



ASX and Media Release
31 October 2012

Quarterly Activities Report – September 2012

HIGHLIGHTS

- **Kwale Project is 28% complete and on schedule for practical completion in Q3 2013.**
- **Kwale Project capital cost estimate increased 14% with additional cost funded by fully underwritten \$40 million Placement and Entitlement Offer.**
- **Key CP's satisfied towards drawdown on the Kwale Debt Finance Facility in the December quarter of 2012.**
- **Off-take arrangements secured for 70% of project revenue.**
- **Base admitted to the S&P ASX 300 index.**

Base Resources Limited (ASX:BSE) ("Base") has made further significant progress in the development of the Kwale Project as well as in the satisfaction of conditions precedent as we approach the first utilization of the project finance facility.

Kwale Project Implementation

The September quarter has seen continued strong progress with the project 28% complete overall and continues to be on schedule for practical completion in Q3 2013 and first shipment in Q4 2013. With detailed design almost complete and the procurement and contract phase 70% complete, a review of the capital cost estimate was completed resulting in a 14% increase over the original budget to \$298 million including contingencies.

Project elements

The development approach being adopted for the Kwale Project is for the project to be separated into six discrete contract packages, as well as a number of smaller owner's projects, with an integrated management team overseeing their execution and integration. This approach has been adopted to ensure that "best of breed" expertise is applied to what are technically diverse and effectively separate project elements and risk is more effectively minimized and managed. The six contract packages, each covered by an EPCM (or EPC for CP3) contract and their status are:

CP1 – Processing Plants (Ausenco)

- Overall progress is close to target with 17% complete. Delivery of this construction package is on the overall project critical path and is on schedule for practical completion during Q3 2013.
- The EPCM component is 42% complete, behind the baseline plan of 46% primarily due to the budget revision increasing costs. Otherwise the engineering component remains ahead of schedule.
- Construction progress is 10% complete and on schedule.



Form work for thickener foundation

CP2 – Marine Facilities (WSP Group)

- All three primary construction contracts have now been awarded with the shiploader contract awarded during the quarter.
- The overall progress to date is 29% and on target for a Q3 2013 delivery.
- Onshore construction works are well advanced whilst the commencement of marine works was delayed until October. Mitigations have been agreed with the marine contractor to deliver the package on schedule.



Construction of the mineral storage shed at the port

CP3 - Power Line (CG Global)

- Overall, the project is now 31% complete and on schedule for completion in Q2 2013.
- All overhead power line tower foundations have been cast and all towers erected.
- Stringing of high voltage cables between Galu and Kwale is complete.
- Transformer foundations at Kwale have been completed.



Line stringing in progress

CP4 – Mukurumudzi Dam (Wave)

- Overall delivery is 48% complete and close to the baseline schedule.
- During the quarter additional resources and changes to working methods for the river diversion channel have significantly improved progress.
- Construction of the river diversion channel is on target for river diversion in November.
- The project is on target for late Q1 2013 delivery, ahead of the main wet season.



Diversion channel construction

CP- 5 – Tailings Storage Facility (Wave)

- Construction works are behind schedule but the current forecast completion date is still well in advance of the required date for plant commissioning.
- Additional expertise is being sourced to help the contractor realise better equipment efficiencies in order to increase the rate of progress.
- Overall, the project is 25% complete.



Tailings dam embankment foundations

CP-6 – Access Road, Construction Camp and Shared Facilities (Howard Humphries)

- While road construction has fallen behind schedule, adequate site access for construction is now available via a temporary road.
- The key milestone is now for the access road to be complete by January 2013.
- Phase one of the shared facilities was substantially completed in October.



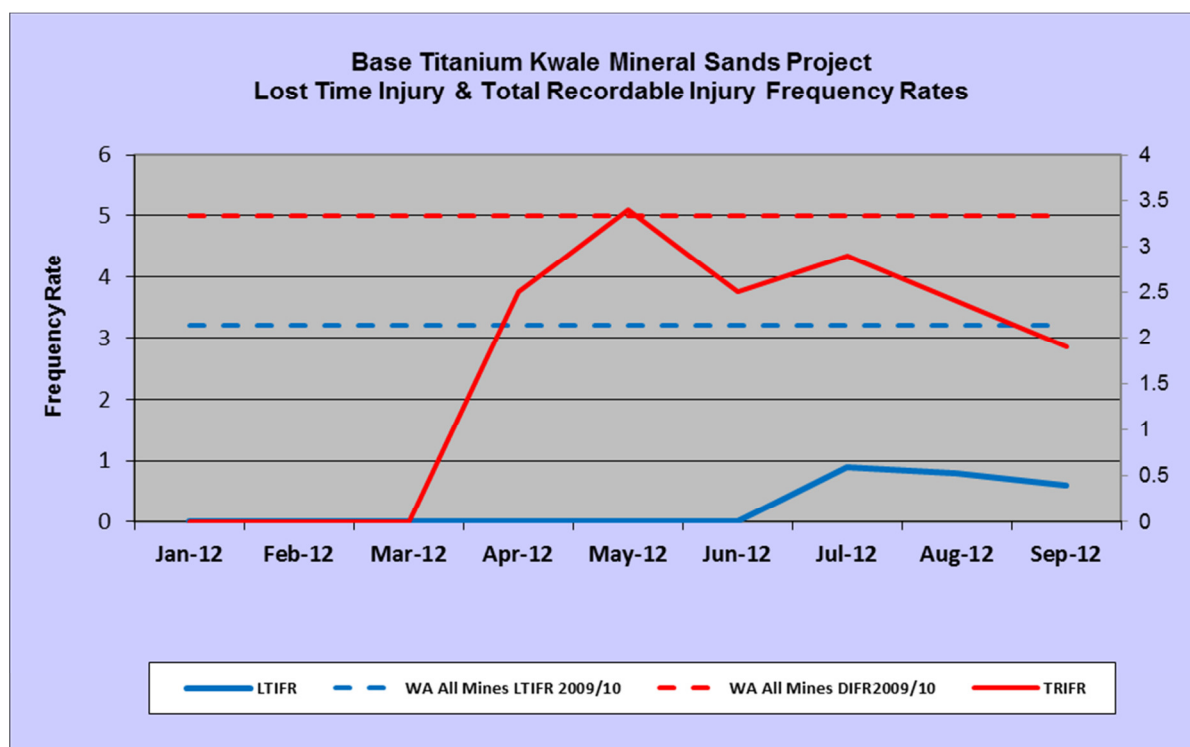
Mine access road construction

Owners Projects

In addition, a suite of owner's projects are being managed directly by the Base operations team. These include the procurement of the mobile fleet and the procurement of the dozer trap mining unit. As part of our implementation approach, the key members of the senior operations management team have already been recruited and are integrated into the overall project team to ensure operability of design and smooth transition to operations.

Safety Performance

With all project elements now in physical construction, total project hours worked have reached 1,600,000. Over the quarter, the number of minor injuries and near misses has reduced from a spike in the middle of the year as site activity ramped up. The decrease is in part due to increased hazard reports and safety inspections as well as increased awareness on hazard identification and control at pre-start and safety/toolbox meetings. Specific safety training for contractor and company supervising staff was implemented during the quarter, contributing to the improvement.



Community and Environment

The Base Labour Recruitment Centre has now registered and skills assessed approximately 8,000 job seekers including registration of those from the Likoni area associated with our Port facility. It is from this pool that project contractors are required to draw their semi-skilled and unskilled workforces, with some 400 currently employed on mine site works, approximately 30 have been allocated positions in Likoni as port construction ramps up. It is also from this database that Base will recruit the majority of its Kenyan workforce. It is intended that this centre will ultimately be made available to other regional employers as an employment portal for the local community.

Community infrastructure works continued with the Mivumoni Secondary School dormitory equipped with bunk beds and specially adapted bed nets as part of the school's integrated malaria control programme. This school was also assisted with a new borehole and pump to replace the existing unserviceable water supply. The Kibwaga Feeder School was built to assist communities near the dam. Construction of the Magaoni Secondary School has commenced with completion expected in early January 2013 in time for the new school year. Construction of Phase I of the health centre will commence in the next quarter. Phase II will follow on when power reticulation is confirmed with Kenya Rural Electrification Authority. The infrastructure now complete includes 2 schools, a community hall, a water scheme, dispensary and road and access

improvements. A further school and dispensary will be constructed once the Fingirika Settlement Scheme is established by the Government of Kenya.

Port security measures require the fishermen's cooperative located adjacent to our port facility to relocate to a site they have already identified. Base will assist them with measures focussing on training in improved fishing techniques and upgrading fishing equipment to allow them to improve their livelihoods in a sustainable manner.

Community engagement continues with monthly meetings held with three district based liaison committees and six community based committees dealing with direct impacts related to construction of the various Project infrastructure components.

The implementation of the environmental and social management systems continued during the quarter. Dust and community safety remain one of the major challenges with speed control measures implemented along the temporary access road during the quarter. One community incident occurred when a bystander was attacked by bees that had been dislodged during pipeline bush clearing. The woman was taken to our first aid centre, treated and returned to her homestead later that day when she had recovered.

Budget

With detailed design almost complete and the procurement and contract 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 contingencies of US\$23 million. This total project forecast of US\$298 million represents a 14% increase over the original budget. A significant proportion of the increase is related to design improvements and scope changes with labour costs in the construction phase also a significant contributing factor. To 30 September, \$84.9 million has been incurred and a further US\$123.2 million has been committed (ordered).

Financing

Under the terms of the US\$170 million Kwale Project financing facility (**Debt Finance Facility**), first utilisation is subject to the satisfaction of a number of conditions precedent (**CP's**). With the key CP's now satisfied and a number of remaining minor CP's the subject of a waiver request on which lender credit approval has been received the final procedural steps required to make the first drawdown are now being completed. These steps are expected to be completed in a timeframe to allow a drawdown in the fourth quarter of 2012.

In order to meet the additional funding requirements from the revised capital cost estimate for the Kwale Project, the Company has successfully completed a A\$40 million share placement and entitlement offer. The funds from the offer will be applied to the increase in capital cost estimate of the Kwale Project and for additional working capital requirements.

Marketing

The short term market for titanium dioxide feed stocks has been softer in the September quarter reflecting seasonally low pigment offtake and continued de-stocking of finished pigment in the hands of producers. Reduced pigment plant utilisation in the first half of 2012 has resulted in inventory build-up, with industry experts TZMI indicating, in their October 2012 report, that current pigment producer inventory levels are estimated at 90 days consumption, twice the same period last year. Recent announcements by Iluka Resources Ltd (**Iluka**) suggest the de-stocking cycle is well advanced which combined with indicators that the Chinese economy is heading for a soft landing are positive signs that demand for feedstock should strengthen in 2013.

Global zircon demand continued to soften over the September quarter, reflecting global economic conditions, structural change for zircon use in ceramic applications and build-up of inventory. TZMI report that inventory levels have increased substantially during the quarter and are forecast to be 200 days consumption by the end of 2012. Several producers, including Iluka, have trimmed production to align with demand but the response

has not been uniform amongst all producers. Demand for zircon is likely to remain soft for the remainder of 2012 and well into 2013.

Despite the short term-outlook, but reflecting the continuing positive market dynamics for mineral sands producers longer term, during the quarter Base has finalised additional offtake agreements for the production from Kwale. These additional agreements are, together with the off-take arrangements already concluded, sufficient to see the satisfaction of the key Project Debt Facility CP requiring off-take agreements in place covering 70% of projected revenue.

Over the quarter, negotiations continued to progress with a number of groups in relation to the balance of ilmenite production.

Kenyan Exploration Projects

As part of the Kwale acquisition, Base also acquired an option to purchase three further exploration projects, Mambrui, Kilifi and Vipingo. These projects, which are located along the coast to the north of Mombasa, have a combined JORC compliant Mineral Resource as previously reported by Vaaldiam, of 1,388 million tonnes at 3.8% THM (1,111 million tonnes at 3.7% THM “Indicated” and 278 million tonnes at 4.1% THM “Inferred”).

A confirmatory drilling program was completed in the March quarter at the Mambrui and Kilifi projects to test depth, grade, geo-metallurgical domains and assemblage. Over the June quarter, a series of mineralogical and processing testwork programs were undertaken. Analysis of the results is progressing and updated resources for these two projects are scheduled for completion in the December quarter.

Kenyan Local Equity Participation Regulations

The Kenyan Minister of Environment & Mineral Resources has passed a regulation under the Mining Act that seeks to mandate a 35% minimum Kenyan equity participation in mining licenses (**Regulation**). Base has received legal advice that the Regulation does not apply to the Special Mining Lease No. 23 covering the Kwale Project.

We are pursuing discussions with Government to understand their position and intent with respect to the Regulations and are assessing the potential implications for the Kwale Project.

Corporate

Base was admitted to the S&P/ASX 300 as a result of the September quarterly S&P/ASX indices rebalance.

In summary, at 30 September 2012 (pre completion of capital raising):

- Cash and cash equivalents were \$67.0 million.
- Nil debt drawn.
- 460,440,029 shares on issue.
- 18,000,000 unlisted options.

Ends.

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Corporate Details:

Board of Directors:

Andrew King	Non-Executive Chairman
Tim Carstens	Managing Director
Colin Bwy	Executive Director
Sam Willis	Non-Executive Director
Michael Anderson	Non-Executive Director
Trevor Schultz	Non-Executive Director
Winton Willesee	Non Executive Director/ Company Secretary

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About Base Resources

Base Resources Limited (ASX:BSE) is developing the world-class Kwale Mineral Sands Project in Kenya, East Africa. Kwale is an advanced and highly competitive project in a sector with a significant forecast supply shortfall widely expected to emerge in the medium term.

The Kwale Project represents an advanced development opportunity with all material project approvals, permits and licenses required for development currently in place, a full definitive feasibility study (DFS) having been completed and funding in place.

The Project enjoys a high level of support from the Government of Kenya as well as the local community and, located just 50km from Mombasa, Kenya's principal port facility, is well serviced by existing physical infrastructure.

Importantly, two pilot plant operations at Kwale provide confidence in processing behaviour and indicate a suite of readily marketable products. The Project's high value mineral assemblage and low stripping ratio result in a projected revenue to cash cost ratio that would place Kwale in the top quartile of world producers.

A realistic development time line should see the Kwale Project in production in the second half of 2013.

Competent Persons Statement

Information in this report that relates to mineral resources at the Kilif, Vipingo and Mambrui Projects is based on information compiled by Snowden Mining Industry Consultants in 2005 and reviewed by Mr Terry Parker. Mr Parker is a Fellow of the Australian Institute of Mining and Metallurgy (AusIMM) and is currently employed by Snowden.

Mr Parker has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Parker consents to the inclusion in this report of the information based on his work in the form and context in which it appears on the basis that no additional information has been obtained since the 2005 information.