



ASX, AIM and Media Release  
31 January 2013

## Quarterly Activities Report – December 2012

### HIGHLIGHTS

- **Kwale Project is 50% complete and on schedule for practical completion in Q3 2013.**
- **Initial US\$52 million drawdown on the Kwale Debt Finance Facility completed on 22<sup>nd</sup> November 2012.**
- **Successful completion of A\$40 million capital raising to complete funding package.**
- **Kenyan Attorney General confirms that the Local Equity Participation Regulations cannot be applied to the Kwale Project.**

**Base Resources Limited (ASX:BSE)** (“Base”) has made further significant progress in the development of the Kwale Project, achieving first utilisation of the debt facility and reaching the 50% complete milestone.

### Kwale Project Implementation

The December quarter has seen a significant increase in construction activity. With the overall development 50% complete, the Kwale Project continues to be on schedule for practical completion in Q3 2013 and first shipment in Q4 2013.

### **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 on target with 44% complete. Delivery of this construction package is on the overall project critical path and is on schedule for practical completion during Q3 2013.
- Bulk earthworks were substantially completed during the quarter, civil works are ongoing and erection of the structural steel has commenced.
- Construction progress is 19% complete.



***Erection of steelwork for process plant***

*CP2 – Marine Facilities (WSP Group)*

- The overall progress to date is 51% and on target for delivery prior to the first planned bulk shipment in Q4 2013.
- Onshore construction works are well advanced with the steel structures for the storage shed progressing well.
- After a slow ramp up, good progress was made on the manufacture of the ship loader in the latter part of the quarter.
- Marine works are underway. Softer than expected ground conditions has resulted in some increased piling.



***Construction of the storage shed and jetty at the port***

*CP3 - Power Line (CG Global)*

- Overall, the project is 82% complete and on schedule for completion in Q2 2013.
- All overhead power line towers have been erected and the stringing of high voltage cables completed.
- Kwale substation control room is completed up to the roof level.
- The transformers are now installed, steel gantries for the substations are on site and the switchgear is due to arrive in January.



***Construction of the Kwale substation control building***



*CP4 – Mukurumudzi Dam (Wave)*

- Overall delivery is 63% complete.
- The concrete river diversion channel and intake tower were completed in December and the river is now diverted.
- Stage 1 of the coffer wall has been completed.
- The project is on target for early April delivery, ahead of the main wet season.



*Dam coffer wall construction*

*CP- 5 – Tailings Storage Facility (Wave)*

- Construction works are behind schedule but a recovery plan is currently being agreed with the contractor.
- Current forecast completion date (Q2 2013) is still well in advance of the required date for plant commissioning in Q3 2013.
- Overall, the project is 43% complete.



*Tailings dam embankment*

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

- The road construction is 88% complete with the planned completion by the end of January.
- Phase One of the contractor accommodation units have been completed with Phase Two due for completion by the end of Q1 2013.
- During the quarter the kitchen facilities were commissioned, staff trained in the use of all equipment and three meals a day are currently being served.



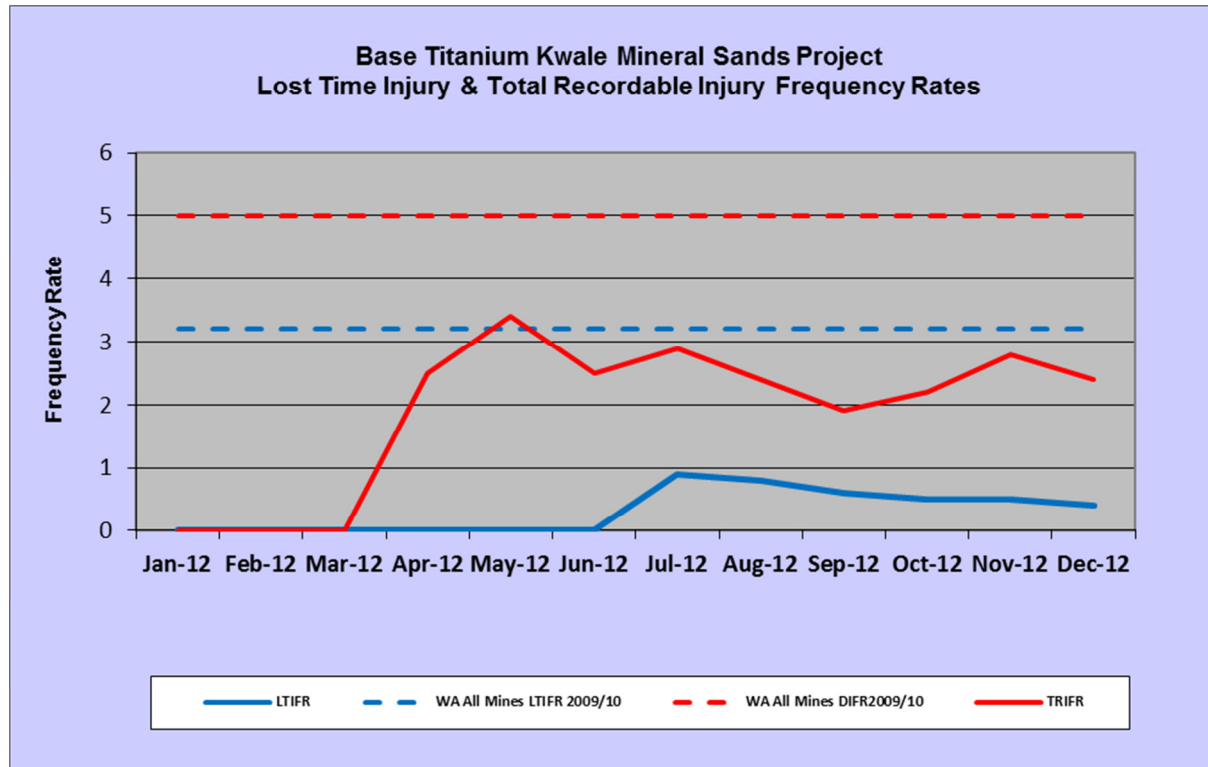
*Mine access road*

*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, the installation of a supplementary borefield 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 2,500,000. The rapid increase in site activity over the quarter, with a third of total project hours worked during the quarter, has seen an increase in the number of minor injuries. However, there has not been an LTI since the projects only such injury in July 2012, reflecting the onsite training, effort to increase hazard reporting and pro-active safety inspections as well as increased awareness on hazard identification and control at pre-start and safety/toolbox meetings.



## Community and Environment

Base's Labour Recruitment System has placed almost 700 people from local communities in employment with various contractors associated with mine infrastructure. Control measures have been implemented to audit contractor compliance with a view to maximise local employment.

Community infrastructure works continued with two schools completed in Kibwaga, near the Mukurumudzi Dam, and Magaoni village, close to the mine access road. These facilities will be handed over to the local community on completion of the school committee training programme. Both schools have been furnished and the secondary school in Magaoni provided with laboratory equipment. Consultation with local communities to identify the location of the mine area primary school has begun. The tender process for Magaoni Health Centre was delayed until a new design can be provided by the Ministry of Health in Nairobi. The plans submitted earlier by the Ministry of Public Works required updating.



*Magaoni school nearing completion*

Three workshops were held with various communities on the implementation of Base's Community Development Management Plan (CDMP). The CDMP describes the process that will be undertaken to identify and prioritise community investment in consultation with affected stakeholders. Discussions over the next few months will culminate in an agreed program of community projects.

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. Community groups were engaged as part of Base's waste management process to assist with recycling material from the mine site. Training and implementation is expected in first quarter of 2013. Community groups were also invited to participate in the vegetation clearance at site. Two women's groups and a youth organisation are now processing charcoal from trees cleared in the Tailings Storage Facility footprint. Specialised charcoal kilns were purchased for the teams and they were provided with training and protective equipment. The proceeds from the sale of charcoal will go towards funding community projects in the area.

Continued monitoring is being undertaken as dust remains an ongoing issue during construction with increased frequency of watering required during hot and dry weather recently experienced. Lower year-on-year rainfall figures have had an impact on the whole region and neighbouring communities have been given access to perennial water points within the mine site in areas not affected by construction. Additional measures were taken to assist surrounding communities with deepening of local wells and repairs to broken down hand-pump boreholes.

### **Budget**

The total approved project development budget is US\$298 million, including contingencies. To 31 December, US\$143 million has been incurred and a further US\$135 million has been committed (ordered).

### **Financing**

In early October, the Company completed a A\$40 million share placement and entitlement offer in order to meet the additional funding requirements from the revised Kwale Project capital cost estimate of US\$298 million.

On 22 November 2012, financial close was achieved on the US\$170 million project debt facilities and the first drawdown of US\$52 million completed. This was a critical milestone in the development of the Kwale Project as Base now has access to the full funding required to complete the development of the Kwale Project and bring it to positive cash flow.

Under the terms of the debt facility, subsequent drawdowns will be made on a quarterly basis with the next scheduled for February 2013.

### **Marketing**

The short term market for titanium dioxide feed stocks continued its softness through the December quarter with pigment producers maintaining their efforts to de-stock high inventory levels. Weaker than expected demand has resulted in historically low levels of pigment plant utilisation through the second half of 2012. In this environment, the pigment industry has generally shown a preference for lower grade, lower priced titanium dioxide feed stocks such as ilmenite. Iluka Resources Ltd (**Iluka**) recently announced that several lead indicators are pointing to an improved pigment demand environment in 2013. Recent comments from TZMI indicate that there is general consensus for the titanium feed stock and pigment sectors to see a recovery in demand and pricing by the second half of 2013.

Market conditions for zircon remained weak through the December quarter. Exacerbating the soft global economic environment has been the structural impact of modernised processes and substitution on zircon demand – mostly in the ceramics sector. Iluka's recent comments indicate that such structural impacts have now largely worked through the industry and will have a diminished effect on the market through 2013. While customer stocks of zircon are considered to be low, producer stocks are reported to remain high. Some producers, including Iluka, continue to adjust production to better manage stock positions and align supply with demand. However, the response is not uniform across all producers and the overall market conditions for zircon are likely to remain soft well into 2013.

The long term outlook for all mineral sands products remains very positive. In this light, Base continues to receive strong interest in all of its products from the market. Discussions continue with a number of parties in relation to the balance of Base's production not already secured by the previously reported offtake agreements.

### **Kenyan Exploration Projects**

As part of the Kwale acquisition, Base acquired an option to purchase three further exploration projects, Kilifi, Mambrui and Vipingo. On 28 December 2012, the Kenyan Minister of Environment & Mineral Resources published a gazette notice purporting to cancel the three exploration licenses covering these projects. The Company has not as yet received formal notification from the Department of Mines & Geology or any explanation of the rationale for this action. Base believes it is in full compliance with the terms of these licenses and has submitted all required quarterly activity reports. Furthermore, the Company successfully had these three licenses renewed in 2011 and 2012, as such, Base can see no legal basis for the gazette notice purporting to now cancel them. Consequently, the Company has taken the appropriate legal action to protect the rights and has received a court order staying the cancellation pending a hearing.

Following the confirmatory drilling program completed in the March quarter, updated JORC-compliant resource estimates have been completed for the Kilifi and Mambrui projects. Resource statements at a 1% THM cut-off are presented below:

Project	Classification	Resource Mt	HMC		Rutile		Zircon		Ilmenite	
			%	Mt	%	Mt	%	Mt	%	Mt
Kilifi	Indicated	1,520	2.8%	43.0	0.13%	2.0	0.12%	1.8	1.80%	27.3
	Inferred	593	2.4%	14.0	0.10%	0.6	0.10%	0.6	1.40%	8.3
	<b>Total</b>	<b>2,110</b>	<b>2.7%</b>	<b>57.0</b>	<b>0.12%</b>	<b>2.6</b>	<b>0.11%</b>	<b>2.4</b>	<b>1.69%</b>	<b>35.6</b>

Project	Classification	Resource Mt	HMC		Rutile		Zircon		Ilmenite	
			%	Mt	%	Mt	%	Mt	%	Mt
Mambrui	Indicated	490	4.1%	20.2	0.10%	0.5	0.10%	0.5	2.61%	12.8
	Inferred	259	2.8%	7.2	0.08%	0.2	0.07%	0.2	1.54%	4.0
	<b>Total</b>	<b>750</b>	<b>3.7%</b>	<b>27.4</b>	<b>0.09%</b>	<b>0.7</b>	<b>0.09%</b>	<b>0.7</b>	<b>2.24%</b>	<b>16.8</b>

The significant increase in tonnes and the reduction in average grade compared with previous estimates are a consequence of the inclusion of the deeper, lower grade zones tested by the new drilling. Tables showing resource estimates at varying cut off grades are included as an appendix.

Preliminary mineralogical and processing testwork has shown the titanium dioxide content of the ilmenite to be very low at around 32% to 35% for both the Kilifi and Mambrui projects. With these levels likely to preclude sale to traditional consumers, a range of niche marketing and downstream processing options are being explored as part of scoping studies to be undertaken over the course of 2013.

### **Kenyan Local Equity Participation Regulations**

Base received formal notification that the Attorney General of Kenya has determined that the recently introduced 35% Local Equity Participation Regulation (**Regulation**) cannot be applied to the Special Mining Lease No. 23 covering the Company's 100% owned Kwale Mineral Sands Project.

The Attorney General's advice that the Regulation can only be applied to mining licenses issued after the Regulation came into force, being 12 October 2012, corroborates the legal advice previously received by Base in this respect.

Notwithstanding this determination, Base will continue to work constructively with the Government of Kenya to facilitate greater Kenyan equity participation over time in both Base and the mining industry in general.

## **Corporate**

*In summary, at 31 December 2012:*

- Cash and cash equivalents were \$94.5 million.
- Debt drawn of US\$52.0 million.
- 560,440,029 shares on issue.
- 18,000,000 unlisted options.

Ends.

### **For further enquiries contact:**

#### **Base Resources Limited**

Tim Carstens

Managing Director

Email: [tcarstens@baseresources.com.au](mailto:tcarstens@baseresources.com.au)

Phone: +61 (0)8 9413 7400

#### **RFC Ambrian Limited (Nominated Advisor and Broker)**

As Nominated Advisor:

Andrew Thomson or Trinity McIntyre

Phone: +61 (0)8 9480 2500

As Broker:

Caspar Shand-Kydd

Phone: +44 20 3440 6800

#### **Tavistock Communications (UK Media Relations)**

Jos Simson/ Jessica Fontaine/ Emily Fenton

Phone: +44 (0) 207 920 3157

#### **Cannings Purple (Australian Media Relations)**

Annette Ellis / Warrick Hazeldine

Email: [aellis@canningspurple.com.au](mailto:aellis@canningspurple.com.au)

[whazeldine@canningspurple.com.au](mailto:whazeldine@canningspurple.com.au)

Phone : 08 6314 6300

### **Corporate Details:**

#### **Board of Directors:**

Andrew King

Tim Carstens

Colin Bwy

Sam Willis

Michael Anderson

Trevor Schultz

Winton Willesee

Non-Executive Chairman

Managing Director

Executive Director

Non-Executive Director

Non-Executive Director

Non-Executive Director

Non Executive Director/  
Company Secretary

#### **Principal & Registered Office:**

Level 1

50 Kings Park Road

West Perth

WA 6005

#### **Contacts:**

Email:

[info@baseresources.com.au](mailto:info@baseresources.com.au)

Phone: (08) 9413 7400

Fax: (08) 9322 8912

### **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, funding in place and construction of all project elements underway.

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 on this announcement that relates to Mineral Resources at the Kilifi and Mambrui Projects are based on information compiled by Scott Carruthers, who a full time employee of Base Titanium Limited (a wholly owned subsidiary of Base Resources Limited) and is a member of The Australasian Institute of Mining and Metallurgy. Mr Carruthers has sufficient experience (>20 years) in exploration, assessment, resource estimation and mining of heavy mineral sand projects and qualifies 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 Carruthers consents to the inclusion in this announcement of the information based on his work in the form and context in which it appears.*



## Appendix

### Kilifi Resource Estimates at Various HM Cut-off Grades

Classification	HM Cut-off	Resource		HMC		Rutile		Zircon		Ilmenite	
		Mt	%	Mt	%	Mt	%	Mt	%	Mt	%
Indicated	1	1,520	2.8%	43.2	0.13%	1.99	0.12%	1.80	1.80%	27.3	
	2	1,020	3.5%	35.5	0.16%	1.59	0.14%	1.38	2.25%	23.0	
	3	585	4.2%	24.7	0.19%	1.07	0.15%	0.90	2.79%	16.3	
	4	249	5.3%	13.2	0.22%	0.56	0.19%	0.47	3.53%	8.8	
	5	114	6.3%	7.2	0.26%	0.30	0.22%	0.25	4.30%	4.9	
Inferred	1	593	2.4%	14.0	0.10%	0.61	0.10%	0.59	1.40%	8.3	
	2	314	3.2%	10.1	0.14%	0.43	0.12%	0.39	2.10%	6.6	
	3	173	3.8%	6.6	0.16%	0.27	0.13%	0.23	2.60%	4.5	
	4	48	4.8%	2.3	0.19%	0.09	0.17%	0.08	3.33%	1.6	
	5	15	5.8%	0.9	0.27%	0.04	0.20%	0.03	4.00%	0.6	
Total	1	2,110	2.7%	57.2	0.12%	2.59	0.11%	2.39	1.69%	35.6	
	2	1,330	3.4%	45.6	0.15%	2.02	0.14%	1.77	2.23%	29.7	
	3	757	4.1%	31.4	0.17%	1.34	0.15%	1.14	2.75%	20.8	
	4	297	5.2%	15.5	0.22%	0.65	0.19%	0.55	3.50%	10.4	
	5	129	6.2%	8.1	0.26%	0.33	0.21%	0.27	4.26%	5.5	

### Mambrui Resource Estimates at Various HM Cut-off Grades

Classification	HM Cut-off	Resource		HMC		Rutile		Zircon		Ilmenite	
		Mt	%	Mt	%	Mt	%	Mt	%	Mt	%
Indicated	1	490	4.1%	20.2	0.10%	0.55	0.10%	0.50	2.61%	12.8	
	2	390	4.8%	18.7	0.13%	0.49	0.13%	0.46	3.15%	12.3	
	3	310	5.4%	16.6	0.13%	0.42	0.13%	0.40	3.58%	11.1	
	4	224	6.1%	13.6	0.15%	0.34	0.14%	0.32	4.06%	9.1	
	5	135	7.1%	9.6	0.17%	0.23	0.16%	0.22	4.74%	6.4	
Inferred	1	259	2.8%	7.2	0.08%	0.20	0.07%	0.18	1.54%	4.0	
	2	151	3.7%	5.6	0.10%	0.15	0.09%	0.14	2.32%	3.5	
	3	89	4.6%	4.1	0.12%	0.11	0.11%	0.10	3.03%	2.7	
	4	52	5.4%	2.8	0.13%	0.07	0.13%	0.07	3.65%	1.9	
	5	24	6.5%	1.6	0.17%	0.04	0.17%	0.04	4.17%	1.0	
Total	1	750	3.7%	27.4	0.09%	0.75	0.09%	0.68	2.24%	16.8	
	2	550	4.5%	24.3	0.11%	0.64	0.11%	0.60	2.87%	15.8	
	3	399	5.2%	20.7	0.13%	0.53	0.13%	0.50	3.43%	13.7	
	4	276	5.9%	16.4	0.15%	0.41	0.14%	0.39	3.99%	11.0	
	5	159	7.0%	11.2	0.17%	0.27	0.16%	0.26	4.65%	7.4	