</p>
3.4	<p>Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.</p>	<p>All seven board members are male. Senior management consists of fifteen people of whom two are female. The balance of the organisations workforce consists of ninety three people of whom twenty one are female.</p>

## BASE RESOURCES LIMITED

### CORPORATE GOVERNANCE

3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Satisfied.
4.1	The board should establish an Audit Committee.	Satisfied. The Committee consists of Messrs King, Willis (Chairman), Anderson and Willesee.  Messrs' King Willis and Willesee attended the two meetings held during the year. Mr Anderson was appointed to the committee after the end of the financial year.
4.2	The Audit Committee should be structured so that it: <ul style="list-style-type: none"> <li>• Consists only of non-executive directors;</li> <li>• Consists of a majority of independent directors;</li> <li>• Is chaired by an independent chair, who is not chair of the board; and</li> <li>• Has at least three members.</li> </ul>	Satisfied.
4.3	The Audit Committee should have a formal charter.	Satisfied. The Audit Committee charter is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance statement.
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Satisfied.
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	Satisfied. The Continuous disclosure policy is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance statement.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Satisfied.
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of their policy.	Satisfied. The shareholders communication policy is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance statement.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Satisfied.
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Satisfied. The risk management program is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance statement.  The full Board acts as the Risk Committee.

## BASE RESOURCES LIMITED

### CORPORATE GOVERNANCE

7.2	The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Satisfied. The Board, including the Managing Director, routinely consider risk management matters and seek external advice as appropriate.
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Satisfied. The Board has received a section 295A declaration pursuant to the 2012 financial year.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Satisfied.
8.1	The board should establish a Remuneration Committee.	Satisfied. The Committee consists of Messrs King (Chairman), Willis, Willesee and Schultz. Messrs King (Chairman), Willis and Willesee attended the eight meetings held during the year. Mr Schultz was appointed to the committee after the end of the financial year.
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• Consists of a majority of independent directors;</li> <li>• Is chaired by an independent chair; and</li> <li>• Has at least three members.</li> </ul>	Satisfied
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Satisfied. The structure of directors remuneration is disclosed in the remuneration report of the annual report.
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Remuneration Committee charter is available at <a href="http://www.baseresources.com.au">www.baseresources.com.au</a> in the Corporate Governance statement.

During the year the Company reviewed and adopted an updated suite of Corporate Governance policies and procedures. The Company's full suite of Corporate Governance policies and procedures can be found on the Company's website.



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Base Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there has been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'G. Hogg'.

Graham Hogg  
*Partner*

Perth

28 September 2012

# BASE RESOURCES LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2012	2011
		\$	\$
Other income		-	5,647
Employee benefits expense		(415,213)	(406,021)
Directors and related fees		(1,518,476)	(215,000)
Share based payments		(312,610)	(728,167)
Administrative expense		(1,056,482)	(694,321)
Accounting, audit and related services fees		(412,094)	(150,572)
Consultants fees		(1,452,419)	(1,314,842)
Depreciation		(35,627)	(13,578)
Write down of exploration costs		(394,114)	(4,093)
Other expenses from ordinary activities		(142,543)	(76,495)
Earnings / (loss) before financing income and income tax		(5,739,578)	(3,597,442)
Financing income	2	6,079,031	337,710
Earnings / (loss) before income tax		339,453	(3,259,732)
Income tax expense	5	(8,240)	-
Net profit / (loss) for the year		331,213	(3,259,732)
Other comprehensive income			
Foreign currency translation differences - foreign operations		(372,255)	(726,172)
Other comprehensive loss		(372,255)	(726,172)
Total comprehensive loss for the year		(41,042)	(3,985,904)
<b>Earnings / (loss) per share</b>	4		
Basic earnings / (loss) per share (cents per share)		0.08	(2.27)
Diluted earnings / (loss) per share (cents per share)		0.08	(2.27)

The accompanying notes form part of these consolidated financial statements.

# BASE RESOURCES LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2012 \$	30 June 2011 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	105,805,685	7,284,459
Trade and other receivables		1,530,313	250,088
Other	7	2,019,898	34,542
<b>TOTAL CURRENT ASSETS</b>		<b>109,355,896</b>	<b>7,569,089</b>
<b>NON-CURRENT ASSETS</b>			
Capitalised exploration and evaluation	8	653,514	8,608,613
Capitalised mine development	9	62,132,204	-
Property, plant and equipment	10	1,699,808	282,202
Capitalised borrowing costs	11	7,506,115	-
Trade and other receivables		2,292,213	-
Other	7	36,553	38,787
<b>TOTAL NON-CURRENT ASSETS</b>		<b>74,320,407</b>	<b>8,929,602</b>
<b>TOTAL ASSETS</b>		<b>183,676,303</b>	<b>16,498,691</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	7,974,515	787,042
Provisions	13	208,966	96,159
<b>TOTAL CURRENT LIABILITIES</b>		<b>8,183,481</b>	<b>883,201</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	13	714,990	-
Deferred revenue	14	4,948,046	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>5,663,036</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>13,846,517</b>	<b>883,201</b>
<b>NET ASSETS</b>		<b>169,829,786</b>	<b>15,615,490</b>
<b>EQUITY</b>			
Issued capital	15	175,718,629	21,882,774
Reserves		120,686	73,458
Accumulated losses		(6,009,529)	(6,340,742)
<b>TOTAL EQUITY</b>		<b>169,829,786</b>	<b>15,615,490</b>

The accompanying notes form part of these consolidated financial statements.

# BASE RESOURCES LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Accumulated losses	Share based payment reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2010</b>	<b>4,244,330</b>	<b>(3,081,010)</b>	<b>5,463</b>	<b>-</b>	<b>1,168,783</b>
Loss for the year	-	(3,259,732)	-	-	(3,259,732)
Other comprehensive loss	-	-	-	(726,172)	(726,172)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(3,259,732)</b>	<b>-</b>	<b>(726,172)</b>	<b>(3,985,904)</b>
<i>Transactions with owners of the Company, recognised directly in equity</i>					
Shares issued during the year, net of costs	15,455,944	-	-	-	15,455,944
Shares issued during the year on the exercise of options	2,182,500	-	-	-	2,182,500
Share based payments	-	-	794,167	-	794,167
<b>Balance at 30 June 2011</b>	<b>21,882,774</b>	<b>(6,340,742)</b>	<b>799,630</b>	<b>(726,172)</b>	<b>15,615,490</b>
<b>Balance at 1 July 2011</b>	<b>21,882,774</b>	<b>(6,340,742)</b>	<b>799,630</b>	<b>(726,172)</b>	<b>15,615,490</b>
Earnings for the year	-	331,213	-	-	331,213
Other comprehensive loss	-	-	-	(372,255)	(372,255)
<b>Total comprehensive earnings / (loss) for the year</b>	<b>-</b>	<b>331,213</b>	<b>-</b>	<b>(372,255)</b>	<b>(41,042)</b>
<i>Transactions with owners of the Company, recognised directly in equity</i>					
Shares issued during the year, net of costs	153,835,855	-	-	-	153,835,855
Share based payments	-	-	419,483	-	419,483
<b>Balance at 30 June 2012</b>	<b>175,718,629</b>	<b>(6,009,529)</b>	<b>1,219,113</b>	<b>(1,098,427)</b>	<b>169,829,786</b>

The accompanying notes form part of these consolidated financial statements.



# BASE RESOURCES LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments in the course of operations		(5,784,659)	(2,254,055)
Deferred revenue received		4,948,046	-
Income tax paid (Kenya)		(8,240)	-
Net cash used in operating activities	18	(844,853)	(2,254,055)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest receipts		4,667,662	316,844
Purchase of Kwale mineral rights		-	(3,322,162)
Payments for exploration and evaluation		(3,436,361)	(5,540,606)
Payments for mine development		(46,109,762)	-
Purchase of plant and equipment		(1,642,214)	(312,416)
Proceeds on sale of plant and equipment		-	24,245
Security deposits		(680,700)	-
Option fee for acquisition of land		-	(38,787)
Net cash used in investing activities		(47,201,375)	(8,872,882)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from exercise of share options		-	2,182,500
Proceeds from issue of shares		162,304,403	15,798,891
Payment of share issue costs		(8,468,549)	(736,956)
Debt finance facility fee		(7,434,020)	-
Net cash provided by financing activities		146,401,834	17,244,435
Net increase / (decrease) in cash held		98,355,606	6,117,498
Cash at beginning of the year		7,284,459	1,170,725
Effect of exchange fluctuations on cash held		165,620	(3,764)
Cash at end of the year	6	105,805,685	7,284,459

The accompanying notes form part of these consolidated financial statements.

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

##### **Reporting entity**

Base Resources Limited is a company domiciled in Australia. The registered address is located at Level 1, 50 Kings Park Road, West Perth, WA 6005. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprises the Company and its wholly owned subsidiaries (together referred to as the "Group"). The Group is a for-profit entity and primarily is involved in the evaluation and development of the Kwale Mineral Sands Project in Kenya.

##### **Basis of preparation**

###### Statement of compliance

The consolidated financial statements is a general purpose financial report prepared in accordance Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 28th September 2012.

###### Basis of measurement

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

###### Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. The functional currency for the subsidiaries is United States dollars.

###### Critical accounting estimates and judgements

The directors make estimates and judgements in the preparation of the financial report that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

###### *Exploration and evaluation expenditure*

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group's accounting policy (refer note 1e), requires estimates and assumptions as to the future events and circumstances in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under accounting policy (note 1e), a judgment is made that recovery of the expenditure is unlikely, an impairment loss is recorded in profit or loss in accordance with accounting policy (note 1j). The carrying amounts of exploration and evaluation assets are set out in note 8.

###### *Mine closure and rehabilitation obligations*

Provision is made for the anticipated costs of future closure and rehabilitation of mining areas. These future cost estimates are discounted to their present value. The calculation of these provision estimates requires assumptions such as application of environmental legislation, plant closure dates, available technologies, engineering cost estimates and discount rates. A change in any of the assumptions used may have a material impact on the carrying value of mine closure and rehabilitation obligations.

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### *Ore reserves and resources estimates*

The estimated quantities of economically recoverable reserves and resources are based upon interpretations of geological and geophysical models and require assumptions to be made regarding factors such as estimates of short and long-term exchange rates, estimates of short and long-term commodity prices, future capital requirements and future operating performance. Changes in reported reserves and resources estimates can impact the carrying value of property, plant and equipment, intangible assets, provisions for mine closure and rehabilitation obligations, the recognition of deferred tax assets, as well as the amount of depreciation and amortisation charged to the Income Statement.

#### *Share based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by a recognised valuation model, using the assumptions detailed in note 21.

#### *Taxation*

Balances related to taxation disclosed in the financial statements and the notes thereto are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents the directors' best estimate, pending an assessment by the tax authorities in Australia and jurisdictions where it has foreign operations. In accordance with the group's accounting policies for deferred taxes (refer note 1c), a deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise those losses. Determination of future taxable profits requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively, sale of the respective areas of interest will be achieved. This includes estimates and judgements about commodity prices, exchange rates, future capital requirements, future operational performance and the timing of estimated cash flows. Changes in these estimates and assumptions could impact on the amount and probability of estimated taxable profits and accordingly the recoverability of deferred tax assets. The carrying amount of deferred tax assets are set out in note 5.

### **Significant accounting policies**

#### **(a) Principles of consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Base Resources Limited at the end of the reporting period. A controlled entity is any entity over which Base Resources Limited has the power to govern the financial and operating policies so as to obtain benefits from the entities activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in note 22 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

#### **(b) Foreign currency**

##### *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### *Foreign operations*

The assets and liabilities of foreign operations are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, are translated to Australian dollars at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the translation reserve in equity.

#### **(c) Income tax**

The income tax expense / benefit for the year comprise current income tax expense / benefit and deferred tax expense / benefit.

Current income tax expense charged to the profit or loss is the expected tax payable or recoverable on the taxable income or loss calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date, and any adjustment to tax payable in respect of previous years. Current tax liabilities / assets are therefore measured at the amounts expected to be paid to / recovered from the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense / benefit charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### **(d) Property, plant and equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

#### *Plant and equipment*

Plant and equipment is measured on the historical cost basis. Costs include expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in the Statement of Comprehensive Income during the financial period in which they are incurred. The gain or loss on disposal of an item of plant and equipment is determined by

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income / other expenses in the Statement of Comprehensive Income.

#### *Depreciation*

The depreciable amount of all plant and equipment, but excluding freehold land, is depreciated on a straight line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

<b>Class of plant and equipment</b>	<b>Depreciation rate</b>
Furniture and fixtures	12.5%
Plant and equipment	25% to 40%
Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### **(e) Exploration and evaluation expenditure**

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Accordingly, exploration and evaluation expenditure are those expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Accounting for exploration and evaluation expenditure is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

For each area of interest the expenditure is recognised as an exploration and evaluation asset when the rights of tenure to that area of interest are current and the expenditure is expected to be recouped through success development and exploitation of an area of interest, or alternatively by its sale, and where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

General and administrative costs are allocated to, and included in, the cost of exploring and evaluation assets only to the extent that those costs can be related directly to operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instance, these costs are expenses as incurred.

#### *Impairment testing of exploration and evaluation assets*

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viable or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Accumulated costs in relation to an abandoned area are written off in full to the Statement of Comprehensive Income in the year in which the decision to abandon the area is made.

#### **(f) Mine development assets**

Mine development expenditure relates to costs incurred to access a mineral resource. It represents those costs incurred after the technical feasibility and commercial viability of extracting the mineral resource has been demonstrated and an identified mineral reserve is being prepared for production (but is not yet in production). Exploration and evaluation assets are assessed for impairment prior to their transfer to mine development assets.

Significant factors considered in determining the technical feasibility and commercial viability of the project are the completion of a feasibility study, the existence of sufficient proven and probable reserves to proceed with development and approval by the board of directors to proceed with development of the project.

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Mine development expenditure includes:

- Reclassified exploration and evaluation assets;
- Direct costs of construction; and
- An appropriate allocation of overhead and borrowing costs incurred in the construction phase.

Capitalisation of mine development expenditure ceases once the mining property is capable of commercial production, at which point it is transferred to property, plant and equipment, and depreciated.

Any mine development expenditure incurred once a mine property is in production is immediately expensed to the Statement of Comprehensive Income except where it is probable that future economic benefits will flow to the entity, in which case it is capitalised as property, plant and equipment.

#### **(g) Mine closure and rehabilitation obligations**

Provisions are made for the estimated cost of mine closure and rehabilitation relating to areas disturbed during the mine's operations up to the reporting date but not yet rehabilitated. Provision has been made in full for all the disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cash flows. The estimated costs include the current cost of rehabilitation necessary to meet legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation, and many other factors, including future developments, changes in technology, price increases and changes in interest rates. The amount of the provision relating to mine closure and rehabilitation obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time.

The provision is recognised as a liability, separated into current (estimated costs arising within twelve months) and non-current components based on the expected timing of these cash flows. A corresponding asset is included in mine property and mine development assets, only to the extent that it is probable that future economic benefits associated with the restoration expenditure will flow to the entity. The capitalised cost of this asset is recognised in property, plant and equipment and is amortised over the life of the mine.

At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amounts of the costs to be incurred. Mine closure and rehabilitation provisions are adjusted for changes in estimates. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved. Changes in the liability relating to mine closure and rehabilitation obligations are added to or deducted from the related asset (where it is probable that future economic benefits will flow to the entity), other than the unwinding of the discount which is recognised as financing expenses in the Statement of Comprehensive Income. Changes to capitalised cost result in an adjustment to future amortisation charges.

The provisions referred to above do not include any amounts related to remediation costs associated with unforeseen circumstances.

#### **(h) Finance income and expenses**

Financing income includes:

- Interest income on cash and cash equivalents.

Interest income is recognised as it accrues using the effective interest rate method.

Financing expenses include:

- Interest on short-term and long-term borrowings;
- Amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- Finance lease charges; and
- The impact of the unwinding of discount on long-term provisions for mine closure and rehabilitation.

Financing expenses are calculated using the effective interest rate method. Finance expenses incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other financing expenses are expensed as incurred.

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### **(i) Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

#### **(j) Impairment of assets**

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

#### **(k) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

#### **(l) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

#### **(m) Financial instruments**

##### *Non-derivative financial assets*

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand and deposits held at call with banks.

##### *Non derivative financial liabilities*

The Group initially recognises financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Such liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised costs using the effective interest rate method.

The Group derecognised a financial liability when its contractual obligations are discharges or cancelled or expire.

Other financial liabilities comprise trade and other payables.

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

#### **(n) Earnings per share**

The Group presents basic and diluted earnings per share for its ordinary shares. Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders of the Company by the weighted average number of shares outstanding during the year. Diluted earnings per share is determined by adjusting the earnings attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares which comprise of vested and exercisable share options granted to employees or other parties for the provision of services.

#### **(o) Employee benefits**

##### *Short-term benefits payable*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past services by the employee, and the obligation can be estimated reliably.

##### *Defined contribution plans*

Contributions are made by the Company to individual defined contribution superannuation plans for Australian directors and employees and are charged as an expense in the Statement of Comprehensive Income when incurred.

##### *Equity-settled Compensation*

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of options and performance rights is ascertained using a recognised pricing model which incorporates all market vesting conditions.

The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

#### **(p) Goods and services tax (GST) and other indirect taxes**

Revenues, expenses and assets are recognised net of the amount of indirect taxes, except where the amount of indirect tax incurred is not recoverable from the tax authorities in the relevant jurisdiction. In these circumstances the indirect tax is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of indirect taxes.

Cash flows are presented in the statement of cash flows on a gross basis, except for the indirect tax component of investing and financing activities, which are disclosed as operating cash flows.

#### **(q) Segment reporting**

##### *Determination and presentation of operating segments*

Operating segments are components of the Group about which separate financial information is available that is evaluated regularly by the Group's senior executives in deciding how to allocate resources and in assessing performance.

Segment information that is evaluated by the Group's senior executives is prepared in conformity with the accounting policies adopted for preparing the consolidated financial statements of the Group.

Segment results that are reported to the Group's senior executives include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.



## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The division of the Groups results into segments has been ascertained by reference to direct identification of revenue/cost centres and where interrelated segment costs exist, an allocation has been calculated on a pro rata basis of the identifiable costs.

**(r) Comparative figures**

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(s) New accounting standards for application in future periods**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2012 \$	2011 \$
<b>2. FINANCING INCOME</b>		
<b>Financing income</b>		
Interest received from cash and cash equivalents	5,541,156	337,710
Gain on foreign exchange translations	537,875	-
	<u>6,079,031</u>	<u>337,710</u>
<b>3. AUDITORS' REMUNERATION</b>		
<i>Remuneration of previous auditor</i>		
Auditing or reviewing financial reports	-	3,400
Taxation services	-	5,360
<i>Remuneration of current auditor</i>		
Auditing or reviewing financial reports	125,693	30,700
Taxation services	91,653	10,252
	<u>217,346</u>	<u>49,712</u>
<b>4. EARNINGS / (LOSS) PER SHARE</b>		
Earnings (loss) used to calculate basic /diluted earnings (loss) per share	<u>331,213</u>	<u>(3,259,732)</u>
Weighted average number of ordinary shares on issue used in the calculation of basic earnings (loss) per share	408,307,038	143,860,512
Weighted average number of ordinary shares on issue used in the calculation of diluted earnings (loss) per share	417,807,038	143,860,512
<b>5. INCOME TAX</b>		
<b>a. Major components of income tax (benefit) for the year</b>		
<i>Current income tax</i>		
Income tax expense	8,240	-
Income tax expense reported in comprehensive income	<u>8,240</u>	<u>-</u>
<i>Items related to equity</i>		
Deferred income tax related to items charged or credited directly to equity		
Share issue costs	228,841	256,669
Deferred tax asset not recognised	(228,841)	(256,669)
	<u>-</u>	<u>-</u>

# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2012 \$	2011 \$
<b>b. Reconciliation of income tax expense to prima facie tax payable</b>		
The prima facie tax payable on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Accounting profit / (loss) before tax	339,453	(3,259,732)
Prima facie tax on operating profit at 30% (2011: 30%)	101,836	(977,920)
Add / (less) tax effect of:		
Under and overs from prior year	(35,512)	-
Subsidiary losses not recognised	33,716	-
Share based payments	93,783	218,450
Deferred tax asset (brought)/ not brought to account	(185,583)	759,470
Income tax attributable to operating income / (loss)	8,240	-

<b>c. Deferred tax assets</b>		
Provisions and accruals	321,594	17,891
Share issue costs	228,841	256,669
	550,435	274,560
Set-off deferred tax liabilities	5(d) (269,216)	(101,930)
Deferred tax asset not recognised	(281,219)	(172,630)
Net deferred tax assets	-	-

<b>d. Deferred tax liabilities</b>		
Interest receivable	269,216	7,168
Exploration expenditure	-	94,762
	269,216	101,930
Set-off deferred tax assets	5(c) (269,216)	(101,930)
Net deferred tax liabilities	-	-

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2012 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- The company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- The company continues to comply with conditions for deductibility imposed by law; and
- No changes in tax legislation adversely affect the company in realising the benefit from the deductions for the loss and exploration expenditure.

### e. Tax losses

Unused tax losses for which no deferred tax asset has been recognised	5,165,958	5,136,627
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# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2012 \$	2011 \$
<b>6. CASH AND CASH EQUIVALENTS</b>		
Cash at bank and in hand	15,805,685	284,459
Short-term bank deposits	90,000,000	7,000,000
	<u>105,805,685</u>	<u>7,284,459</u>
<b>7. OTHER ASSETS</b>		
<b>Current</b>		
Prepayments	1,326,205	21,549
Security deposits	693,693	12,993
	<u>2,019,898</u>	<u>34,542</u>
<b>Non-current</b>		
Prepayments	36,553	38,787
	<u>2,056,451</u>	<u>73,329</u>
<b>8. CAPITALISED EXPLORATION AND EVALUATION EXPENSES</b>		
Exploration expenses (Australia)	-	371,458
Exploration and evaluation expenses (Kenya)	653,514	8,237,155
	<u>653,514</u>	<u>8,608,613</u>
<i>Movement in carrying value</i>		
Opening balance	8,608,613	371,458
Mineral rights acquired	-	3,322,162
Evaluation expenditure during the period	3,436,361	5,519,305
Depreciation capitalised on fixed assets used in evaluation	-	21,301
Adjustment for the effect of foreign exchange movements	184,456	(625,613)
Transfer to capitalised mine development	(11,181,802)	-
Exploration written off during the year	(394,114)	-
	<u>653,514</u>	<u>8,608,613</u>

Capitalised exploration and evaluation cost relates to the Company's Kenyan Kilifi, Mambrui and Vipingo projects. Base Titanium Limited has an option to acquire these tenements and is required to meet minimum exploration commitments in the interim. A confirmatory drilling program was conducted at the Mambrui and Kilifi projects in order to identify further potential in the region.

Evaluation expenditure on the Kwale Project has been transferred to mine development asset based on the decision to proceed with the development of the Kwale Project following the successful completion of evaluation activities and securing the appropriate finance for construction of the project.

Capitalised expenditure on the Company's Australian exploration projects has been written off during the current period as the tenements are in the process of being relinquished.

# **BASE RESOURCES LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

	2012 \$	2011 \$
<b>9. CAPITALISED MINE DEVELOPMENT</b>		
Mine development (Kwale Project)	62,132,204	-
	<u>62,132,204</u>	<u>-</u>
<i>Movement in carrying value</i>		
Opening balance	-	-
Expenditure during the period	50,950,402	-
Transfer from capitalised exploration and evaluation	11,181,802	-
	<u>62,132,204</u>	<u>-</u>
<p>Mine development expenditure relates to the development of the Kwale Mineral Sands Project in Kenya. Capitalised exploration and evaluation costs for the Kwale Project were transferred to mine development asset following the decision to proceed with the development of the project.</p>		
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>		
<b>PLANT AND EQUIPMENT</b>		
At cost	275,474	70,121
Accumulated depreciation	(57,598)	(18,064)
	<u>217,876</u>	<u>52,057</u>
<b>VEHICLES</b>		
At cost	1,165,337	138,682
Accumulated depreciation	(175,884)	(11,847)
	<u>989,453</u>	<u>126,835</u>
<b>FURNITURE &amp; FIXTURES</b>		
At cost	114,330	112,945
Accumulated depreciation	(24,105)	(9,635)
	<u>90,225</u>	<u>103,310</u>
<b>CAPITAL WORK IN PROGRESS</b>		
At cost	402,254	-
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<u>1,699,808</u>	<u>282,202</u>

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### *Movements in carrying amounts*

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Plant & equipment	Furniture & fixtures	Vehicles	Capital work in progress	Total
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2010</b>	22,057	8,950	18,799	-	49,806
Additions	49,797	111,062	151,557	-	312,416
Disposals	(971)	-	(17,627)	-	(18,598)
Depreciation capitalised to exploration and evaluation	(5,735)	(3,720)	(11,846)	-	(21,301)
Depreciation expense	(8,860)	(3,546)	(1,172)	-	(13,578)
Effects of movement in foreign exchange	(4,231)	(9,436)	(12,876)	-	(26,543)
<b>Balance at 30 June 2011</b>	<b>52,057</b>	<b>103,310</b>	<b>126,835</b>	<b>-</b>	<b>282,202</b>
<b>Balance at 1 July 2011</b>	52,057	103,310	126,835	-	282,202
Additions	204,218	-	1,020,731	402,257	1,627,206
Disposals	-	-	-	-	-
Depreciation capitalised to mine development	(13,747)	(4,229)	(163,532)	-	(181,508)
Depreciation expense	(25,545)	(10,082)	-	-	(35,627)
Effects of movement in foreign exchange	889	1,228	5,418	-	7,535
<b>Balance at 30 June 2012</b>	<b>217,872</b>	<b>90,227</b>	<b>989,452</b>	<b>402,257</b>	<b>1,699,808</b>

#### 11. CAPITALISED BORROWING COSTS

	2012 \$	2011 \$
Debt finance facility fees	8,235,771	-
Amortisation of finance fees	(729,656)	-
	<b>7,506,115</b>	<b>-</b>

The Group entered into project debt finance facility agreements for US\$170 million in debt financing in November 2011. The project debt facility is comprised of a US\$80 million senior commercial tranche with an interest rate of LIBOR plus 4.5% (4.0% post-completion), US\$70 million development finance institution ("DFI") tranche with an interest rate of LIBOR plus 6.0% (5.5% post-completion) and a US\$20 million cost overrun facility at an interest rate of LIBOR plus 5.0%.

The security for the facility is a fixed and floating charge over all the assets of Base Titanium Limited (BTL) and the shares in BTL held by Base Titanium (Mauritius) Limited (BTML) and the shares held in BTML by Base Resources Limited. In addition, a shareholder support agreement is in place that requires Base Resources to do all things necessary to cause the project to achieve project completion by no later than 31 December 2014. No funds have been drawn down on the facility to date.

In accordance with Australian Accounting Standards, all transaction costs directly attributable to securing the funding is deferred to be offset against drawn loan amounts.

Capitalised borrowing costs are amortised over the life of the loan using the effective interest rate method. Whilst in the mine development phase all amortised borrowing costs are capitalised as part of mine development asset.

# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2012 \$	2011 \$
<b>12. TRADE AND OTHER PAYABLES</b>		
Trade and other creditors	402,985	481,103
Accruals	7,571,530	305,939
	<b>7,974,515</b>	<b>787,042</b>

Trade creditors are non-interest bearing and are normally settled on 30 day terms.

### 13. PROVISIONS

#### Current

Employee benefits	208,966	96,159
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#### Non-current

Mine closure and rehabilitation	714,990	-
	<b>923,956</b>	<b>96,159</b>

#### Movement in mine closure and rehabilitation:

Balance at 1 July	-	-
Recognition of new obligation	714,990	-
Unwinding of discount	-	-
<b>Balance at 30 June</b>	<b>714,990</b>	<b>-</b>

The mine closure and rehabilitation obligations have been recorded initially as a liability at fair value, assuming a risk-free discount rate equivalent to the average of 10 and 20 year US Government bonds of 2.03% as at 30 June 2012 and an inflation factor of 2.49%. Although the ultimate amount to be incurred is uncertain, management has at 30 June 2012 estimated the asset retirement cost of work completed to date using an expected mine life of 13 years and a total undiscounted estimated cash flow of US\$680,589.

### 14. DEFERRED REVENUE

Fee paid on execution of product sales agreement	4,948,046	-
	<b>4,948,046</b>	<b>-</b>

During the 2012 financial year the Company entered into a long term product sales agreement for the Kwale Project. Under the terms of the agreement the buyer will purchase mineral production from the Kwale Mineral Sands Mine for a period of six years from commencement of production. The agreement includes a US\$5 million fee payable on execution of the contract. The fee has been classified as deferred revenue and will be amortised over the six year contract term from the commencement of production.

# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2012 \$	2011 \$
<b>15. ISSUED CAPITAL</b>		
<b>(a) Ordinary share capital</b>		
Issued and fully paid	175,718,629	21,882,774

Date	Number	\$
<b>1 July 2010</b>	<b>38,000,001</b>	<b>4,244,330</b>
Issue of shares	118,611,113	16,345,000
Share options exercised	8,730,000	2,182,500
Share issue costs	-	(889,056)
<b>30 June 2011</b>	<b>165,341,114</b>	<b>21,882,774</b>
<b>1 July 2011</b>	<b>165,341,114</b>	<b>21,882,774</b>
Issue of shares	295,098,915	162,304,403
Share issue costs	-	(8,468,548)
<b>30 June 2012</b>	<b>460,440,029</b>	<b>175,718,629</b>

All issued shares are fully paid. The Company does not have authorised capital or par value in respect of its issued shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

### (b) Options

For information relating to share options issued to key management personnel during the financial year, refer to note 21 share-based payments.

### (c) Performance rights

For information relating to share options issued to key management personnel during the financial year, refer to note 21 share-based payments.

## 16. COMMITMENTS

### (a) Exploration expenditure commitments

The Group has rental and expenditure commitments in respect of its tenement holdings of:

	161,569	501,644
Payable not later than 12 months	<b>161,569</b>	<b>501,644</b>



# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2012 \$	2011 \$
(b) Operating lease commitments		
The Company entered into a non-cancellable lease agreement for its office premises which expires in September 2012.		
Payable not later than 12 months	24,348	122,946
Payable between 12 months and 5 years	-	20,491
	<b>24,348</b>	<b>143,437</b>

### (c) Kwale Project mine development commitments

The outstanding capital commitments of the Company relating to the construction of the Kwale Project are as follows:

Payable not later than 12 months	104,263,610	-
Payable between 12 months and 5 years	4,700,767	-
	<b>108,964,377</b>	<b>-</b>

## 17. CONTINGENT LIABILITIES

There are no contingent liabilities.

## 18. RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO CASH FLOW FROM OPERATIONS

<b>Profit / (loss) for the year</b>	<b>331,213</b>	<b>(3,259,732)</b>
Interest receipts	-	(316,844)
Depreciation	37,557	13,578
Share based payments	312,610	728,167
Tenement valuation write down	394,114	-
Profit on sale of fixed assets	-	(5,647)
Interest not yet received	(873,493)	-
Interest income classified as investing activity	(4,667,662)	-
Deferred revenue received	4,948,046	-
Foreign exchange	(537,875)	-
Changes in assets and liabilities:		
Increase in receivables and other assets	(789,363)	(237,340)
Increase in trade and other payables	-	429,754
Adjustment for share proceeds monies received	-	394,009
<b>Cash flow from operations</b>	<b>(844,853)</b>	<b>(2,254,055)</b>

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 19. SEGMENT REPORTING

##### *Identification of reportable segments*

The Group is currently developing the Kwale mineral sands project in Kenya, approximately 50 kilometres south from the deep water port of Mombasa. The principal activities of the project are the construction of the process plant and ancillary infrastructure, marine port facilities in Mombasa, HV power line, Mukurumundzi dam, tailings storage facility and the access road and camp. The mine is expected to be commissioned in August 2013 with first product shipments in the fourth quarter of 2013.

Other operations include the Group head office (which includes all corporate expenses that cannot be directly attributed to the operation of the Kwale Project) and exploration projects in Kenya.

Reportable segment	2012			2011		
	Kwale Project	Other operations	Total	Kwale Project	Other operations	Total
	\$	\$	\$	\$	\$	\$
Other income	1,625	536,250	537,875	-	343,357	353,357
Interest income	-	5,541,156	5,541,156	-	343,357	353,357
Depreciation	-	(37,557)	(37,557)	-	(13,578)	(13,578)
Reportable profit (loss)	(82,268)	421,721	339,453	(881,513)	(2,378,219)	(3,259,732)
Capital Expenditure	59,117,178	218,400	59,335,578	9,086,978	88,206	9,175,184
Total assets	77,490,146	106,186,157	183,676,303	8,662,860	7,835,831	16,498,691
Total liabilities	9,655,895	4,190,622	13,846,517	(204,404)	(678,797)	(883,201)

#### 20. RELATED PARTIES

##### **Controlled entities**

In April 2010 the Company incorporated its wholly owned subsidiary Base Titanium (Mauritius) Limited, a Mauritian incorporated Company. In July 2010 Base Titanium (Mauritius) Limited acquired 100% of Base Titanium Limited, a Kenya incorporated company.

##### **Key management personnel**

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to the Company's key management personnel (KMP) for the year ended 30 June 2012.

##### **KMP compensation:**

	2012	2011
	\$	\$
Short-term employee benefits	2,231,576	831,439
Post-employment benefits	52,949	49,420
Share-based payments	369,920	728,167
	<u>2,654,445</u>	<u>1,609,026</u>

# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### KMP performance rights and movements

	Balance 1 July	Granted	Exercised	Vested	Balance 30 June
<b>2012</b>					
T Carstens	-	1,175,031	-	-	1,175,031
C Bwe	-	1,175,031	-	-	1,175,031
K Balloch	-	167,805	-	-	167,805
D Vickers	-	381,503	-	-	381,503
J Schwarz	-	440,637	-	-	440,637
C Forbes	-	201,226	-	-	201,226
	-	3,541,233	-	-	3,541,233

The long term incentive plan under which performance rights are granted was approved by the board during the 2012 financial year. As a result no performance rights were granted during the 2011 financial year.

### KMP options holdings and movements

	Balance 1 July	Granted	Exercised	Balance 30 June	Vested during the year	Vested and exercisable at 30 June
<b>2012</b>						
A King	800,000	-	-	800,000	400,000	400,000
T Carstens	5,000,000	-	-	5,000,000	2,500,000	2,500,000
C Bwe	10,000,000	-	-	10,000,000	5,000,000	5,000,000
S Willis	600,000	-	-	600,000	300,000	300,000
W Willesee	600,000	-	-	600,000	300,000	300,000
M Anderson	-	-	-	-	-	-
T Schultz	-	-	-	-	-	-
K Balloch	-	-	-	-	-	-
D Vickers	-	-	-	-	-	-
J Schwarz	-	-	-	-	-	-
C Forbes	-	-	-	-	-	-
	17,000,000	-	-	17,000,000	8,500,000	8,500,000
<b>2011</b>						
A King	1,300,000	-	(500,000)	800,000	-	-
T Carstens	7,000,000	-	(2,000,000)	5,000,000	-	-
C Bwe	10,000,000	-	-	10,000,000	-	-
S Willis	1,100,000	-	(500,000)	600,000	-	-
W Willesee	1,100,000	-	(500,000)	600,000	-	-
	20,500,000	-	(3,500,000)	17,000,000	-	-

# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### KMP shareholdings

The number of ordinary shares in Base Resources Limited held by each KMP of the Company during the financial year and the previous financial year is as follows:

	Balance 1 July	Options exercised	Purchased	Sold	Balance 30 June
<b>2012</b>					
A King	740,000	-	80,000	-	820,000
T Carstens	950,000	-	198,334	-	1,148,334
C Bwye	667,869	-	111,111	-	778,980
S Willis	200,000	-	-	-	200,000
W Willesee	440,000	-	110,000	-	550,000
M Anderson	-	-	-	-	-
T Schultz	-	-	-	-	-
K Balloch	-	-	-	-	-
D Vickers	-	-	-	-	-
J Schwarz	-	-	-	-	-
C Forbes	-	-	-	-	-
	2,997,869	-	499,445	-	3,497,314
<b>2011</b>					
A King	250,000	500,000	250,000	(260,000)	740,000
T Carstens	50,000	2,000,000	50,000	(1,150,000)	950,000
C Bwye	-	-	667,869	-	667,869
S Willis	-	500,000	-	(300,000)	200,000
W Willesee	100,000	500,000	100,000	(260,000)	440,000
	400,000	3,500,000	1,067,869	(1,970,000)	2,997,869

### Other KMP transactions

There have been no other transactions involving equity instruments other than those described in the tables above. There have been no loans to KMP's during the period or since.

### Other related party transactions

At 30 June the balance of loans advanced to / (from) controlled entities of Base Resources Limited are as follows:

	2012 \$	2011 \$
Base Titanium Limited	61,764	1,708,353
Base Titanium (Mauritius) Limited	62,958	13,192
	124,722	1,721,545
Investments in subsidiaries are as follows:		
Base Titanium Limited	40,497,978	-
Base Titanium (Mauritius) Limited	3,448,166	3,448,166
	43,946,144	3,448,166

# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. SHARE-BASED PAYMENTS

#### (a) Share options

Granted options are as follows:

	Grant date	Number	Issue date
Key management personnel	30 June 2010	17,000,000	9 July 2010
Other	30 July 2010	1,000,000	13 August 2010

#### *Terms of granted options*

##### 2010

Options granted to KMP on 30 June 2010 (issued on 9 July 2011) were as performance incentives to the Managing Director (5,000,000), the Executive Director – Operations & Development (10,000,000), the Non-executive Chairman (800,000) and the other two Non-executive Directors (600,000 each). All options were granted for nil consideration. Vesting conditions are such that 50% of each tranche vest upon the Company making a decision to commence development of the Kwale Project following the securing of the required project financing; and the remaining 50% vest upon first production from the Kwale Project, currently scheduled for the 2013 financial year.

The fair value of the 17 million options granted to KMP during the 2010 financial year has been estimated at the date of grant using a Monte Carlo Simulation model using the following assumptions: risk-free interest rate of 4.6%; no dividend yield; volatility factor of the expected market price of the Company's shares of 104%; and an expected life of options of 5 years.

##### 2011

RFC Corporate Limited ("RFC") were granted 1 million options on 30 July 2010 in respect of services provided. These options were granted for nil consideration, vested immediately and were valued using a Black and Scholes model.

The fair value of the 1 million options granted to RFC during the 2011 financial year has been estimated at the date of grant using a Black & Scholes model using the following assumptions: risk-free interest rate of 5.39%; no dividend yield; volatility factor of the expected market price of the Company's shares of 104%; and an expected life of options of 5 years.

Summary of shares under option are as follows:

	Number	Weighted average exercise price
Options outstanding as at 1 July 2010	25,730,000	\$0.19
Granted	1,000,000	\$0.25
Exercised	8,730,000	\$0.25
Options outstanding as at 30 June 2011	18,000,000	\$0.17
Options outstanding as at 30 June 2012	18,000,000	\$0.17

The exercise price of outstanding options at reporting date was \$0.25 for 9,500,000 options and \$0.09 for 8,500,000 options. The options hold no voting or dividend rights.

Options exercisable as at 30 June 2011	1,000,000	\$0.25
Options exercisable as at 30 June 2012	5,250,000	\$0.25
Options exercisable as at 30 June 2012	4,250,000	\$0.09

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) Performance rights

Granted performance rights are as follows:

	Grant date	Number
Key management personnel	30 June 2012	3,541,233
Other employees	30 June 2012	714,022

*Terms of granted performance rights*

Performance rights were granted to KMP and other senior staff under the terms of the long term incentive plan ("LTIP"). The LTIP operates on the basis of a series of cycles. Each cycle commences on 1 October and will be followed by a 3 year performance period, with a test date on the 3<sup>rd</sup> anniversary of the commencement of the Cycle. The first Cycle of the LTIP began on 1 October 2011. The LTIP contains performance criteria related to total shareholder return ("TSR") to determine the proportion of performance rights which vest, as follows:

- Half of the performance rights are subject to a relative TSR criteria ("relative TSR performance rights"); and
- Half of the performance rights are subject to an absolute TSR criteria ("absolute TSR performance rights").

For any relative TSR performance rights to vest, Base Resources TSR over the three year performance period must rank above the 50th percentile of the TSR achieved by a defined comparator group of companies. If Base Resources TSR ranks at the 50th percentile of the comparator group, 50% of the relative TSR performance rights vest. If Base Resources TSR is above the 75th percentile of the comparator group, 100% of the relative TSR performance rights vest. For achievement between the 50<sup>th</sup> and 75<sup>th</sup> percentile, vesting is prorated between 50% and 100%.

For any absolute TSR performance rights to vest, the absolute TSR of Base Resources over the three year performance period must be greater than or equal to 40.5%. If the TSR reaches 40.5%, 25% of the performance rights vest. TSR performance between 40.5% and 60% will result in pro rata vesting between 25% and 50%. If the TSR performance is 100% or more over the period, 100% of the absolute TSR performance rights vest. For TSR performance between 60% and 100%, vesting is prorated between 50% and 100%.

All performance rights were granted for nil consideration.

The fair value of the performance rights granted during the 2012 financial year has been estimated at the date of grant using a Monte Carlo Simulation model using the following assumptions: risk-free interest rate of 2.46%; no dividend yield; volatility factor of the expected market price of the Company's shares of 60%; and a remaining life of performance rights of 2.25 years. The fair value of the performance rights is recognised over the service period which commenced prior to the date of grant of 30 June 2012.

## 22. PARENT ENTITY DISCLOSURES

As at, and throughout the financial year ended 30 June 2012, the parent entity of the consolidated group was Base Resources Limited.

### Financial performance of the parent entity

	2012 \$	2011 \$
Profit / (loss) for the year	5,318	(3,356,070)
Total comprehensive income / (loss) for the year	5,318	(3,356,070)

# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2012 \$	2011 \$
<b>Financial position of the parent entity</b>		
<b>ASSETS</b>		
Current assets	97,687,376	7,358,538
Non-current assets	76,998,969	9,566,527
<b>TOTAL ASSETS</b>	<b>174,686,345</b>	<b>16,925,065</b>
<b>LIABILITIES</b>		
Current liabilities	4,180,365	679,741
Non-current liabilities	-	-
<b>TOTAL LIABILITIES</b>	<b>4,180,365</b>	<b>679,741</b>
<b>NET ASSETS</b>	<b>170,505,980</b>	<b>16,245,324</b>
<b>EQUITY</b>		
Issued capital	175,718,629	21,882,774
Share-based payment reserve	1,219,113	799,630
Retained losses	(6,431,762)	(6,437,080)
<b>TOTAL EQUITY</b>	<b>170,505,980</b>	<b>16,245,324</b>

### The wholly owned controlled entities of the parent entity as listed below:

Entity	Country of incorporation
Base Titanium (Mauritius) Limited	Mauritius
Base Titanium Limited	Kenya

### Parent entity guarantees for the acquisition of Kwale Project equipment

Base Resources Limited has issued parent company guarantees to a number of suppliers of major components required for the construction of the Kwale Mineral Sands Project. Under the terms of the agreements Base Resources Limited guarantees the performance of its subsidiary under the major equipment supply contracts.

### Parent entity guarantee in respect of Kwale Project finance facility

Base Resources Limited has entered into a shareholder support agreement in relation to the Kwale Project financing facility. Refer to note 11 for further details.

# BASE RESOURCES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. FINANCIAL RISK MANAGEMENT

The Groups activities expose it to a variety of financial risks such as:

- Market risk consisting of foreign interest rate risk and currency exchange risk;
- Credit risk; and
- Liquidity risk.

This note presents information about the Group's exposure to each of the above risks.

The Group's financial instruments consist of deposits with banks, accounts receivable and payables. The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2012 \$	2011 \$
<b>Financial assets</b>			
Cash and cash equivalents	6	105,805,684	7,284,459
Other receivables		3,822,527	250,088
Other current assets		1,581,263	34,542
		<u>111,209,474</u>	<u>7,569,089</u>
<b>Financial liabilities</b>			
Trade and other payables	12	7,974,515	787,042
		<u>7,974,515</u>	<u>787,042</u>

#### Financial risk management policies

The overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance. The senior executives of the Group meet on a regular basis to analyse treasury risks and evaluate treasury management strategies in the context of the prevailing economic conditions and forecasts.

Risk management policies are approved and reviewed by the Board on a regular basis.

Financial assets and liabilities of the Group are carried at amortised cost, which approximates fair value.

#### Interest rate risk

On 22 November 2011, agreements for the US\$170 million Kwale Project finance facility were executed. At 30 June 2012, the project finance facility had not been drawn down, as a result the Group does not have any debt. The majority of the Group's cash deposits are held in at-call high interest accounts with the National Australia Bank Limited at fixed interest rates. Term deposits usually mature in six months or less so as to take advantage of interest rate changes.

	Carrying amount		Realisable / payable within six months	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Fixed rate instruments</b>				
Financial assets	100,000,000	7,000,000	100,000,000	7,000,000
Financial liabilities	-	-	-	-
	<u>100,000,000</u>	<u>7,000,000</u>	<u>100,000,000</u>	<u>7,000,000</u>
<b>Variable rate instruments</b>				
Financial assets	5,805,685	284,459	5,805,685	284,459
Financial liabilities	-	-	-	-
	<u>5,805,685</u>	<u>284,459</u>	<u>5,805,685</u>	<u>284,459</u>



## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased or decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	2012 \$	2012 \$	2011 \$	2011 \$
Variable rate instruments	100bp increase	100bp decrease	100bp increase	100bp decrease
Profit or loss	58,057	(58,057)	2,845	(2,845)
Equity	(58,057)	58,057	(2,845)	2,845

#### Currency risk

The Group is exposed to currency risk from bank balances, payables and receivables that are dominated in a currency other than the respective functional currencies of Group entities, being Australian dollar (AUD) and United States dollar (USD).

The Australian dollar carrying amount of the Group's financial assets and liabilities by its currency risk exposure at the reporting date is disclosed below:

30 June 2012	AUD	USD	KES	Other	Total A\$
Cash and cash equivalents	-	168,846	559,334	-	728,180
Trade and other receivables	-	-	2,292,213	-	2,292,213
Other current assets	-	-	583,970	-	583,970
Trade and other payables	(1,651,569)	(1,277,904)	(1,107,750)	(107,875)	(4,145,098)
<b>Net exposure</b>	(1,651,569)	(1,109,058)	2,327,767	(107,875)	(540,735)

30 June 2011	AUD	USD	KES	Other	Total A\$
Cash and cash equivalents	-	77,737	15,587	-	93,324
Trade and other receivables	-	-	104,871	-	104,871
Trade and other payables	-	(76,577)	(89,253)	-	(165,830)
<b>Net exposure</b>	-	1,160	43,774	-	44,934

The following significant exchange rates applied during the year:

	Average rate		30 June spot rate	
	2012	2011	2012	2011
AUD:USD	1.0323	0.9899	1.01590	1.05951
AUD:KES	90.4532	79.3330	83.5557	94.2943

#### Sensitivity analysis

Based on the financial instruments held at reporting date, had the functional currencies weakened/strengthened by 10% and all other variables held constant, the Company's after-tax profit (loss) for the year to date would have been \$54,074 lower/ higher (2011: \$4,493 lower/higher).

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and deposits with financial institutions as well as credit exposures to outstanding receivables.

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2012	2011
\$	\$

At the reporting date the carrying amounts of financial assets are adjusted for any impairment and represent the Company's maximum exposure to credit risk, excluding the value of any collateral or other security, which was as follows:

#### Financial assets — cash flows realisable

Cash and cash equivalents	105,805,685	7,284,459
Other receivables	3,822,527	250,088
Total anticipated inflows	109,628,212	7,534,547

The Group does not have any significant receivables which are past due at the reporting date. There were no impairment losses in relation to financial assets during the current or the comparative financial year.

The maximum exposure to credit risk for financial assets at the reporting date by geographic region of the customer was:

Australia	96,872,191	7,336,351
Kenya	12,745,225	198,196
Mauritius	10,796	-
Total	109,628,212	7,534,547

#### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with financial liabilities. The Group manages liquidity risk by conducting regular reviews of the timing of cash outflows and the maturity profiles of term deposits in order to ensure sufficient funds are available to meet its obligations

#### Financial liability maturity analysis

	30 June 2012		30 June 2011	
	Carrying amount \$	Contractual cash flow \$	Carrying amount \$	Contractual cash flow \$
Trade and other payables	7,974,515	7,974,515	787,042	787,042

The contractual carrying amounts of all financial liabilities are due and payable within six months of the reporting date.

#### Capital Management

Management controls the capital of the Group in order to maintain an appropriate working capital position to ensure that the Group can fund its operations and continue as a going concern. There are no externally imposed capital requirements. Capital is managed by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market.

Cash and cash equivalents	105,805,685	7,284,459
Trade and other receivables	3,844,300	250,088
Other current assets	1,581,263	34,542
Trade and other payables	(7,974,515)	(787,042)
<b>Working capital position</b>	<b>103,256,733</b>	<b>6,782,047</b>

In addition, at 30 June 2012, the Group had undrawn project finance facilities totalling US\$170 million in place, subject to various conditions precedent that the Group is working through. Refer to note 25 for further information.

## BASE RESOURCES LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 24. RESTATEMENT OF 31 DECEMBER 2011 INTERIM FINANCIAL STATEMENTS

During the preparation of the financial statements for the year ended 30 June 2012, the Company reviewed the accounting treatment of a US\$5 million (A\$4,948,046) non-refundable fee (the "Fee") received in connection with the execution of a product sales agreement.

The Fee was classified as revenue in the interim financial statements of the Group for the half year to 31 December 2011, however on review of the underlying contract and the linkage within that contract of the Fee to the future contract deliverables it has been concluded that a more appropriate classification is as deferred revenue on the balance sheet to be amortised over the life of the product sales agreement. Refer to note 14 for further details.

This adjustment has no impact on net cash flows or cash balances previously reported. All amounts included within these consolidated financial statements and accompanying notes reflect this position.

#### 25. EVENTS AFTER THE REPORTING DATE

On 24 September 2012, the Company announced that key conditions precedent to utilization of the US\$170 million Kwale Project finance facility are satisfied and that a Kwale Project capital cost re-estimate has been completed.

##### *Project finance facility*

Under the terms of the US\$170 million Kwale Project financing facility, first utilisation is subject to the satisfaction of a number of conditions precedent ("CP's"). With the key CP's effectively now satisfied and a number of remaining minor CP's the subject of a waiver request on which lender confirmation is expected shortly, the final procedural steps required to make the first drawdown can now be completed. These steps are expected to be completed in a timeframe to allow a drawdown in the fourth quarter of 2012.

##### *Kwale Project revised capital cost forecast*

With detailed design nearing completion and the procurement and contracting phase 70% complete, a review of the capital cost estimate has been completed. This review, which has included a risk assessment on all outstanding contracts and procurement items, has resulted in a revised capital cost estimate for the Kwale Project of US\$275 million plus additional total contingencies of US\$23 million. This total project forecast of US\$298 million represents a 14% increase over the original budget.

A number of alternative funding sources are being considered to accommodate the increased capital cost estimate and provide an appropriate level of contingency funding.

#### 26. COMPANY DETAILS

The principal place of business and registered office of the Company is:

Base Resources Limited (ASX: BSE)

Level 1

50 Kings Park Road

West Perth

Western Australia

## BASE RESOURCES LIMITED

### DIRECTORS' DECLARATION

- 1 In the opinion of the directors of Base Resources:
  - (a) the consolidated financial statements and notes that are set out on pages 29 to 58 and the Remuneration Report in pages 11 to 23 in the Directors' report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2012.
4. The directors draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



**Andrew King**  
**Chairman**

DATED at PERTH this 28<sup>th</sup> day of September 2012.



## **Independent auditor's report to the members of Base Resources Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Base Resources Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2012 and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 26 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

#### *Independence*

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



*Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

**Report on the remuneration report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Base Resources Limited for the year ended 30 June 2012 complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Graham Hogg  
*Partner*

Perth

28 September 2012

## **BASE RESOURCES LIMITED**

### **ADDITIONAL SHAREHOLDER INFORMATION**

Additional information required by the Australian Securities Exchange Limited Listing Rules, and not disclosed elsewhere in this report.

#### **SHAREHOLDINGS**

At the date of this report the Company had received the following current substantial shareholder notices:

- a) On 1 September 2011 a substantial shareholder notice was received by the Company notifying the Company that Pacific Road Capital II Pty Limited was a substantial shareholder holding a relevant interest in shares representing 19.9% of the voting power;
- b) On 20 September 2011 a substantial shareholder notice was received by the Company notifying the Company that Acorn Capital Limited was a substantial shareholder holding a relevant interest in shares representing 8.66% of the voting power; and
- c) On 4 June 2012 a substantial shareholder notice was received by the Company notifying the Company that Taurus SM Holdings Pty Limited was a substantial shareholder holding a relevant interest in shares representing 12.35% of the voting power;
- d) On 1 August 2012 a substantial shareholder notice was received by the Company notifying the Company that L1 Capital Pty Limited was a substantial shareholder holding a relevant interest in shares representing 7.90% of the voting power.

#### **CLASS OF SHARES AND VOTING RIGHTS**

The voting rights attached to the Fully Paid Ordinary Shares of the Company are:

- a) At a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
- b) On a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

Options do not carry any voting rights.

On the 4 September 2012 there were 95 holders of unmarketable parcels comprising a total of 29,626 ordinary shares.

#### **OTHER INFORMATION**

There is no current on-market buy back taking place.

During the reporting period the Company used its cash assets in a manner consistent with its business objectives.

# BASE RESOURCES LIMITED

## ADDITIONAL SHAREHOLDER INFORMATION

The top 20 largest registered holders of shares as at 21 September 2012 were:

Name	Number of Shares	%
1. J P Morgan Nom Aust Ltd	126,666,465	27.51
2. Pacific Road Cap Mgnt GP	80,252,238	17.43
3. HSBC Custody Nom Aust Ltd	59,177,144	12.85
4. National Nom Ltd	48,495,261	10.53
5. HSBC Custody Nom Aust Ltd	11,377,349	2.47
6. Brispot Nom PI	11,275,877	2.45
7. JP Morgan Nom Aust Ltd	10,866,837	2.36
8. Pacific Road Cap II PL	9,899,581	2.15
9. Citicorp Nom PL	9,294,580	2.02
10. Alchemy Sec PL	4,807,555	1.04
11. Raptor Sec PL	3,567,500	0.77
12. Citicorp Nom PL	3,220,586	0.70
13. UBS Nom PL	3,156,715	0.69
14. HSBC Custody Nom Aust Ltd	3,074,550	0.67
15. M F Custs Ltd	2,787,915	0.61
16. Escor Inv PL	2,700,000	0.59
17. Pacific Road Cap Mgmnt Gp	2,433,861	0.53
18. Brooks Rita Marian + W T	2,204,083	0.48
19. HSBC Custody Nom Aust Ltd	1,702,224	0.37
20. Merrill Lynch Aust Nom PL	1,668,138	0.36
	<b>398,628,459</b>	<b>86.58</b>

Shares Range	Holders	Units	%
1 – 1000	88	22,766	0.00
1001 – 5000	185	571,480	0.12
5001 – 10000	170	1,494,971	0.32
10001 – 100000	522	19,942,851	4.33
100001 and over	115	438,407,961	95.21
	<b>1080</b>	<b>460,440,029</b>	<b>100.00</b>



## BASE RESOURCES LIMITED

### ADDITIONAL SHAREHOLDER INFORMATION

#### Options

At 21 September 2012 the following options were on issue:

Stream	Date of Expiry	Exercise Price	Number under Option	Number of Holders
1	9.7.2015	\$0.25	8,500,000	5
2	9.7.2015	\$0.09	8,500,000	5
3	30.7.2015	\$0.25	1,000,000	1
			<b>18,000,000</b>	

Holders of greater than 20% of any stream of options;

Stream 1: Colin Bwye – 5,000,000 Options

Stream 1: Tim Carstens – 2,500,000 Options

Stream 1: All other holders hold greater than 100,000 Options

Stream 2: Colin Bwye – 5,000,000 Options

Stream 2: Tim Carstens – 2,500,000 Options

Stream 1: All other holders hold greater than 100,000 Options

Stream 3: Alchemy Securities Pty Limited – 1,000,000 Options

#### TENEMENT SCHEDULE

The Group holds a 100% interest in the following tenements, all of which are located in Kenya:

Tenement Number	Status
Exploration Licence 173	Granted
Special Mining Licence 23	Granted